Board Leadership Structure and the Financial Performance of Listed Chinese Firms in Singapore

Ricky Wing Fai Pang

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The University of Newcastle
Faculty of Business and Law
Newcastle Business School

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Declaration

I hereby certify that the work embodied in this Dissertation Project is the result of original research and has not been submitted for a higher degree to any other University or Institution.

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Acknowledgments

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Abbreviations

ADBI  Asian Development Bank Institute
AFC  Asian Financial Crisis
AGMs  Annual General Meetings
BOD  Board of directors
CA  Companies Act
CCDG  Council on Corporate Disclosure and Governance
CCG 2001 Code of Corporate Governance 2001
CCG 2005 Code of Corporate Governance 2005
CCG 2012 Code of Corporate Governance 2012
CEO  Chief executive officer
CFO  Chief financial officer
CG  Corporate governance
CGC  Corporate Governance Committee
China  People’s Republic of China
CNY  Chinese currency Yuan – commonly refers to the Renminbi
COB  Chairman of the board of directors
CSRC  Chinese Securities Regulatory Commission
EBITDA  Earnings before interest, tax and depreciation
GFC  Global Financial Crisis
HKEx  Hong Kong Exchange
HOMA  Hedges and Olkin-type meta-analysis
IPOs  Initial public offerings
IRAS  Inland Revenue Authority of Singapore
KLSE  Kuala Lumpur Stock Exchange
MAS  Monetary Authority of Singapore
MoF  Ministry of Finance
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>NASDAQ</td>
<td>National Association of Securities Dealers Automated Quotations</td>
</tr>
<tr>
<td>NYSE</td>
<td>New York Stock Exchange</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>POEs</td>
<td>Private-owned enterprises</td>
</tr>
<tr>
<td>RI</td>
<td>Total return index</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on asset</td>
</tr>
<tr>
<td>ROCE</td>
<td>Return on capital employed</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on equity</td>
</tr>
<tr>
<td>ROS</td>
<td>Return on sales</td>
</tr>
<tr>
<td>Rt</td>
<td>Annual rate of return on stock</td>
</tr>
<tr>
<td>S-chips</td>
<td>China-based companies listed on the Singapore Exchange</td>
</tr>
<tr>
<td>SFA</td>
<td>Securities and Futures Act</td>
</tr>
<tr>
<td>SGD</td>
<td>Singaporean dollars</td>
</tr>
<tr>
<td>SGX</td>
<td>Singapore Exchange</td>
</tr>
<tr>
<td>SOEs</td>
<td>State-owned enterprises</td>
</tr>
<tr>
<td>SOX</td>
<td>Sarbanes-Oxley Act</td>
</tr>
<tr>
<td>U.K.</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>U.S.</td>
<td>United States</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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Abstract

The financial crises and corporate scandals in the past decades have attracted public attention and increased pressure on the financial regulatory authorities to develop and review their corporate governance (CG) codes for guiding the “best practice” of governance in public firms. Unlike the statutory Sarbanes-Oxley Act 2002 (SOX) in the United States, the regulatory authorities in developed Asian markets, such as Hong Kong and Singapore, choose to adopt a more flexible “comply or explain” approach in guiding their listed company for good CG practices. Among those recommended “best practice” in the CG codes, there is a common practice which relates to the board leadership structure stipulates that the chief executive officer (CEO) and the chairman of the board of directors (COB) positions should be separately held by two individuals (CEO non-duality). However, there is still a lack of conclusive suggestions in the studies on which board leadership structure (CEO duality or non-duality) is best in CG to universally predict positive firm performance improvement.

With the increasing presence of mainland Chinese companies listed and traded on international stock exchanges, the impact from the differences in CG systems between the Chinese two-tier CG framework and the Anglo-American model regarding a board’s leading role is also becoming more significant. In addition, after the 2008 Global Financial Crisis (GFC), the energetic momentum of the Chinese economy is still the focus of the world while there are economic downturns in most western markets. The study of CG in mainland Chinese firms as individual members of the Chinese economy provides a micro view on the macro evolution and sustainability of the economic momentum of China which is affecting the world economy. However, overseas-listed Chinese firms are one of the appropriate choices for the examination of Chinese CG through empirical research. While prior studies have mainly focused on overseas Chinese companies listed in Hong Kong and New York, which are dominated by large state-owned enterprises
(SOEs), this dissertation project seeks to examine the relationship between board leadership structure and the financial performance of a group of listed Chinese firms in Singapore, which comprises mixed smaller sized SOEs and private-owned enterprises (POEs), from the period of time of the 2008 GFC onwards in order to fill a research gap.

This research is the first study to examine the impact of board leadership structure on the financial performance of listed Chinese firms in Singapore, taking into account the moderating effect of company incorporation. A sample of 105 Chinese firms with a total of 216 firm-year observations between 2009 and 2011 is used for empirical analysis. This period is characterized by highly publicized corporate scandals and accounting irregularities with China-based firms publicly listed in Singapore. The empirical results suggest that the board leadership structure of CEO duality positively influences the financial performance of listed Chinese firms in Singapore, and that this relationship is also positively moderated by their company incorporation in Singapore. The board leadership, under the unity of command with CEO duality, increases the chance of managerial opportunism for high contribution to a firm’s competitiveness in the market that has led to superior performance improvement of Chinese firms in the post-GFC period. Furthermore, the regulatory environment of Singapore also further enhances the effect of CEO duality on the financial performance of Chinese firms listed in Singapore.