

BOARD LEADERSHIP STRUCTURE AND PERFORMANCE OF CHINESE FIRMS IN SINGAPORE

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Abstract

We examine the effects of board leadership structure on the performance of Chinese firms listed on the Singapore Stock Exchange. Using a sample of 105 firms covering 2009 to 2011, we find that CEO duality positively affects firm performance that can largely be explained by stewardship theory. There is also support for contingency theory as the CEO duality-firm performance relationship depends on whether Chinese firms are incorporated in Singapore or otherwise. This study offers insights for corporate regulators to soften their stance on the monitoring clauses concerning CEO duality. Major stakeholders in Singapore-based Chinese firms may need to bring some balance to board independence, board size, and the nomination process, particularly where CEO duality improves firm performance.

Keywords: Corporate Governance, Board Leadership Structure, Financial Performance, Firm Incorporation, Singapore Stock Exchange

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1 Introduction

The occurrence of major financial crises in the past two decades, together with the disclosure of accounting irregularities in overseas-listed mainland Chinese companies, have led regulatory authorities to review their corporate governance (CG) codes for public firms. Although the U.S. government introduced a rather rigid set of rules in its statutory Sarbanes-Oxley Act 2002 (SOX) in response to that country's corporate scandals, regulatory authorities in Asia choose to adopt a more flexible "comply or explain" approach. The corporate governance codes in mature Asian economies, such as Hong Kong (HKEx, 2012) and Singapore (CCG, 2001, 2005, 2012) seem to be based on U.K. corporate governance codes (Cadbury, 2002). Among those recommended as corporate governance "best practice", the board leadership structure can be singled out, namely that the chief executive officer (CEO) and the chairman of the board of directors (CoB) should in principle be two separate individuals. CEO duality occurs when one person holds both the CEO and CoB positions. The advantages and disadvantages of CEO duality have been widely discussed in board leadership research in recent decades.

According to agency theory, separating the CEO and CoB can mitigate agency costs because it will provide the board with greater independence in monitoring a firm's operations (Eisenhardt, 1989; Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). Thus, agency theory predicts that CEO duality is detrimental to firm performance. In

contrast, stewardship theory argues that individuals are motivated by intrinsic rewards rather than material self-interest. They derive intrinsic rewards from organizational identity and opportunities for growth and satisfaction from using power to act in the shareholders' interests (Davis, Schoorman, & Donaldson, 1997). This supports CEO duality with minimal independent expressions being voiced on the board for unity of leadership. Therefore, according to stewardship theory, CEO duality is conducive to firm performance.

Furthermore, the CEO duality-firm performance nexus might be influenced by the country in which a firm is incorporated. Singapore is described by Credit Lyonnais Securities as having the best CG practices in Asia, and Singaporean firms consistently operated in accordance with international best CG practices (Chuanrommanee & Swierczek, 2007). Following the 1997 Asian Financial Crisis, Singapore introduced its first set of corporate governance codes in 2001 (CCG, 2001), with subsequent revisions in 2005 and 2012 (CCG, 2012). In these CG codes, CEO duality board leadership is not encouraged and firms with this board leadership structure are required to disclose it in their annual reports using the "comply or explain" approach. This code provision represents a normative pressure on public firms (Zucker, 1987) to decide their board leadership structure in the context of how complex their businesses are.

In addition, the number of mainland Chinese firms listed on the Singapore Stock Exchange (SGX) has continued to increase since China's authorities relaxed their regulatory restrictions to allow small and

medium-sized Chinese firms to list on major stock exchanges, such as Hong Kong, New York, and Singapore, in order to raise their share capital. There are generally two main types of China-based firms listed on the SGX (Lu, 2008): (i) Singapore subsidiaries of parent companies incorporated and located in mainland China; and (ii) Singapore subsidiaries of parent companies incorporated in a third jurisdiction, such as Bermuda, British Virgin Islands, Cayman Islands, and Hong Kong, with the majority of their shareholdings being from mainland China. Foreign listings on the SGX are defined as companies whose principal place of business is outside of Singapore (SGX, 2010). Chinese firms listed on the SGX are companies having their business operations in mainland China. Over 40% of all SGX-listed Chinese firms are incorporated outside of Singapore.

Chinese companies listed on the SGX are commonly known as “S-chips” in Singapore, whereas their shares are referred to as “S-shares”. After the 2008 Global Financial Crisis (GFC), S-chips were surrounded by corporate scandals such as accounting fraud, embezzlement, and forgery. These S-chip scandals were highly publicized by the mass media (Yang, 2009), which were triggered by the accounting fraud cases of Chinese firms listed in the U.S. and Hong Kong. Consequently, most listed mainland Chinese firms in Singapore adopted CG reforms in order to restore investor confidence. However, board leadership structure is one of the most controversial issues in reforming listed Chinese firms’ CG practices. Both agency theory (favoring CEO non-duality) and stewardship theory (favoring CEO duality) may be valid under certain conditions (Elsayed, 2010). During a financial crisis, CEO duality may be conducive to firm performance, and the effectiveness of CG mechanisms may be contingent on environmental circumstances (Van Essen, Engelen, & Carney, 2013).

Since China joined the World Trade Organization (WTO) in 2001, the Chinese regulatory authorities adopted corporate governance principles recommended by the Organisation for Economic Co-operation and Development (OECD). Subsequently, the Chinese Securities Regulatory Commission (CSRC) developed its own Code of Corporate Governance of Listed Companies (CSRC, 2002). Unlike the Anglo-American CG system of the U.S., Hong Kong, and Singapore, the Chinese CG system is based on the adoption of a two-tier (or dual) CG system, which originated from the German civil law system. Given the difference between the Chinese CG system and Anglo-American model, it is worth examining the CG practices of mainland Chinese firms listed in Singapore, which comprises small Chinese state-owned enterprises (SOEs) and private-owned enterprises (POEs) with their parent companies domiciled in China. Furthermore, the board leadership structure is a key element in developing the right

board dynamics for delivering strategic resources to firms (Johnson, Daily, & Ellstrand, 1996).

The CEO duality practice is described as a “double-edged sword” (Finkelstein & D’Aveni, 1994). There is a trade-off between unity of command and board independence which impacts greatly on boardroom dynamics. Prior studies on board leadership are largely based on U.S. firms with mixed evidence on an inconclusive relationship between CEO duality and firm performance (Dalton, Daily, Ellstrand, & Johnson, 1998; Krause, Semadeni, & Cannella Jr., 2014). The evidence from listed firms in mainland China mostly supports the stewardship theory, which suggests that CEO duality board leadership is positively related to firm performance (Peng, Zhang, & Li, 2007; Van Essen, Van Oosterhout, & Carney, 2012; Yu, 2008). However, empirical studies are lacking on overseas-listed Chinese firms in Singapore with particular reference to examining the CEO duality-firm performance relationship following the GFC.

The main purpose of this study is to investigate the impact of board leadership structure on corporate financial performance. This study examines the CEO duality-firm performance nexus using insights from agency, stewardship and contingency theories (Lam & Lee, 2008). This multi-theoretical approach allows us to investigate whether the impact of CEO duality on firm performance is moderated by the Singapore incorporation of Chinese firms. The sample includes the post-GFC period during which the Chinese economy continued to grow, while most Western countries had yet to fully recover. The study of CG of mainland Chinese firms provides a micro view on the macro evolution and sustainability of the economic momentum of China, which affects the world economy.

The paper is organized as follows. The next section presents a brief outline of some corporate governance features of Chinese firms in Singapore. It is followed by hypotheses development and a description of the data and methodology. Empirical results are presented and interpreted in the subsequent section. The paper ends with concluding remarks.

2 Corporate Governance of Chinese Firms in Singapore

Corporations in China adopt a dual CG system, comprising a board of directors and a supervisory board. Unlike firms in countries with an Anglo-American context that adopt a unitary CG system and operate with the shareholder CG model (Tabalujan & Du Toit-Low, 2012), corporations in China adopt a two-tier model with the stakeholder approach (Yaacob & Basiuni, 2013) such that executives act in the interests of their shareholders as well as their stakeholders. The potential agency problem existing in Chinese SOEs is likely to arise from conflicts between the state, its agents (directors and executives), and

outside minority shareholders. A significant number of mainland Chinese firms have been listed on overseas stock exchanges since the early 1990s. These overseas-listed Chinese companies tended to focus more on the role of stakeholders with a higher degree of disclosure and transparency than the non-overseas-listed Chinese companies (Cheung, Jiang, Limpaphayom, & Lu, 2008). During the Chinese stock market boom in 2007, evidence from the U.S. stock market showed US-listed mainland Chinese firms that included “China” in their company names consistently outperformed those non-China-named stocks (Bae & Wang, 2012).

Similarly, this “China” stock booming effect influenced the stock markets in Hong Kong and Singapore. Furthermore, the construct of *guanxi* is embedded in China and, to a certain extent, influences firm performance, executive development, and management-subordinate trust (Jiang, Chen, & Shi, 2013; Luo, Huang, & Wang, 2012; Wong & Slater, 2002) in mainland Chinese companies. While a number of studies on Chinese firms are based on stewardship theory, there is an association between the two psychology-based ideas of the *guanxi* construct and stewardship theory. In terms of boardroom leadership, *guanxi* is essential if executives are to reach the position of CEO and gain trust from their subordinates in order to improve firm performance.

During the economic downturn from 2008 to 2011, S-chips in Singapore were highly publicized by the mass media due to many corporate scandals occurring. Accounting irregularities were discovered in a number of Chinese firms listed in the U.S., Hong Kong, and Singapore that sparked regulatory initiatives to review their CG and internal controls. These scandals and irregularities triggered the Monetary Authority of Singapore (MAS) to establish its Corporate Governance Council in 2010 for reviewing the Code of Corporate Governance 2005 in order to improve board independence and enhance corporate transparency. However, the market performance of S-chips recovered shortly after the GFC, in which S-chips still provided a comparatively economic and more direct exposure to China’s energetic economy along with the rebuilding of investor confidence in them by their proposed CG reforms.

3 Hypotheses Development

This section presents a number of hypotheses concerning the effects of board leadership structure and firm incorporation. The board leadership of CEO duality has a tendency to reduce board independence, dominate board decisions and provide less effective monitoring opportunities (Daily & Dalton, 1993; Finkelstein & D’Aveni, 1994; Rhoades, Rechner, & Sundaramurthy, 2001). To examine whether the proportion of independent directors on a board and

board size vary with CEO duality, we examine two hypotheses as follows.

Hypothesis 1: CEO duality is negatively associated with the proportion of independent directors on a board.

Hypothesis 2: CEO duality is negatively associated with the size of the board of directors.

We examine two alternative hypotheses regarding the effect of CEO duality on firm performance. From the perspective of agency theory, individuals are self-interested optimizers creating agency problems and contributing to firms’ agency costs, which supports the separation of the CEO and CoB with higher independence of the board in monitoring a firm’s operations by the executives in order to minimize agency risk (Eisenhardt, 1989; Fama & Jensen, 1983). Stewardship theory, in contrast, suggests that individuals are motivated by intrinsic rewards, organizational identification, opportunities for growth, and obtaining satisfaction from the use of power to act in the shareholders’ interests (Davis et al., 1997). This supports CEO duality with minimal independent expressions on the board calling for unity of leadership. In the light of these arguments, we formulate our third hypothesis in two forms.

Hypothesis 3a: From the perspective of agency theory, CEO duality is negatively associated with the financial performance of Chinese firms in Singapore.

Hypothesis 3b: From the perspective of stewardship theory, CEO duality is positively associated with the financial performance of Chinese firms in Singapore.

Lastly, over 40% of listed Chinese firms in Singapore have actually registered their incorporations in a third territory, such as Bermuda, British Virgin Islands, and the Cayman Islands, or other so-called tax havens (Hines Jr., 2010). This study specifically focuses on examining the effect of Singapore incorporation compared to the non-Singapore incorporated Chinese firms on the relationship between CEO duality and firm performance. The evidence from the state of Delaware, a domestic tax haven in the U.S., shows that the benefits to firms from tax incentive is another reason for deciding a firm’s location of incorporation. We therefore develop our fourth hypothesis to investigate the impact of firm incorporation on the CEO duality-firm performance relationship as follows.

Hypothesis 4: Firm incorporation has a positive moderating effect on the relationship between CEO duality and the financial performance of Chinese firms in Singapore.

In addition to the above key hypotheses, relationships between the firm-specific control variables and firm performance are also examined. First, a board with more independent directors can deliver managerial monitoring tasks more effectively for better firm performance (Eisenhardt, 1989; Fama, 1980). Thus, it is expected that the proportion of independent directors on a board positively influences firm performance. Second, from the perspective of agency theory, board size has an inverse association with firm performance (Jensen, 1993; Yermack, 1996). Increasing the board size causes a deterioration in board communication and monitoring and in turn leads to poorer firm performance (Jensen, 1993). It is therefore expected that board size is negatively related to firm performance.

On the one hand, agency theory explains the link between the existence of a nomination committee and board independence to strengthen the board control and monitoring mechanisms in mitigating the effect of CEO duality and the number of insider directors on the BoD (Ruigrok, Peck, Tacheva, Greve, & Hu, 2006). On the other hand, resource-dependence theory favors diversity on company boards to improve firm performance (Pfeffer, 1972; Pfeffer & Salancik, 1978), and the existence of a nomination committee may also promote more diversity in terms of nationality (Ruigrok et al., 2006). It is therefore expected that the existence of a nomination committee is conducive to firm performance (Lam & Lee, 2008, 2012). Third, firms with longer incorporation histories may have a wider ownership base (Yermack, 1996), which may influence their CG practices and then affect their performance. Fourth, firm size is expected to have a positive relationship with firm performance (Yermack, 1996). Finally, debt financing is another common business decision that may introduce another external monitoring mechanism by the debt holders

for protecting their financial positions in firms (Chen & Jaggi, 2000). Thus, we use liquidity and financial leverage as control variables to take into account the effects of a firm's ability to meet its short-term and long-term obligations, respectively.

4 Data and Methodology

4.1 Data

Our sample includes Chinese firms listed on the SGX Mainboard. There are 31 Chinese firms that have changed their registered name since 2009, and the data of those companies are matched with the data of their former companies under their previous company names. Firm history (date of incorporation) and firm incorporation (location of incorporation) are obtained from the SGX database via its website at <http://www.sgx.com>. Board information is collected from individual corporate annual reports, which can also be obtained from the SGX website through the public domain access. Board-specific data collected from the annual reports includes board leadership structure, proportion of independent directors on BoDs, board size and the existence of nomination committees. Financial data are obtainable from Datastream and Worldscope Database of Thomson Reuters, which are then converted into Singaporean dollars (SGD) for empirical analysis. Data reliability has been enhanced by excluding a number of extreme outliers from the sample. This study uses data from the SGX Mainboard from 2009 to 2011. Three-year company data for 105 sample firms with a total of 216 firm-year observations is used for empirical analysis. Table 1 illustrates the derivation of the data sample starting with the number of Chinese firms listed on the SGX as of 31 December 2009.

Table 1. Sample Derivation

| | | |
|------|---|------------|
| | Chinese firms listed on SGX as of 31 December 2009 | 156 |
| Less | Chinese firms listed on the SGX Catalist | (13) |
| | Chinese firms listed on the SGX Mainboard | 143 |
| Less | Chinese firms delisted after December 2009 | (26) |
| | Chinese firms not listed throughout 2009 – 2011 | (12) |
| | Sample of this study | 105 |

Firm Performance: Chinese SOEs rely more on accounting performance to evaluate CEO performance based on subsidiaries' earnings that are to be included in the consolidated accounts of the parent SOEs (Conyon & He, 2014). Thus, we use accounting-based indicators as the firm performance measure, which is in line with the board leadership literature (Ramdani & Van Witteloostuijn, 2010). More specifically, change in annual return on assets (Δ ROA) is used as measure of firm performance. ROA is one of the board performance evaluation criteria specified by the Code of Corporate Governance (CCG) 2005 and a

preferred operating performance measure, because it is not affected by leverage, extraordinary items, and other discretionary items (Core, Guay, & Rusticus, 2006). Nevertheless, Δ ROA does constitute an appropriate choice to better describe a firm's growth potential.

Board Leadership Structure: Board leadership structure is measured by CEO duality (CEOD) and defined as the practice of a single individual serving as both CEO and CoB at the same time (Krause et al., 2014), which is a dichotomous variable and denoted by 1 for duality and 0 for non-duality.

Board Independence: Board independence is measured by the proportion of independent directors on the board (PIND).

Board Characteristics: Other board characteristics are represented by the natural logarithm of board size (L_BSIZE) and a dummy variable for the nomination committee (NCOM). Although all listed firms in Singapore during the research period have formed audit and remuneration committees on their boards, a small fraction of listed Chinese firms continue to not form nomination committees within their BoDs, as required by the CCG 2005.

Firm Characteristics: Firm history (HIST) is represented by the natural logarithm of age from firm listing (L_HIST). It is the number of years from firm incorporation up to the end of the sample period, that is, HIST is equal to 2011 less the year of firm incorporation.

Firm incorporation (INCORP) is a dummy variable denoted by 1 for Singapore incorporation and 0 for non-Singapore incorporation. INCORP is used together with the product of INCORP and CEO Duality (INCORP_CEOD) to test whether a firm's location of

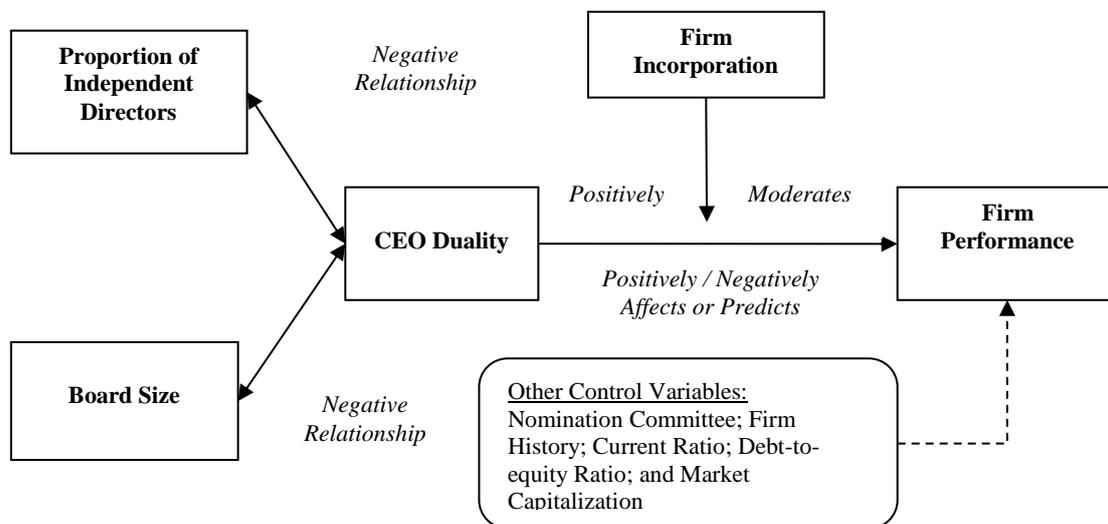
incorporation has any moderating effects on the relationship between CEO duality and firm performance.

Firm size is measured by the natural logarithm of market capitalization (L_MKTC), which is in line with the SGX market valuation (SGX, 2011) and the selection of Chinese firms by the FTSE ST China Index (FTSE, 2012). The liquidity and financial leverage of firms are measured by current ratio (CR) and debt-to-equity ratio (DE), respectively.

4.2 Empirical Model

The hypothesized relationships between individual constructs are summarized in Figure 1. Based on hypotheses H1 and H2, board size and the proportion of independent directors are negatively related to CEO duality. In line with hypotheses H3a and H3b, CEO duality can either positively or negatively influence firm performance, and this relationship is positively moderated by firm incorporation as per hypothesis H4. Other control variables have their individual partial effects on firm performance as previously described.

Figure 1. Hypothesized Framework for Listed Chinese Firms in Singapore



A regression model of the following form is employed for testing the hypothesized relationships outlined in Figure 1.

$$Y_i = \beta_0 + \beta_1 \text{CEOD}_i + \beta_2 \text{PIND}_i + \beta_3 \text{L_BSIZE}_i + \beta_4 \text{NCOM}_i + \beta_5 \text{L_HIST}_i + \beta_6 \text{CR}_i + \beta_7 \text{DE}_i + \beta_8 \text{L_MKCAP}_i + \beta_9 \text{INCORP}_i + \beta_{10} \text{INCORP_CEOD}_i + \epsilon_i$$

Where, Y_i represents alternative measures of the financial performance for firm, β_0 is the constant term, β_i represents the slop coefficients ($i = 1, 2, \dots, 10$) and ϵ_i is the random error term.

The coefficients $\beta_2, \beta_4, \beta_6, \beta_7$ and β_8 are predicted to have a positive sign, whereas β_3 and β_5 are predicted to have a negative sign. The moderating effect of firm incorporation is tested by including a dummy variable for firm incorporation (INCORP) and an interaction variable, the product of CEO duality and firm incorporation (INCORP_CEOD), in the regression model. Table 2 summarizes the definition of variables, data source, and the predicted relationship between the variables and firm performance.

Table 2. Definition of Variables, Data Source, and the Predicted Relationship of Independent Variables with Firm Performance

| Variable Notations | Description | Data Source | Predicted Relationship with Firm Performance |
|------------------------------|--|------------------------------|--|
| Dependent Variables | | | |
| ROA | Return on asset | Datastream | N/A |
| Δ ROA | Annual rate of change in ROA | Derived from ROA | N/A |
| Independent Variables | | | |
| CEOD | CEO duality (1 for duality, 0 for non-duality) | Annual reports | Negative (H3a) / Positive (H3b) |
| PIND | Proportion of independent directors (the number of independent directors divided by the total number of directors of a board of directors) | Annual reports | Positive |
| L_BSIZE | Natural logarithm of board size | Annual reports | Negative |
| NCOM | Nomination committee (1 for existence, 0 otherwise) | Annual reports | Positive |
| L_HIST | Natural logarithm of firm history (2011 less firm incorporation year) | Singapore Exchange | Negative |
| INCORP | Firm incorporation (1 for Singapore incorporation, 0 for non-Singapore incorporation) | Singapore Exchange | Moderation |
| INCORP_CEOD | Product of INCORP and CEOD | Derived from INCORP and CEOD | Moderation |
| CR | Current ratio (total current assets over total current liabilities) | Datastream | Positive |
| DE | Debt-to-equity ratio (long-term debt over common equity) | Datastream | Positive |
| L_MKCAP | Natural logarithm of market capitalization | Datastream | Positive |

Note: N/A refers to not applicable; except those financial data collected from Datastream, all corporate annual reports and other firm data are collected from the Singapore Stock Exchange website (<http://www.sgx.com>)

5 Empirical Results

5.1 Descriptive Statistics

The descriptive statistics for the full sample, Singapore incorporated firms and non-Singapore incorporated firms are presented in Table 3. Within the full sample of 216 firm-year observations, there are 88 firm-years that have adopted CEO duality as their board leadership structure, while 128 firm-years have complied with CCG 2005 by having separate CEO and CoB. The incidence of CEO duality is very similar (about 40 to 41%) for both Singapore and non-Singapore incorporated Chinese companies. All Singapore incorporated Chinese companies have a nomination committee (NCOM) to deal with board

appointment matters, while 98% of non-Singapore incorporated Chinese firms have a nomination committee. About 54% of Chinese firms are Singapore incorporated and 41% of these firms have a CEO duality leadership structure. Table 3 indicates that, on average, Chinese firms incorporated in Singapore have a longer firm history (HIST) with a higher market capitalization (MKCAP) than those of non-Singapore incorporated firms. Singapore incorporated firms have an average age of 9.96 years, while non-Singapore incorporated firms have an average age of 7.42 years. Singapore incorporated firms have an average market capitalization of around SGD 188,000, which is more than those non-Singapore incorporated firms.

Table 3. Statistics for the Full Sample, Singapore Incorporated Firms, and Non-Singapore Incorporated Firms

| | Full Sample (n = 216) | Singapore Incorporated Firms (n = 117) | Non-Singapore Incorporated Firms (n = 99) |
|--|--------------------------|---|--|
| Panel A: Board Leadership Structure | | | |
| CEO Duality (Firm-year) | 88 | 48 | 40 |
| CEO Non-duality (Firm-year) | 128 | 69 | 59 |
| Total (Firm-year) | 216 | 117 | 99 |
| Panel B: Firm Characteristics (Mean) | | | |
| Independent Directors (No.) | 2.8796 | 2.8803 | 2.8788 |
| Board Size (No.) | 6.662 | 6.6239 | 6.7071 |
| Firm History (Year) | 8.7963 | 9.9573 | 7.4242 |
| Market Capitalization (SGD) | 351,958 | 438,285 | 249,836 |
| Panel C: Categorical Variables (Mean) | | | |
| CEOD | 0.4074 | 0.4103 | 0.4040 |
| NCOM | 0.9907 | 1.0000 | 0.9798 |
| INCORP | 0.5417 | 1.0000 | 0.0000 |
| INCORP_CEOD | 0.2207 | 0.4103 | 0.0000 |
| Panel D: Scale Variables | | | |
| PIND | | | |
| Mean | 0.4418 | 0.4444 | 0.4386 |
| Std. Dev. | 0.0894 | 0.0919 | 0.0866 |
| CR | | | |
| Mean | 4.2347 | 2.9329 | 5.7731 |
| Std. Dev. | 7.6472 | 2.7011 | 10.735 |
| DE | | | |
| Mean | 14.3813 | 12.9335 | 16.0924 |
| Std. Dev. | 27.0913 | 20.6566 | 33.1609 |

The descriptive statistics of dummy and scale variables are presented in Panels C and D of Table 3, respectively. In terms of board composition, the mean of the proportion of independent directors (PIND) is about 44%, which is above the CCG 2005 minimum requirement of 33%. On average, a typical Chinese firm on the SGX has a board size of 6.66 directors of which 2.89 are independent.

The current ratio (CR) and debt-to-equity ratio (DE) are higher for non-Singapore incorporated Chinese firms than those Chinese firms incorporated in Singapore. On average, the current ratio of Singapore incorporated firms is at 2.93 while the current ratio of non-Singapore incorporated firms is almost double that of the Singapore incorporated firms at 5.77. Non-Singapore incorporated firms have a higher average debt-to-equity ratio than Singapore incorporated firms. Thus, Singapore incorporated firms are in a better position to meet long-term obligations, while non-Singapore incorporated firms are in a better position to meet short-term obligations.

5.2 Proportion of Independent Directors and Board Size

Table 4 presents the results of t-tests for the proportion of independent directors (PIND) and board size (L_BSIZE). The proportion of independent directors is generally higher in Chinese firms with CEO duality than that of Chinese firms with CEO non-duality. The corresponding t-test result suggests that this difference is statistically significant at the 10% and 5% levels for Singapore incorporated and non-Singapore incorporated firms, respectively. In contrast, the natural logarithm of board size is generally lower in Chinese firms with CEO duality than that of Chinese firms with CEO non-duality. The corresponding t-test result suggests this difference is statistically significant at the 1% level for Singapore incorporated firms and at the 10% level for non-Singapore incorporated firms.

Table 4. The t-test for the Equality of Means

| Data Group | CEOD | Sample Size | Proportion of Independent Directors (PIND) | | Logarithm of Board Size (L_BSIZE) | |
|---|------|-------------|--|-------------------------------|-----------------------------------|-------------------------------|
| | | | Mean | Difference in Means (p-value) | Mean | Difference in Means (p-value) |
| Singapore Incorporated Firms | 1 | 48 | 0.4619 | 0.0296 (0.087) | 1.7940 | -0.129 (0.001) |
| (n = 117) | 0 | 69 | 0.4323 | | 1.9230 | |
| Non-Singapore Incorporated Firms | 1 | 40 | 0.4630 | 0.041 (0.020) | 1.8323 | -0.0762 (0.080) |
| (n = 99) | 0 | 59 | 0.4220 | | 1.9085 | |

5.3 Board Leadership Structure and Firm Performance

The t-test results for firm performance and leadership structure are presented in Table 5. The results indicate that there is a significant difference in terms of performance, where Singapore incorporated Chinese firms generally perform better than non-Singapore incorporated firms. For the cohort of firms with the CEO duality leadership structure, we do not observe any statistically significant difference in performance

between Singapore incorporated and non-Singapore incorporated firms. However, for the cohort of firms with CEO non-duality, the null hypothesis for the equality of firm performance can be rejected at the 1% significance level. This result supports the contention that for the cohort of firms with CEO non-duality, Singapore incorporated Chinese firms generally perform better than non-Singapore incorporated Chinese firms.

Table 5. The t-test for the Equality of Financial Performance (Δ ROA) Means between Singapore Incorporated Firms and Non-Singapore Incorporated Firms

| Financial Performance (Δ ROA) | Levene's Test for Equality of Variances | | t-test for Equality of Means |
|---------------------------------------|---|---------|------------------------------|
| | F-statistic | p-value | p-value |
| Full Sample (n = 216) | | | |
| Equal variance not assumed* | | | 0.000 |
| CEO Duality (n = 88) | | | |
| Equal variance assumed# | 1.147 | 0.287 | 0.225 |

*The null hypothesis of equal variance is rejected with a p-value of 0.02. Hence, the t-test is conducted under the assumption of unequal variance.

#The null hypothesis of equal variance cannot be rejected given a p-value of 0.287. Hence, the t-test is conducted under the assumption of equal variance

5.4 Regression Results

Table 6 presents the results from the multiple regressions for the full sample of Chinese firms with respect to their dependent financial performance indicator of Δ ROA. The hypothesis (H3b) that CEO duality is positively associated with the financial performance of firms is supported without including the moderation of firm incorporation. The moderating effect of firm incorporation on the association between CEO duality and firms' financial performance is examined by including the moderator INCORP and the interaction variable INCORP_CEOD in the regression model. The augmented regression model has a higher adjusted R². Both INCORP and INCORP_CEOD are statistically significant at the 1% level, and the effect of CEO duality on firm

performance remains statistically significant in the augmented model. Both the beta-coefficients β_9 and β_{10} are significantly different from zero, suggesting that firm incorporation is a quasi-moderator. More specifically, the coefficient of the dummy variable for firm incorporation (INCORP) indicates that a Singapore incorporated firm shows a 0.269 percentage points higher ROA growth than that of a non-Singapore incorporated firm with comparable characteristics. The coefficient of the interaction variable, INCORP_CEOD, is -0.31 and statistically significant at the 1% level. This result is at odds with the hypothesis (H4) that firm incorporation in Singapore has a positive moderating effect on the relationship between CEO duality and financial performance. The net effect of CEO duality on return on assets is 0.023 (= 0.333 – 0.301) for Singapore incorporated firms and 0.160 for non-Singapore incorporated firms.

Table 6. Regression Results for the Moderating Effect of Firm Incorporation on the CEO Duality-Firm Performance Relationship
(Dependent Variable: Δ ROA)

| Model | Full Sample of Chinese Firms without the Moderation of Firm Incorporation | | Full Sample of Chinese Firms with the Moderation of Firm Incorporation | |
|------------------------------|---|---------|--|---------|
| | Coefficient | p-value | Coefficient | p-value |
| Variable | | | | |
| Intercept (β_0) | -1.655** | 0.003 | -1.549** | 0.004 |
| CEOD (β_1) | 0.160* | 0.011 | 0.333*** | 0.000 |
| PIND (β_2) | -0.592 | 0.118 | -0.667 [†] | 0.070 |
| L_BSIZE (β_3) | -0.432* | 0.013 | -0.450** | 0.008 |
| NCOM (β_4) | 1.002** | 0.001 | 0.829** | 0.006 |
| L_HIST (β_5) | 0.040 | 0.473 | 0.042 | 0.443 |
| CR (β_6) | -0.007 [†] | 0.057 | -0.005 | 0.210 |
| DE (β_7) | -0.002 | 0.106 | -0.002 | 0.102 |
| L_MKCAP (β_8) | 0.110*** | 0.000 | 0.106*** | 0.000 |
| INCORP (β_9) | N/A | N/A | 0.296*** | 0.000 |
| INCORP_CEOD (β_{10}) | N/A | N/A | -0.310** | 0.008 |
| R ² | 0.203 | | 0.261 | |
| Adjusted R ² | 0.172 | | 0.225 | |
| F-statistic (p-value) | 6.581*** (0.000) | | 7.231*** (0.000) | |
| Sample Size | 216 | | 216 | |
| H3a | Not Supported | | Not Supported | |
| H3b | Supported | | Supported | |
| H4 | Not Applicable | | Not Supported | |

Note: [†], *, **, and *** refer to statistical significance at the 10%, 5%, 1% levels, and less than 1% level; N/A refers to not applicable

Table 7 presents the regression results for sub-samples of Singapore incorporated and non-Singapore incorporated Chinese firms. CEO duality has no statistically significant effect on the financial performance of Singapore incorporated firms. For the sub-sample of non-Singapore incorporated firms, we find a strong positive and statistically significant effect of CEO duality on firm performance. The proportion of independent directors (PIND) and board size (L_BSIZE) have a negative effect on the financial performance of Singapore incorporated Chinese firms, but no statistically significant effect on performance of non-Singapore incorporated firms. The presence of a nomination committee exerts a statistically significant

positive effect on the financial performance of non-Singapore incorporated Chinese firms. This variable is omitted from the model for Singapore incorporated firms because all firms in this sub-sample have formed their nomination committees in compliance with the CCG 2005. Firm history (L_HIST) also yields mixed effects on firm performance, with a significant positive effect in the sub-sample of non-Singapore incorporated firms, but no significant effect in the sub-sample of Singapore incorporated firms. The current ratio (CR) and debt-to-equity ratio (DE) have no statistically significant explanatory power, but market capitalization positively influences firm performance.

Table 7. Regression Results for the Financial Performance of Chinese Firms
(Dependent Variable: Δ ROA)

| Model | Singapore Incorporated Firms | | Non-Singapore Incorporated Firms | |
|-------------------------|------------------------------|---------|----------------------------------|---------|
| | Coefficient | p-value | Coefficient | p-value |
| Variable | | | | |
| Intercept (β_0) | 0.287 | 0.618 | -3.059*** | 0.000 |
| CEOD (β_1) | -0.010 | 0.891 | 0.412*** | 0.000 |
| PIND (β_2) | -0.857 [†] | 0.058 | -0.242 | 0.701 |
| L_BSIZE (β_3) | -0.740** | 0.001 | -0.017 | 0.952 |
| NCOM (β_4) | N/A | N/A | 1.046** | 0.003 |
| L_HIST (β_5) | -0.005 | 0.928 | 0.283* | 0.029 |
| CR (β_6) | -0.006 | 0.667 | -0.004 | 0.319 |
| DE (β_7) | -0.003 | 0.187 | -0.002 | 0.181 |
| L_MKCAP (β_8) | 0.109*** | 0.000 | 0.089* | 0.021 |
| R ² | 0.183 | | 0.276 | |
| Adjusted R ² | 0.130 | | 0.211 | |
| F-statistic (p-value) | 3.481** (0.002) | | 4.279*** (0.000) | |
| Sample Size | 117 | | 99 | |
| H3a | Not Supported | | Not Supported | |
| H3b | Not Supported | | Supported | |

Note: [†], *, **, and *** refer to statistical significance at the 10%, 5%, 1% levels, and less than 1% level; N/A refers to not applicable. The dummy variable for nomination committee, NCOM, is excluded from this regression model since all Singapore incorporated firms have a nomination committee

6. Discussions

This study does not find support for the hypothesis (H1) that CEO duality is negatively associated with the proportion of independent directors (see Table 4). Chinese firms in Singapore are perhaps practicing a hybrid form of governance system, where a board with CEO duality requires more monitoring by independent directors. This finding is in line with the agency theory that managers are self-interested optimizers (Elsayed, 2007), where CEO duality increases agency costs to the boards of Chinese firms in Singapore. This implies a greater need for board monitoring by outside directors (He & Sommer, 2010) as reflected in our results.

There is a statistically significant negative relationship between CEO duality and the board size, supporting hypothesis H2. This finding is more pronounced for Singapore incorporated firms and consistent with a prior study in Hong Kong and Singapore that board size is smaller in firms where the CEO is also the CoB (Heaney, 2009). As the Chinese board size is primarily driven by firm complexity (C. H. Chen & Al-Najjar, 2012), and there is an information asymmetry between inside and outside directors particularly when growth options are involved (Heaney, 2009) in firms with strong business networks to China (Ewing et al., 2000), the costs to reach consensus may outweigh the benefits from a larger board for firms in Singapore with CEO duality.

The regression results for the CEO duality-firm performance relationship in the full sample of firms provide support for the stewardship theory, in which firms benefit from the unity of command and direction from CEO duality (Donaldson & Davis, 1991). It is aligned with the shareholders' interests in that the

costs of separating the CEO and CoB are larger than the benefits from improved firm performance (Brickley, Coles, & Jarrell, 1997). This CEO duality-firm performance relationship is also contingent on firm incorporation such that non-Singapore incorporated firms show a stronger positive effect by CEO duality on firm performance. These arguments are consistent with the contingency theory, that the costs and benefits of CEO duality are affected by various internal and external factors (Finkelstein & D'Aveni, 1994). The lack of any strong association between board independence and firm performance favors stewardship theory, asserting that boards with minimal independent members help promote unity of the board (Muth & Donaldson, 1998). The same rationale works with the relationship of board size to firm complexity (C. H. Chen & Al-Najjar, 2012), in that there is an information asymmetry between inside and outside directors while firms having substantial growth options (Heaney, 2009) to predict a negative impact of a higher proportion of independent directors on firm performance. This is because a larger board has more difficulty in reaching consensus (Cheng, 2008).

With the augmentation of the base model by firm incorporation as an independent as well as a moderating variable, the model fitness improves. We observe that Singapore incorporated firms outperform their non-Singapore incorporated counterparts with comparable firm characteristics. In general, the impact of CEO duality on firm performance is positive for Chinese firms listed in Singapore. However, the impact of CEO duality on the change in annual return on asset is 0.333 for a non-Singapore incorporated firm, but only 0.02 (= 0.333 – 0.310) for a Singapore incorporated firm. This result suggests that firm

incorporation inversely moderates the relationship between CEO duality and firm performance. Thus, firm incorporation can be viewed as a quasi-moderator because it serves both as a predictor and moderator in this model.

In summary, the empirical findings for listed Chinese firms in Singapore generally support the stewardship theory that CEO duality is positively related to firm performance. Furthermore, the negative moderation of firm incorporation on this CEO duality-firm performance relationship supports the contingency theory that CEO duality is contingent on the external regulatory and legal environments of Singapore. Non-Singapore incorporated firms with CEO duality outperform Singapore incorporated firms with the same board leadership structure and firm characteristics. Conversely, non-Singapore incorporated firms with CEO non-duality underperform comparable Singapore incorporated firms with CEO non-duality.

7 Conclusion

The relationship between board leadership structure and firm performance can largely be explained by the stewardship theory for the full sample of Chinese firms listed on the SGX. Singapore incorporated Chinese firms outperform non-Singapore incorporated Chinese firms with similar firm characteristics. The CEO duality-firm performance relationship is negatively moderated by firm incorporation in Singapore, which supports contingency theory in that the CEO duality-firm performance relationship depends on the external regulatory and legal environment. In addition, we observe a weak negative effect of board independence on performance of Singapore incorporated firms, which is at odds with agency theory. The presence of a nomination committee is conducive to firm performance, which may be attributed to the nomination committee's guanxi quality.

Our finding of a positive CEO duality-firm performance relationship for Chinese firms in Singapore is at odds with the domination of agency theory in shaping most corporate governance codes. More specifically, the addition of monitoring clauses in the Singapore CCG 2012 may discourage firms from engaging in "best practice" rather than guiding them to implement corporate governance. For instance, the latest CG code provision requires independent directors to make up at least half of the board with CEO duality. A firm's board process may be interfered with by this code provision, in particular when Chinese firms operating in Singapore have strong ties to mainland China that are under the influence of guanxi. In order to comply with the CG code, Chinese firms may choose to minimize their board sizes in order to gain more independent directors, which is not favorable to firms according to resource-dependence theory. Hence, the regulatory

authorities may consider reviewing their CG codes when considering different theoretical views as discussed in this study.

Practitioners may focus on balancing board independence, board size and the board nomination process with the CEO duality leadership structure. The impact of the board leadership structure (CEO duality or non-duality) on firm performance cannot be determined in isolation because it relies on other board characteristics aligning with the board leadership structure and external environment. Although the code's provision on the composition of nomination committees remained unchanged between Singapore's CCG 2005 and CCG 2012, a larger committee may allow more executive directors to join it to provide operational inputs to the nomination processes in balancing between committee independence (from the agency theory's view) and managerial leadership (according to stewardship theory) for the appointments of all directors to the BoD. This implies appropriate board monitoring with sufficient support for the board leadership of CEO duality for superior firm performance owing to the complexity of Chinese firms in Singapore.

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