

SINGAPOREAN STYLE OF PUBLIC SECTOR CORPORATE GOVERNANCE: CAN PRIVATE SECTOR CORPORATIONS EMULATE PUBLIC SECTOR PRACTICES?

SAJID ANWAR

University of Adelaide & University of South Australia

CHOON-YIN SAM¹

TMC International Holdings Limited

I. Introduction

Public sector corporations are generally considered to be inefficient. It has been argued that the public sector has much to learn from management practices of the private sector (Dopson and Stewart, 1990). Despite differences in their broad objectives, at least some of the problems faced by the private and public sectors are almost identical. This suggests that it may be possible for private sector corporations to emulate some of the practices of public sector corporations. It is interesting to note that most Singaporean public sector corporations have registered a strong growth over several years.

Since the Asian financial crisis of 1997-98, a great deal of attention has been placed on microeconomic reforms, particularly in the area of corporate governance and principal-agent relationship, in the Southeast Asian region (see Jomo, 2004). A number of studies have offered alternative explanations for the emergence of the crisis. Stiglitz (2002) and Mahani Zainal Abidin (2002), among others, argue that rapid and excessive short-term capital flows triggered the crisis. The International Monetary Fund (IMF) rejected this view in the early stages of the crisis.² However as the crisis began to affect the industrialised countries through the subsequent Russian and Brazilian

¹ Sajid Anwar (sajid.anwar@adelaide.edu.au) is Senior Lecturer at the University of Adelaide, and holds an adjunct appointment at the University of South Australia. Choon-Yin Sam (samchoonyin@yahoo.com) is Senior Lecturer at TMC International Holdings Limited, Singapore.

² The IMF and some industrialised countries rejected the calls from East Asia to reform the international financial system, including Japan's initiative to set up a regional monetary facility to deal with the crisis.

crises, increasing attention was paid to the role of capital flows and private sector governance (Jomo, 2004). The industrialised countries, for instance, initiated microeconomic reforms, in order to raise the standards of corporate governance.

There were indeed many cases of questionable corporate behaviour before and during the Asian financial crisis. For example, Hyundai raised US\$1 billion to bail out the Halla Group when it collapsed in Korea in 1997. Shareholders were not pleased with this arrangement, which could be attributed to the fact that the founder of the Halla Group was the younger brother of Hyundai's head. In Thailand, two senior managers of the Bangkok Bank of Commerce lent funds to themselves and senior politicians when the bank was already in financial trouble. Thailand's central bank had to spend a large amount of public money to bail out the institution rather than letting it collapse with bad debt amounting to US\$3 billion.³ These examples illustrate how weak corporate governance could lead to questionable transactions and the abuse of minority shareholders' rights.

There is a growing literature on issues pertaining to corporate governance.⁴ Mizruchi (2004) points out that much of the existing research concerns the means by which owners (shareholders) can effectively monitor the managers' behaviour to ensure fair returns from their investments. One such mechanism involves the provision of equity to management, but this has the effect of diluting the value of the remaining owners' equity. Another mechanism involves appointment of a competent board of directors, which on behalf of the owners is responsible for assisting and monitoring the management team. But the board itself, regardless of the composition and structure, needs to be monitored. The third approach subjects the firms to mergers and takeovers, which may subsequently result in the removal of inefficient and unethical managers. But corporate controls cannot unravel the agency problem concerning the budgeting process (Jensen, 2003). Takeovers can also be disruptive and generally occur only after the firm has lost a significant proportion of its value, and hence the root cause of the agency problem may not be adequately addressed.

This paper offers an alternative approach to supplement the above-mentioned measures. It is suggested that in some cases the public sector governance standards can offer some useful lessons to the private sector enterprises to further improve their management practices. This discussion suggests that aspects of the Singaporean style of public sector management could be usefully applied to the private sector in Asian countries such as

³ These examples were provided by Mark Mobius, President of Franklin Templeton Emerging Market Group, at the third Asian Roundtable on Corporate Governance, Singapore, 4-6 April 2001. The presentation slides can be downloaded from OECD's website (<http://www.oecd.org>).

⁴ See Pei (2004a, 2004b) and Mizruchi (2004) for excellent reviews.

Indonesia, Malaysia, Philippines and Thailand.⁵ The existing studies (e.g., Ramirez and Tan, 2004; Feng, Sun and Tong, 2004; and Ang and Ding, 2005) tend to focus on the performance of Singapore's Government-Linked Companies (GLCs) rather than that of the investor company.

The rest of this paper is organised as follows. Section 2 starts with a discussion of the agency problem, which is faced by the public as well as the private sector enterprises. This section also explains why emulating the Singapore public enterprise model might be useful. A case-study of Singapore based Temasek Holdings Limited (THL) is presented in Section 3. Section 4 contains some concluding remarks.

II. Public Sector Management and the Agency Problem

Known as a necessary evil of the 'efficient form of economic organisation', the agency problem arises because of the conflict of interest between the manager (i.e., the agent) and the shareholders (i.e., the principal).⁶ In some cases, the agent may be more interested in expropriating company funds rather than creating value for the firm. Within the context of the private sector, this problem was first observed by Berle and Means (1932) and further extended in an often-quoted paper by Jensen and Meckling (1976). Essentially, an increasing number of private corporations were run by professional managers who did not own them. In the US, it was believed that this began when great capitalist entrepreneurs like Vanderbilt, Rockefeller, Morgan and Harriman handed over the control of their corporations to 'outsiders' (or agents), which broadened the ownership and resulted in the separation of ownership and control.

The agency problem can also be observed within the public sector. For example, it can involve the citizens (principals) and governing elites (agents), or the citizens (principals) and bureaucrats (agents).⁷ In an ideal world, public office holders would have a genuine interest in serving the public including the old and poor. In such an ideal setting, minimal incentives are required to motivate public office holders. In reality, at least some public office holders consider politics as a career to earn their living. After all, significant time and capital is invested to get elected, and once elected they may try to apply whatever means they can to reap profit through corruption. Since it is often not possible for a principal to identify in advance the agent

⁵ It is perhaps worth mentioning that the Singapore public sector is not the only model that offers valuable lessons to the private sector. State-owned enterprises (SOEs) in countries like Austria, Taiwan, South Korea and France have also managed to buck the common perception about inefficiencies in the management of public corporations.

⁶ See Fama (1980).

⁷ See Anwar and Sam (2004).

who may be susceptible to the agency problem, corporations generally rely on material incentives and impose monitoring mechanisms to better align the interest of the principals and agents.

The idea of public choice, as put forward by James Buchanan, Gordon Tullock and William Niskanen, recognises the agency problem in the public sector. In their seminal works, Buchanan and Tullock (1962) and Niskanen (1971, 1991) described politicians as self-interested individuals, just like anyone else, who may be interested in maximising their personal interest rather than that of the public, which they supposedly represent. The problem is worsened, as citizens are usually unwilling to monitor public sector managers. This is because most citizens perceive their individual voice to be insignificant in initiating change and are therefore disinclined to seek costly information and internalise part of the government failures.

Corruption arising due to the agency problem can be observed in both public and private sectors. For example, managers of private as well as public sector enterprises may expropriate company funds to travel excessively and furnish their offices with unnecessary electronic gadgets. Nepotism and bribery affect both the public and private corporations.

Why consider Singapore? Singapore Civil Service and statutory boards constitute a significant proportion of the public sector institutions in Singapore. The GLCs, on the other hand, are categorised into different tiers, depending on the percentage of government ownership. Strengthening of the civil service was given a higher priority in the early years of self-governance in Singapore. The government efforts were focused mainly on attracting good candidates for civil service positions. As former Prime Minister Lee Kuan Yew said in his speech to the Public Utilities Board (reproduced in Lee, 1965): ‘My problem then was how to find big men for the big jobs that were vacant. There was no shortage of big chairs. The problem was how to find chaps with enough ballast to fill these big chairs’ (quoted from Seah, 1985, p. 100). Today, the Singapore Civil Service is considered to be one of the least corrupt in the world. A key aspect of this success is increased autonomy given to the ministries, departments and agencies, and along with that, greater discipline required of them to manage their budgets, resources and revenues (Jones, 2005).

Statutory boards are autonomous government bodies established by a special Act of Parliament to perform specific roles. They have the autonomy, for example, to recruit the right candidates and determine their remuneration packages and career advancement without the rigidity of the procedures utilised by the civil service. Statutory boards like the Economic Development Board (EDB) and Housing Development Board (HDB) have made a significant contribution to Singapore’s economic and social development (Quah, 1985; Lee, 1989).

Singapore's public sector management is a relevant model for private sector corporations to emulate. The city-state is selected because of its success in curbing corruption within its public sector. For example, Transparency International (TI), a non-governmental organisation established in 1993, has constantly ranked Singapore as one of the 10 least corrupt countries (based on its Corruption Perceptions Index). In addition, Hong Kong based Political and Economic Risk Consultancy Limited (PERC) has ranked Singapore as the least corrupt among a handful of countries it surveyed.

These achievements are crucial because they help explain higher standards of governance in statutory boards and GLCs where public sector representation tends to dominate. As Worthington (2003) notes, almost two-thirds of the representation on statutory boards came from the public sector (Table 1).

Table 1
Total Public Sector Board Representation in Statutory Boards 1988-98

Year	Total Positions	Public Sector Position	Public Sector Positions as Percentage of Total
1988	353	231	65.4
1989	334	219	65.6
1990	331	217	65.6
1991	362	240	66.3
1992	395	254	64.3
1993	413	262	63.4
1994	709	415	58.5
1995	731	417	57.0
1996	485	325	67.0
1997	538	348	64.7
1998	868	520	59.9

Source: Worthington (2003).

The public sector also dominates GLC directorship, accounting for more than 70 percent of the directorships in 1991 (see Worthington, 2003). In 1998, public sector representation increased, accounting for 74 percent of the representation in the GLCs (Table 2).

Some of the GLCs, such as the Development Bank of Singapore (DBS), Singapore Telecommunications (SingTel) and Singapore Airlines (SIA), have won corporate governance awards and are well known regionally.⁸ The superior performance of the GLCs vis-à-vis the non-GLCs

⁸ The standards, however, differ among the GLCs. For example, transparency is generally lacking in the Government of Singapore Investment Corporation Pte Ltd (GIC). It is not

has also been empirically examined. Ramirez and Tan (2004), for example, find that GLCs do not have easier access to the capital but are nevertheless rewarded by capital market with a higher Tobin's q for being linked to the government. The reason is not easy to pinpoint, but may be attributed to 'brand recognition' whereby investors are willing to pay more for a well-known brand. Ang and Ding (2005) have similarly found stronger financial and market performance of GLCs as compared to non-GLCs, noting among other things, that government ownership has a positive affect on firm valuations.

Table 2
Sectoral Representation among Directors with a Rank $\leq 1^{(1)}$ in GLCs: 1998

Sector	GLC	Civil Service	MPs	Military	Board	Private Sector	Unknown ⁽²⁾	Total
No	19	13	11	5	3	16	2	69
Percentage of total	28	19	16	7	4	23	3	100

Source: Worthington (2003).

Notes: (1) Director's rank measures the degree of importance of the companies he/she sits in and spread of directorships. The former is measured from level 1 (including THL) to 6 (comprising the least important GLCs). The lower the director's score, the more 'important' they are; (2) Worthington (2003, p. 190) believes that a majority of those classified as 'unknown' are from the private sector since the 'available public documentation was exhausted in identifying all directors'.

However, it must be recognised that emulating the GLCs that are partially owned by the government is not appropriate in our context because they may operate very much like private sector organisations, particularly those GLCs that are public listed (e.g., Sing Tel and SIA). GLCs are required to follow the same disclosure and corporate governance rules as other firms listed on the Singapore Stock Exchange. We propose, therefore, a study of 'pure' public enterprises that are wholly owned by the government.

Singapore is generally regarded as one of the least corrupt countries in the world. Hence, it is worthwhile to examine its experience in curbing corruption. Broadly speaking, Singapore has relied on five measures to curb corruption. These measures and their relevance to private sector enterprises are briefly discussed in the Appendix. Some of these measures are also highlighted in the next section.

very clear how GIC has performed over the years. This may be due to the fact that GIC is not required to report to the public or parliament regarding its activities and performance.

III. Case-Study: Temasek Holdings Limited (THL)

THL is a registered company under the Companies Act. While THL is fully owned by the Singaporean government, it is subject to requirements that normally apply to private enterprises. However, THL cannot be considered a private enterprise. In fact, THL resembles a statutory board in that it also owns a number of enterprises classified as GLCs. THL has a mandate to maximise the net social benefits rather than the return to investors. The Temasek Charter claims that THL invests for the long-term benefit of Singapore, considering the government of the day as a shareholder (Ho, 2004). As a government-owned enterprise, THL is subject to scrutiny by government and the general public. As a result, unlike private enterprises, THL is accountable to the wider community. Nevertheless, it should be noted that financial and market performance measurements of THL are relatively straightforward as compared to some public sector enterprises.

THL is an interesting case-study because as far as day-to-day operational matters are concerned, it appears to be independent of government control, at least for the last decade or so (Yeung, 2002). However, as a government-owned enterprise, the President of Singapore must approve THL's annual budget. This ensures that THL does not draw on the reserves of the country without explicit Presidential approval. Both S. Dhanabalan (Chairman of THL) and Ho Ching (CEO) have publicly claimed that the government does not control the investor company in its investments, nor intervene in the operational issues of investee companies through THL (Dhanabalan, 2002; Ho, 2004). Essentially, this implies that a generally clear separation of ownership and control exists in THL. In this respect, observing how the company mitigates the agency problem may be useful. THL fits our description of a pure public enterprise because its shareholders are the citizens of Singapore. Finally, some information regarding THL's financial performance and its style of governance was recently released to the public. As a result, it is now possible to examine the internal workings and financial performance of the company through the Temasek Review (the 'Review'), first released in October 2004. For years, THL has been criticised for not being transparent.⁹ The release of the Review is welcomed by observers of Singapore affairs (the official reason for publishing the Review was to obtain a credit rating for Temasek so as to institutionalise Temasek's role as a long term shareholder and an active investor) although some might question whether the information disclosed

⁹ A recent article published in *The Economist* (*The Economist*, 2004) outlines some of the common complaints.

was detailed enough and in accordance with international standards.¹⁰ The lack of detailed information can be attributed to the fact that THL is an ‘exempt private company’ – under the Companies Act, THL is exempt from publishing or publicly disclosing its financial accounts.

Background. ‘Temasek’ is an old Malay name for ‘sea town’. THL was established on 25 June 1974 and is a government-owned holding company. The shareholders comprise the past, the present and the future generations of Singaporeans (Ho, 2004). THL serves as a ‘monitoring arm of the Minister for Finance’ to ‘track the performance of the various investments and companies’ and to ‘review and appoint directors and chairmen to the boards of various companies’ (*ibid.*). THL’s mission (as reflected in the Review) is to create and maximise long-term shareholder value as an active investor and shareholder of successful enterprises.¹¹ While some THL board members are civil servants (past and present), who may lack business acumen, the board is assisted by highly talented businessmen and entrepreneurs. To some extent, this addresses any concerns that THL investments may be politically, rather than commercially motivated, or that THL is perhaps too risk-averse and lacks entrepreneurial drive.

As shown in Table 3, THL investments, which totalled S\$103 billion as at 31 March 2005, have concentrated in the telecommunications and media industry (33 percent), financial services industry (21 percent) and transportation and logistics industry (17 percent). THL has also invested a significant proportion of its funds outside of Singapore. For example investments in Australia account for almost 18 percent. THL has pledged to diversify its portfolio both in terms of industry clusters and geography (Ho, 2004). However, it is not clear why THL took such a long time to recognise the need for diversification – it is well known that a more diversified

¹⁰ See Ho (2004). This however may be an understatement. It is quite possible that THL has succumbed to the pressure from the US for greater transparency on its ownership and control of the GLCs. This can be seen from the US-Singapore Free Trade Agreement (USSFTA) (signed on 6 May 2003), which commits Singapore to ‘at least annually make public a consolidated report that covers, for each entity, the percentage of shares and percentage of voting rights that Singapore and its government enterprises cumulatively own and the name and government title of any government official serving as an officer or a member of the board of directors’. Such information had not been made public before the FTA was signed (Khanna, 2004). It should be acknowledged, of course, that the release of the Review did help to position THL as an ‘active investor’, allowing the organisation to issue highly rated 10-year bonds worth US\$1.75 billion on 15 September 2005.

¹¹ In theory, institutional investors like THL have stronger incentives to maximise their firms’ value, collect information and oversee managers, and so they can better overcome the agency problem arising from the conflict of interest between shareholders and managers (Jensen and Meckling, 1976).

portfolio helps to reduce investment risk.¹² One could speculate that this may be due to the need for providing risk capital to Singaporean firms during a period when its venture-capital industry was not fully developed. By being an active shareholder, THL was able to set the standards of corporate governance at a level that was higher than that of the local publicly traded companies, typically owned by families, corporations and nominees (Mak, 2004).

Table 3
Investment Portfolio of the Temasek Holdings Limited

By Industry	FY2003 (%)	FY2004 (%)
Telecommunications and media	36	33
Financial services	21	21
Transportation and logistics	14	17
Infrastructure, engineering and technology	10	10
Energy and resources	7	8
Property	6	8
Others	6	3

By Country	FY2003 (%)	FY2004 (%)
Singapore	52	49
Australia	17	18
ASEAN (excluding Singapore)	9	9
United States	7	6
Europe	7	5
China/Taiwan/Korea	6	8
India/Pakistan	1	2
Japan	1	1

Source: Temasek Review (2005).

Performance. Total shareholders' return (TSR) is used as an indicator of THL performance (Table 4). The Review defines the TSR as the compounded annual return to THL shareholders over a specified time period, taking into account appreciation or depreciation in market value of its portfolio, dividends paid and the injection of net new capital. Table 4 shows that over the last 30 years, TSR measured a strong 18 percent per annum, which was mainly due to its small base in the early years and the growing reputation of Singaporean GLCs. Over the last 10 years, TSR has been lower, averaging 6 percent per annum. This period coincided with the Asian financial crisis in the late 1990s, September 11, 2001, attacks in the US, and the outbreak of SARS in 2003. Liberalisation of the telecommunications industry and weakness in the property sector also adversely affected company asset values and share prices, which contributed to a decrease in return for

¹² The company's long-term goal is to attain a balanced portfolio with one third of its asset exposure in Singapore, one third in developed economies and one third in the rest of Asia. Temasek Review (2005, p. 38) has noted that no single investment accounts for more than 30 percent of THL portfolio.

shareholders. Since its inception, THL has provided its shareholders with an average annual cash dividend yield of more than 7 percent. Over the last three years, cash dividends amounted to an average of S\$1.3 billion a year. In February 2004, CEO of THL, Ho Ching, indicated that while THL did not perform as well as General Electric, its performance was comparable to other international benchmarks, including the Morgan Stanley Capital International equity index, which is widely used by leading funds managers.¹³

Table 4
Shareholders' Total Return

Year ended in March 31, 2004	THL (%) ¹	MSCI Singapore Index (%) ²	Straits Times Index (%) ³
1 year	16	16	19.2
2 year	30	31.1	34.2
3 year	11	6.4	9
5 year	1	0.6	2.7
10 year	6	2	4.3
30 year	18	7.9	NA

Source: Temasek Review 2005, Tan (2005).

Notes: (1) Assumes dividends are not reinvested by shareholder; (2) Morgan Stanley Capital International (MSCI) equity index; assumes dividends are reinvested; (3) assumes dividends are not reinvested.

In a recent study, however, Standard and Poor (2004) found that the Singaporean government's annual return on its assets during 1999 to 2002 was between 1.7% and 4%, which was significantly lower than the Hong Kong government's average return of 6 percent. The study also indicated that because the rate of return received by the Singaporean government was at least 2 percent lower compared to Hong Kong, the Singaporean government was approximately S\$17 billion worse off (Tan, 2004a). This situation raises several questions concerning the management of funds: for example, (1) was maintaining the government budget surplus a right strategy when the country was facing economic downturn, and (2) would the reserves be more efficiently managed if they were held in private hands? In a one-page response, the Singaporean government failed to provide the appropriate data to counter the S&P's claim but noted that the government has made 'good long term returns' on its assets (Tan, 2004b). The government response to the S&P study was provided before the release of THL's first Review in October 2004. Table 5 shows that THL's rate of return on its assets as reported by the Review was not significantly different from the S&P report.

¹³ See Ho (2004).

Table 5
Financial Performance of Temasek Holdings Limited

Indicator	FY2001	FY2002	FY2003	FY2004
Operating profit margin (%)	11.3	8.2	13.1	14.7
Return on average assets (%)	5.1	1.8	7.1	6.8
Return on average equity (%)	9.2	0.4	12.4	11.3
Net debt to capital (%)	23.4	23.0	19.9	21.8
Economic value added (\$bil)	-2.5	-1.5	-0.4	1.7
Value added/Employment cost	2.5	2.3	2.6	2.7
Singapore's GDP growth (2001-2004)	-2.4	2.2	0.8	8.3

Source: Temasek Review (2005); Asian Development Bank Key Indicators (<http://www.adb.org>).

Corporate Governance. Shleifer and Vishny (1996, p. 2) refer to corporate governance as 'ways in which suppliers of funds to corporations assure themselves on getting a return of their investments'. Based on this view, THL believes that it is imperative that outstanding managers lead the investor company. This strategy increases the probability that shareholders will receive an appropriate return on their investment. The principle of meritocracy is strongly followed in recruiting and retaining capable and dedicated staff (Dhanabalan, 2002; Ho, 2004). The same principle is applied in Singapore to civil servants who head various ministries and statutory boards.

A number of THL managers are picked from the ranks of the civil service and retired military personnel. Each manager is appraised and compensated accordingly on the basis of performance (Balan, 1999). However, the usefulness of the pay for performance mechanism in minimising the agency problem is not very clear (Pei, 2004b). While the pay for performance principle generally helps in reducing the agency problem (Morgan and Poulsen, 2001), Jensen (2003) cautions that the principle may instead encourage managers to manipulate the financial statements in an attempt to meet pre-determined performance standards and then receive the promised bonus associated with the achievements. The latter is often linked to the use of a plan for stock options. In this respect, it may be useful to note that THL Chairman, S. Dhanabalan, is not a strong proponent of stock options as a strong driver of management performance for companies listed in the main board, although THL does not completely dissociate itself from the scheme. THL issues stock options to its staff and also helps establish the scheme for GLCs. In Dhanabalan's words:

As the executives' personal wealth was so closely tied to their companies' share prices, not surprisingly, they had a keen interest in share prices and became very obsessed with maintaining stockmarket performance *even in the short run*. . . . With management having an increasing part of its fortune tied to the stock price, the obsession with

short-term price movements is compounded. The temptation to dress-up results to ensure that the stock continues to perform is almost irresistible (Dhanabalan, 2002).

As such, THL prefers to judge the financial performance of its companies through the measure of Economic Value Added (EVATM). It also encourages the use of compensation schemes that are tied to EVATM in both THL and the investee companies (Temasek Review 2005, p. 44).¹⁴ In fact, THL believes that its performance based incentive system is a necessary but not a sufficient condition for the alignment of the management interest with the objective of value creation among shareholders. THL also places strong emphasis on developing an organisation-wide 'culture of integrity' to identify and reward extraordinary performance of dedicated leaders (Temasek Review 2005, p. 44). Indeed, the Singaporean government has consistently emphasised the virtues of honesty and integrity within the public sector. The appointment of former Minister, S. Dhanabalan, and Head of Civil Service, Lim Siong Guan, as Chairman and Deputy Chairman of the board, respectively, has helped to bridge the organisational gap between THL and a typical public enterprise such as a statutory board. Moreover, both THL and a typical statutory board are subject to scrutiny by a Minister and the Corrupt Practices Investigation Bureau (CPIB).

Chairman Dhanabalan is of the view that due care and loyalty are relatively more important than establishing corporate governance principles and systems.¹⁵ We see this as a positive development where focus is being placed on the conduct of the board rather than its structural requirements alone. The latter is exemplified most commonly in listing rules and codes of corporate governance, including the Singapore Code of Corporate Governance and the US Sarbanes-Oxley Act (MacAvoy and Millstein, 2003).

THL claims that it is actively involved in identifying suitable independent board candidates for the investee companies. It does so with the strong involvement of its companies, looking out for capable and high calibre individuals of various backgrounds and nationalities (Temasek Review 2005, p. 43). The positive link between board integrity and firm performance seems obvious. THL does not appear to be short of words in attributing its success to the strength of people-in-charge. Ho (2004), for example, noted

¹⁴ EVATM is operating earnings in excess of the costs of capital. It relies on the assumption that the primary objective of any company is to maximise shareholder wealth even though its performance may strongly deviate from share price. For a discussion of the advantages and disadvantages of EVATM see MacAvoy and Millstein (2003, pp. 48-53).

¹⁵ In his speech to the audience of the Asian Business Dialogue on Corporate Governance in 2002, Dhanabalan (2002) noted that 'with fragmented ownership (in Asia), rules can only provide so much protection to shareholders. The character of the management and other service partners such as auditors and legal advisors become even more important'.

that Temasek companies have been well managed because they operate on the principle that ‘the best person for the job’ is a ‘strong and bold’ leader who is guided mostly by an ‘independent competent and commercially minded board’. Similarly, Dhanabalan (2002) attributed THL success to its character derived from the ‘character of the political leadership in Singapore with the qualities of honesty, probity, meritocracy, focus on the right rather than the popular decision and transparency being the main features’. The importance of board integrity to Chairman Dhanabalan (2002) is clearly illuminated in the following statement. ‘The *character, values* and competence of the people who lead the company at Board and management level are the *most important requirements for the success of a company. Temasek puts paramount emphasis on this*’.

Once professional managers are appointed, THL grants the management independence to run the GLCs. Eva Ho (Director of Corporate Communications) provides the THL perspective in the following letter to *The Economist*:

The relationship of Temasek-Linked Companies with Temasek is not very different from their relationship with any other institutional investor. Temasek Linked Companies (TLCs) receive no favours from the government. They make their own investment and business decisions based on their best interests. Their management are answerable to their respective boards. They are subject to market discipline and strive to deliver value to their shareholders. (Source: <http://www.temasek.com.sg>).

Similarly, Chairman S. Dhanabalan acknowledges that the:

Biggest role we (THL) can play is to make sure that the right people have the job and then let them get on with it. In the case of many of the companies in Temasek’s stable, they started as government-owned enterprises that were later corporatised and put into Temasek. So they were already in operation with their own management, strategies and so on. So it is not possible for us to try and run these corporations like GE.... I think it will be dangerous for us to build a team here that would over-ride the business and strategic decisions of the individual companies in the group. (Balan, 1999)¹⁶

While the degree of independence is a subjective matter (depending on how much the ‘top’ personnel are willing to ‘let go’), the above views appear

¹⁶ The idea is generally supported by political leaders as well as the academics. See for example Goh (1995, p. 46) and Yeung (2002, p. 235).

to validate the independence of the GLCs at least in operational matters.¹⁷ But ‘independence’ should not be treated synonymously with the element of trust. To be granted independence, one must have not only a proven successful record, but also the complete trust of the government. In other words, the best person is the one who can be relied upon to perform his/her duties diligently and ethically, and also meets all of his/her obligations. In this respect, the backbone of the Singaporean government is very much based on the trust element where a majority of managers and board directors of public enterprises are appointed from within the public sector.

In the case of THL, the most senior members of the organisation were either trusted individuals from the public sector or related to the Lee family (Ho Ching, appointed as the Executive Director in 2002, is the wife of Prime Minister Lee Hsien Loong). Civil servants (past and present) who currently hold senior positions at THL include S. Dhanabalan (Chairman of the Board, formerly a member of the cabinet), Lim Siong Guan (Deputy Chairman and concurrently Permanent Secretary of the Ministry of Finance), Sim Kee Boon (Director, formerly Head of Civil Service), Fock Siew Wah (Director, formerly Chairman of Land Transport Authority of Singapore), Ng Kok Siong (Director, formerly Chairman of the Monetary Authority of Singapore), and J. Y. Pillay (member of the Advisory Board and Chairman of the International Panel, concurrently Chairman of Singapore Exchange). As a consequence, some observers have pointed out that a complete separation of business and politics in THL (and among the GLCs) is simply not possible.¹⁸

However, this should not be viewed as a major problem. Within the Asian context, trust and social networks tend to facilitate a smooth and timely flow of useful information within the organisation. Granovetter (2005) argues that trust and social networks can also serve as a source of reward and punishment. In practice, however, the credibility and reputation of the regulators play an important part. The CPIB, for example, has the reputation of investigating high ranking public officials for corruption, including Teh Cheng Wan (former Minister of National Development), Glenn Knight (then Director of the Commercial Affairs Department and former public prosecutor), Yeo Seng Teck (then Chief Executive Officer of Trade

¹⁷ In this respect, Singaporean GLCs are quite unique. Unlike SOEs and family-owned businesses in many parts of the world, separation of ownership and control is relatively more distinctive in Singaporean GLCs.

¹⁸ Tan (2002) states that a ‘host of material and political interests were now intermeshed and embedded in the GLCs that would take some shifting’ (Rodan, 2004, p. 70). Tan also provided the names of MPs, military personnel and Cabinet members (both past and present) while detailing how they are connected with the GLCs. Interestingly, the government did not challenge the factual accuracy of Tan’s work – something which the government is ‘generally quick to do’ (*ibid.*, 2004, p. 70).

Development Board), Choy Hon Tim (then Director of the Electricity Department and Deputy Chief Executive (Operations) of the Public Utilities Board (PUB)), and others (including those from the private sector) suspected of acting improperly. With its officers appointed by the President, the CPIB can even investigate the Prime Minister.

THL is also in favour of having separate persons as the Chairman and the CEO for the companies it looks after. Felton (2004) has argued that maintaining two separate roles 'frees the CEO from the duties of Chairman while providing a valuable adviser who can offer insights that the CEO might not have'. THL started the trend by appointing S. Dhanabalan as its Chairman (from 1996) and Ho Ching as the CEO. THL's rationale, as pointed out by its Chairman, is that 'if you have a titan sitting as the chairman and he is also the CEO, when things come up before the board for decision, it's very difficult for the directors to question the management on issues when the chairman represents management. He is, in fact, representing not just the board, but also the management' (Balan, 1999). THL philosophy is to 'create a situation where the board feels at ease in questioning and examining management proposals' (*ibid.*). A possible hindrance to the acceptance of this principle when it applies to the GLCs is that in Singapore the separation of Chairman and CEO is merely a recommended best practice. The law does not require the separation.¹⁹

While empirical evidence does not provide a clear-cut link between CEO duality and firm performance, MacAvoy and Millstein (2003) provide a convincing argument for separating the Chairman and CEO.²⁰ They argue that with the separation the Chairman could ensure that focused information on key issues reaches the board. Noting that meeting the responsibilities of the board depends on 'direct attitudes, willingness to take responsibilities,

¹⁹ Most of the Temasek Linked Companies (TLCs) have adopted this principle, with the notable exception of Keppel Corporations, its listed subsidiaries, and PSA Corporation.

²⁰ Daily and Dalton (1992), for example, could not find a significant relationship between CEO duality and firm performance among entrepreneurial firms, while Brickley *et al.* (1997) show that CEO duality is not connected with inferior firm performance. In fact, using a sample of Fortune 500 companies, Rechner and Dalton (1991) find stronger performance among companies with CEO duality. Goyal and Park (2002), on the other hand, suggest that board monitoring of top management in companies with CEO duality tends to be less effective. Because of these mixed results, Pei (2004b) argues that more theoretical and empirical work must be done to ascertain the effectiveness of having separate persons as Chairman and CEO, although more regulating agencies appear to lean toward the opposition of CEO duality, like the recent split of Chairman and CEO roles. A different but interesting proposition was provided by Faleye (2003). He argues that the effect of CEO duality on firm performance actually depends on individual firm characteristics. In a sample of 2,166 US companies, he finds that those with complex operations, alternative control mechanisms, and sound CEO reputation are more likely to have CEO duality.

and attention to duty' (*ibid.*, p. 3), a full-time Chairman who is not the CEO would have the time and energy to 'create meaningful agendas and call for management presentations around issues, not just around current problems that need resolution' (*ibid.*, p. 4), and to 'chair meetings with content rather than routine, based on position papers rather than reports' (*ibid.*, p. 4). MacAvoy and Millstein suggest that separating the Chairman and CEO should be a requirement for listed companies (*ibid.*, pp. 5 and 99).

It is also a general rule in THL to limit the tenure of non-executive chairmen to two terms of three years each, with a further term to be considered only under exceptional circumstances. The board members are to be rotated to lead THL at the end of six or nine years. In addition, the term of directorship is limited. Each director is allowed to hold a maximum of six principal appointments. However, because of the nature of the business, it is quite possible for board members to have a conflict of interest. Completely eliminating the potential agency problem is not going to be easy. For example, how could the Chairman of THL Board ascertain whether the Board decision to invest in Company A would have an impact on Company B that has some associations with a Board member? This problem can be attributed to the apparent lack of talented and trusted individuals in Singapore. To mitigate the problem, THL requires its board members to disclose their association with specific companies during the committee or board discussions if they have 'board or other interests which may conflict with specific Temasek interests' (Temasek Review 2005, p. 45).²¹

A nine-member Board guides and directs the business of THL. Board members are required to sit on several committees, which assist the board in its decision-making, and engage in risk management strategies. A review of the profile of THL directors suggests a strong preference for interlocking directorates, where a majority of the directors sit on the board of at least one related company (Table 6). A majority of THL board members concurrently hold directorships and advisory roles in both public and private sector institutions, which undoubtedly reflects the dense network and connectivity they have acquired within the business and political arena in Singapore. The existing literature suggests that interlocking directorates can be beneficial particularly in reducing environmental uncertainty arising from a lack of

²¹ A maximum of six principal appointments might appear to be a large figure. Fich and Shivdasani (2004) find that firms with outside directors holding three or more board seats have significantly lower market-to-book ratios than firms with directors holding less board seats. One reason is that directors who serve on too many boards become too busy, rendering them ineffective in monitoring corporate managers and detrimental to the quality of corporate governance. Beasley (1996) reports that the probability of committing accounting fraud is higher the larger the number of directorships held by outside directors, while Core *et al.* (1999) find that busy directors have a greater tendency to set high levels of CEO compensation, which results in poorer firm performance.

information, unpredictability of changes in different sectors, and inability of the firm to forecast direction of these changes (Hall, 1982; Schoorman *et al.*, 1981). However, it should be kept in mind that multiple appointments may render busy directors ineffective in monitoring corporate managers (Fich and Shivdasani, 2004).

Table 6
Board of Directors and Board Committees

	Board	ExCo	AC	CRC	LDCC
S. Dhanabalan	C	C		C	
Kwa Chong Seng	D	M			M
Lim Siong Guan	D	M			
Sim Kee Boon	M				M
Fock Siew Wah	M		M		C
Koh Boon Hwee	M	M		M	
Kua Hong Pak	M		C		
Ng Kok Song	M			M	
Ho Ching	ED & CEO	M		M	M

– The Executive Committee (ExCo) has the responsibility in reviewing and approving matters relating to supervision and control, financing and funding proposals, changes in shareholding structure, dividend policy, major operating decisions, and others. S. Dhanabalan chairs the committee.

– The Audit Committee (AC) reviews the internal control system, the financial reporting system, internal and external auditing system and compliance with laws and regulations. In Singapore, Malaysia, Thailand and India, listing requirements require all listed companies to have an audit committee.

– The Capital Resources Committee (CAC) is responsible for policies relating to trading and portfolio investments.

– The Leadership Development and Compensation Committee (LDCC) establishes policies and provide guidance for THL and TLCs in leadership and succession plans for key positions, board appointments, renewals and compensation.

C: Chairman; D: Deputy Chairman; M: Member; ED: Executive Director

Brief list of other positions held by board members

S. Dhanabalan: Chairman of DBS Group Holdings Limited

Kwa Chong Seng: Chairman and Managing Director of ExxonMobil Asia Pacific Pte Ltd, Board member of DBS Group Holdings Ltd, and serves on the Public Service Commission and the Legal Service Commission

Lim Siong Guan: Permanent Secretary of the Ministry of Finance, Head of the Singapore Civil Service, Chairman of the Inland Revenue Authority of Singapore, Appointing Governor of the Institute of Policy Studies, and a Board Member of the Monetary Authority of Singapore.

Sim Kee Boon: Senior Advisor to Keppel Corporation, Member of the Temasek Advisory Panel and President Commissioner of Bank Danamon, Advisor of the Civil Aviation Authority of Singapore and Lum Chang Group, Chairman of the Singapore Council Presidential Advisors.

Fock Siew Wah: Deputy Chairman of Fraser and Neave Limited, Chairman of SIA Cargo Pte Ltd, Board member of the DBS Groups Holding Ltd and Times Publishing Limited, Senior Advisor of Nuri Holdings (S) Pte Ltd.

Koh Boon Hwee: Executive Director of Mediating Limited and Tech Group Asia Ltd, Chairman of Singapore Airlines Ltd and SIA Engineering Co Ltd.

Kua Hong Pak: Managing Director and Group CEO of ComfortDelGro Corporation Limited, sits on Boards of various companies including Overseas Union Enterprise Limited, PSA International, Starhub Ltd and Ringier Print (HK) Limited.

Ng Kok Song: Managing Director (Public Markets) and member of the Board of the Government of Singapore Investment Corporation (GIC).

Ho Ching: previously headed Singapore Technologies, a TLC.

Source: Temasek Review (2004).

Table 6 also suggests that there might be too much concentration of representatives from the DBS Group Holdings in the THL board, with S. Dhanabalan as the Chairman of DBS Group and Fock Siew Wah and Kwa Chong Seng as DBS board members. Having the same people on different boards may leave little room for fresh ideas and perspectives. The recent announcement that S. Dhanabalan is to step down as Chairman of the DBS Group is thus a welcome development as it will allow him to devote more time to THL. In addition, Fock retired on 1 October 2005, which effectively lowers the concentration of DBS representatives. The appointment of Simon Claude Israel is another refreshing change, as he is the first non-Singaporean to sit on the THL board (Table 7).

Table 7
Recent Changes to the Structure of the Board

S. Dhanabalan	To step down as Chairman of the DBS Group on 31 December 2005. Koh Boon Hwee will assume chairmanship from 1 January 2006.
Fock Siew Wah	Retired with effect from 1 October 2005
Ng Kok Song	Retired with effect from 1 July 2005
Simon Claude Israel	Appointed to the Board with effect from 1 August 2005. A New Zealander, Simon Israel, is currently the Chairman of Asia Pacific, Danone Group and a member of the Executive Committee, Danone Group. He also chairs the Singapore Tourism Board and sits on the Business Advisory Board of the Lee Kong Chian Business School at Singapore Management University. He is also a Board member of SingTel – TLC.
Goh Yew Lin	Appointed to the Board with effect from 1 August 2005. He is currently the Executive Director of G.K. Goh Holdings Limited and Executive Deputy Chairman of CIMB-GK Pte Ltd. Goh is also active at a number of public institutions, including the Monetary Authority of Singapore.
Capital Resources Committee (CRC)	Dissolved with effect from 1 September 2005. Its functions and responsibilities were rationalised under the Executive Committee (ExCo).

Source: extracted from Temasek Review (2005).

The ‘Temasek Review 2004’ notes that the THL board meets on a quarterly basis and more often if there is a need. This coincides with the average number of sittings (four per year), a point that was exposed in a survey conducted by the Singapore Institute Directors in 2000, but is still significantly lower than that of the UK where a typical board meets between eight and twelve times a year (Hayward, 2003). Empirical evidence on the effectiveness of board meetings is mixed. Lipton and Lorsch (1992) and Vafeas (1999) have found board meetings to be an important resource that serves to improve board effectiveness and the performance of the firm. However, it has also been argued that board meetings are generally not useful because the time outside directors spend together is not used meaningfully to exchange ideas (Jensen, 1993), which is a ‘by product of the fact that CEOs almost always set the agenda for board meetings’ (Pei, 2004b). The latter

concern can be resolved by separating the roles of the CEO and Chairman, a condition that THL has already met.

The release of the Review is a step towards making THL more transparent. The information provided does review some aspects of the company's performance, albeit in a broad sense. For example, as can be seen in Table 5, the company recorded a decline in the gearing ratio from FY2001 to FY2003, suggesting that the company might be tempted to finance its expansion plans through more debts. A possible setback could be that with abundant cash the company may grow by funding investments rather than earning profit and subsequently may suffer from cash flow problems. We believe that the release of such information and subsequent discussions could possibly help to avoid a repeat of the Kia debacle (Kia, with a low debt-asset ratio, eventually ran out of cash and later merged with Hyundai – see Lewis, 2004). But there is still little publicly available information on the GLCs. For example, while THL lists its major companies in the Review and on its website, it does not list all of its subsidiaries and associated companies.

The issue of accountability is of particular importance in SOEs. A general lack of accountability has been identified as the main cause of lower productive efficiency among the SOEs (Perotti, 2004). Rodan (2004) suggests that from the government's perspective, THL has been accountable. The explanations provided by the current and the former Prime Ministers include the usual argument that THL is designated as a Fifth Schedule Company, which requires the President of the Republic of Singapore to approve appointments, re-appointments and /or removal of its board members or CEO. Moreover, the board is required on a yearly basis to certify to the President the company's Statement of Reserves and its Statement of Past Reserves, and to ensure that its annual operating budget or any proposed transaction do not draw on the past reserves, except with the approval of the President.²² However, at least prior to the release of the Temasek Review, THL was well known for being secretive about its performance and internal workings. Efforts to obtain information about THL were often futile (Chee, 2001; Worthington, 2003; Rodan, 2004). The company reports only selectively to the Finance Minister and a small parliamentary budget committee (Vennewald, 1994). In this context, it could not be considered as fully transparent and accountable to the citizens, despite presiding over more than S\$70 billion of public funds by 2002 (Rodan, 2004). The inability of citizens to know exactly how the public funds have been utilised might give rise to discontentment.

²² Article 142(4) of the Singaporean constitution states that the Elected President's approval is required for any use of past reserves by each newly elected government – one that is not accumulated by the Government during its current term of office.

In summary, THL can be considered a unique, pure public enterprise that has managed to buck the common perception that SOEs are inefficient and ineffective. It may be said that THL's solid financial record over the last three decades can be attributed to good corporate governance whereby the agency problem has been successfully mitigated. The initiatives that helped to raise THL standards of corporate governance can be summarised as follows:

- THL stresses maximisation of long-term shareholder value as its main objective.
- The THL board assures itself of the integrity of board members and managers (measures include appointment of trusted individuals).
- THL separates the role of the Chairman and the CEO (Chairman Dhanabalan's decision to step down as DBS Chairman allowed him to devote more time to THL).
- THL established an incentive-based system to align managers' interests with those of the shareholders (particularly through the use of EVATM-linked incentives).
- THL aims to build an organisation-wide culture of integrity and excellence.
- THL supports board rejuvenation to inject fresh ideas and perspectives (like statutory boards, THL allows the appointment of non-Singaporean directors to sit on its board).
- THL is subject to scrutiny by the government and the CPIB.

IV. Concluding Remarks

It is widely believed that in comparison to their public sector counterparts, private sector enterprises are more efficient. Public sector inefficiency has been highlighted as one of the main reasons for large-scale privatisation in many countries. During the last decade, the private sector has been rocked by some major corporate scandals resulting in major losses to stakeholders. The Asian financial crisis of 1997-98 has resulted in a re-examination of corporate governance strategies in affected countries. Since public and private sector enterprises are confronted with some very similar problems, we suggest that large private enterprises may benefit from the governance standards adopted by some large public enterprises in Singapore. Because of the cultural similarities, it may be possible to directly apply at least aspects of the Singaporean model to Asian economies that were severely affected by the Asian financial crisis.

Based on the measures adopted by the Singaporean government to curb the agency problem, this paper has presented several broad lessons for private

sector enterprises. Features of Singaporean public sector governance style are highlighted by means of a case-study of Temasek Holdings Limited. The paper has attempted to provide a balanced view on what Temasek Holdings perceives as good corporate governance practices. However, it is unlikely that all practices highlighted in this paper would be useful to all private sector enterprises. In other words, this paper recognises the fact that one size does not fit all and, therefore, each enterprise may have to modify the Singaporean model to suit its particular conditions. Each private enterprise is unique and therefore successful practices from one sector or country cannot be blindly applied to the private sector without incorporating its unique and local features. Finally, while this paper has mainly focused on private sector enterprises, it is obvious that it may be possible, and in some cases desirable, to apply the Singaporean model to public sector enterprises in some other Asian countries.

References

- Ang, J. S. and David K. Ding, 2005, Government Ownership and the Performance of Government-Linked Companies: The Case of Singapore, forthcoming in *Journal of Multinational Financial Management*.
- Anwar, S. and Sam, C. Y., 2004, Private Sector Corporate Governance and the Singaporean Government Linked Companies, paper presented at the 29th Conference of the Federation of ASEAN Economic Associations (FAEA), December 10-11, 2004, Kuala Lumpur, Malaysia.
- Balan, A., 1999, Temasek to be More Proactive (Winds of Change), *The Straits Times*, 25 June 1999.
- Beasley, M. S., 1996, An Empirical Analysis of the Relation between the Board of Directors Composition and Financial Statements Fraud, *The Accounting Review*, Vol. 71, No. 4, pp. 443-465.
- Becht, M., Bolton, P. and Rosell, A., 2002, *Corporate Governance and Control*, Working Paper 9371, National Bureau of Economic Research, Cambridge.
- Berle, A. and Means, G., 1932, *The Modern Corporation and Private Property*, Macmillan, New York.
- Brickley, J. A., Coles, J. L. and Jarrel, G., 1997, Leadership Structure: Separating CEO and Chairman of the Board, *Journal of Corporate Finance*, Vol. 3, No. 3, pp. 189-220.
- Buchanan, J. and Tullock, G., 1962, *The Calculus of Consent*, University of Michigan, Ann Arbor.

- Chee, S. J., 2001, *Your Future, My Faith, Our Freedom: A Democratic Blueprint for Singapore*, Melodies Press Co, Singapore.
- Core, J., Holthausen, R. and Larcker, D., 1999, Corporate Governance, Chief Executive Officer Compensation, and Firm Performance, *Journal of Financial Economics*, Vol. 51, No. 3, pp. 371-406.
- Daily, C. M. and Dalton, C. R., 1992, The Relationship Between Governance, Structure and Corporate Performance in Entrepreneurial Firms, *Journal of Business Venturing*, Vol. 7, No. 5, pp. 375-386.
- Dhanabalan, S., 2002, Why Corporate Governance: A Temasek Perspective, speech delivered at the Asian Business Dialogue on Corporate Governance 2002, 31 October 2002.
- Dopson, S. and Stewart, R., 1990, Public and Private Sector Management: The Case for a Wider Debate, *Public Money and Management*, Vol. 10, No. 1, pp. 37-40.
- Dubrin, A., 2003, *Essentials of Management*, Sixth edition (Southwest Publishing/Thomson Learning, Ohio) (Chapter 16).
- Faleye, O., 2003, *Does One Hat Fit All? The Case of Corporate Leadership Structure*, Working Paper, Northeastern University.
- Fama, E., 1980, Agency Problems and the Theory of the Firm, *Journal of Political Economy*, Vol. 88, No. 2, pp. 288-307.
- Felton, R., 2004, Splitting Chairs: Should CEOs give up the Chairman's role?, *The McKinsey Quarterly*, 2004 Number 4.
- Feng, F., Sun Q. and Tong W. H. S., 2004, Do Government-Linked Companies Underperform? *Journal of Banking and Finance* 28, pp. 2461-2492.
- Ferrell, O.C., Fraedrich, J. and Ferrell, L., 2002, *Business Ethics: Ethical Decision Making and Cases*, 5th Edition, Houghton Mifflin Company, Boston.
- Fich, E. and Shivdasani, Anil, 2004, *Are Busy Boards Effective Monitors?* Working Paper 55/2004, European Corporate Governance Institute (ECGI) Working Paper Series in Finance.
- Frey, B., 2003, *Corporate Governance: What Can Be Learned from Public Governance?*, Working Paper 166, July 2003, Institute for Empirical Economic Research, University of Zurich.
- Goh, K. S., 1995, Experience and Prospect of Singapore's Economic Development: Strategy Formulation and Execution, in: Linda Low, eds, *Wealth of East Asian Nations: Speeches and Writings by Goh Keng Swee*, Federal Publications, Singapore.
- Goyal, V. K. and Park, C. W., 2002, Board Leadership Structure and CEO Turnover, *Journal of Corporate Finance*, Vol. 8, No. 1, pp. 49-66.
- Granovetter, M., 2005, The Impact of Social Structure on Economic Outcomes, *Journal of Economic Perspectives*, Vol. 19, No. 1, Winter (2005), pp. 33-50.

- Hall, R. H., 1982, *Organisation: Structure and Process*, Prentice-Hall, Englewood Cliffs, N.J..
- Hayward, C., 2003, Director Inquiries, *Financial Management*, June 2003.
- Ho, C., 2004, Temasek Holdings: Building Sustainable Value, speech delivered at the Institute of Policy Studies, Corporate Associates Lunch, 12 February 2004.
- Jensen, M., 1993, The Modern Industrial Revolution, Exit and the Failure of Internal Control Systems, *The Journal of Finance*, Vol. 48, No. 3, pp. 831-880.
- _____, 2003, Paying People to Lie: The Truth about the Budgeting Process, *European Financial Management*, Vol. 9, No. 3, pp. 379-406.
- Jensen, M. and Meckling, W., 1976, Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure, *Journal of Financial Economics*, Vol. 3, 305-360.
- Jomo, K. S., 2004, Introduction, in: Jomo K. S., ed., *After the Storm: Crisis, Recovery and Sustaining Development in Four Asian Economies*, Singapore University Press, Singapore.
- Jones, D. S., 2005, Recent Changes in the Financial Management of the Singapore Civil Service: The Adoption of Resource Accounting, Internal Charging and Revenue Retention, in: Anthony B.L. Cheung, ed., *Public Sector Reform in East Asia: Reform Issues and Challenges in Japan, Korea, Singapore and Hong Kong*, The Chinese University Press, Hong Kong.
- Khanna, V., 2004, The USSFTA: The Impact on Government-Linked Companies and Singapore's Corporate Scene, in: Tommy Koh and Chang, L.L., eds., *The United States and Singapore Free Trade Agreement: Highlights and Insights*, Institute of Policy Studies and World Scientific Publishing Co Pte Ltd, Singapore.
- Lee, K.Y., 1965, The PM Mr Lee Kuan Yew Speaks to Civil Servants, *BAKTI: Journal of the Political Study Centre*, Vol. III, No. 2, pp. 1-11 (December 1965).
- Lee, B. H., 1989, The Bureaucracy, in: Sandhu, K.S. and Wheatley, P., eds., *Management of Success: The Moulding of Modern Singapore*, Institute of Southeast Asian Studies, Singapore.
- Lewis, W., 2004, *The Power of Productivity: Wealth, Poverty, and the Threat to Global Stability*, The University of Chicago Press, Chicago.
- Lipton, M. and Lorsch, J. W., 1992, A Modest Proposal for Improved Corporate Governance, *The Business Lawyer*, Vol. 48, No. 1, pp.59-77.
- MacAvoy, P. W. and Millstein, I. M., 2003, *The Recurrent Crisis in Corporate Governance*, Palgrave Macmillan, New York.
- Mahani Zainal Abidin, 2002, *Rewriting the Rules: The Malaysian Crisis Management Model*, Prentice Hall, Selangor.

- Mak, Y. T., 2004, Corporate Governance in Singapore: Past, Present and Future, in: Ferdinand A. Gul and Judy S.L. Tsui, eds., *The Governance of East Asian Corporations: Post Asian Financial Crisis*, Palgrave Macmillan, New York.
- Mankiw, N. G., 2004, *Essentials of Economics*, 3rd Edition, Thomson/South-Western, Ohio.
- Mizruchi, M. S., 2004, Berle and Means Revisited: The Governance and Power of Large US Corporations, *Theory and Society: Renewal and Critique in Social Theory*, October 2004, Vol. 33, Issue 5, pp. 579-617.
- Morgan, A. G. and Poulsen, A. B., 2001, Linking Pay to Performance: Compensation Proposals in the S&P 500, *Journal of Financial Economics*, Vol. 62, No. 3, pp. 489-523.
- Niskanen, W., 1971, *Bureaucracy and Representative Government*, Aldine Atherton, Chicago.
- _____, 1991, A Reflection on Bureaucracy and Representative Government, in Andre Blais and Stephane Dion, eds, *The Budget Maximising Bureaucrat: Appraisals and Evidence*, University of Pittsburgh, Pittsburgh.
- Osterloh, M. and Frey, B., 2000, Motivation, Knowledge Transfer, and Organizational Form, *Organization Science*, Vol. 11, No. 5, September – October 2000, 538-550.
- Pei, S. F., 2004a, Review of Literature and Empirical Research on Corporate Governance, MAS Staff Paper (Monetary Authority of Singapore, Singapore) (<http://www.mas.gov.sg>).
- _____, 2004b, Review of Literature and Empirical Research: Is Board Diversity Important for Corporate Governance and Firm Value?, MAS Staff Paper (Monetary Authority of Singapore, Singapore) (<http://www.mas.gov.sg>).
- Perotti, E., 2004, *State Ownership: A Residual Role?*, World Bank Policy Research Working Paper 3407, September 2004.
- Quah, J., 1985, Statutory Boards, in: Jon Quah, H.C. Chan and C.M. Seah, eds., *Government and Politics of Singapore*, Oxford University Press, Singapore.
- _____, 2003, *Curbing Corruption in Asia: A Comparative Study of Six Countries*. Eastern Universities Press, Singapore.
- Ramirez, C. D. and Tan, L. H., 2004, Singapore Inc. Versus the Private Sector: Are Government-Linked Companies Different? *IMF Staff Papers*, Vol. 51, No. 3, pp. 510-528, International Monetary Fund, Washington D.C..
- Rechner, P. C., and Dalton, C. R., 1991, CEO Duality and Organisational Performance: A Longitudinal Analysis, *Strategic Management Journal*, Vol. 12, No. 2, pp. 155-160.

- Rodan, G., 2004, *Transparency and Authoritarian Rule in Southeast Asia: Singapore and Malaysia*, RoutledgeCurzon, London.
- Schoorman, F. D.; Bazerman, M. H. and Atkin, R. S., 1981, Interlocking Directorates: A Strategy for Reducing Environmental Uncertainty, *Academy of Management Review*, Vol. 6, No. 2, pp. 243-253.
- Seah, C. M., 1985, The Civil Service, in: Jon Quah, Chan, H. C. and Seah, C. M., eds., *Government and Politics of Singapore*, Oxford University Press, Singapore.
- Shleifer, A. and Vishny, R., 1996, A Survey of Corporate Governance, NBER Working Paper 5554. Also published as A Survey of Corporate Governance, *Journal of Finance*, Vol. 52, 1997, 737-783.
- Standard and Poor, 2004, *Singapore and Hong Kong: Averting Downpours, and Divergent Fiscal Fortunes*, S&P, Singapore.
- Stiglitz, J., 2002, *Globalisation and its Discontent*, Allen-Lane/The Penguin Press, London.
- Tan, Audrey, 2004a, S&P Estimates Singapore's Returns 'markedly inferior' to Kong Kong's, *The Straits Times*, 1 October 2004.
- _____, 2004b, Singapore enjoys 'good long-term' returns, *The Straits Times*, 6 October 2004.
- _____, 2005, Temasek goes on \$13b investment spree, *The Straits Times*, 13 October 2005.
- Tan, B. S, 2002, Why it might be difficult for the government to withdraw from business, available on: <http://www.singapore-window.org>.
- The Economist*, 2004. First Singapore, Next the World, August 14th 2004, pp. 61-62.
- Vafeas, N., 1999, Board Meeting Frequency and Firm Performance, *Journal of Financial Economics*, Vol. 53, No. 1, pp. 113-142.
- Vennewald, W., 1994, *Technocrats in the State Enterprise System of Singapore*, Working Paper 32, Asia Research Centre, Murdoch University, Perth.
- Worthington, R., 2003, *Governance in Singapore*, Routledge-Curzon, New York.
- Yeung, Henry, 2002, *Entrepreneurship and the Internationalization of Asian Firms: An Institutional Perspective*. Edward Elgar, Cheltenham.

Appendix

Measures to Curb Corruption in Singapore and Broad Lessons for Private Sector Organisations

Measures	Description (see Quah, 2003)	Broad Lessons for Private Sector Organisations
Set up an independent agency, the Corrupt Practices Investigation Bureau (CPIB)	CPIB is mandated to carry out all investigations pertaining to acts of corruption. It reports directly to the Prime Minister. The President approves the appointments of key personnel in CPIB. Under a provision in the Constitution, even the Prime Minister can be investigated.	Private sector organisations could set up independent committees to spot, investigate and mitigate ethics-related problems. An independent board member should head the committee, which reports directly to the Chief Executive Officer (CEO), with the committee members appointed by the Chairman. Because it is possible for the CEO to be investigated, it is useful to empower the committee to carry out its investigations despite having views that are contrary to those of the CEO. The committee's terms of reference must highlight this provision.
Increase the penalty	Upon conviction, the accused are dealt with severely to signal the society and court's disapproval of improper practices. The Prevention of Corruption Act (POCA) was enacted on 17 June 1960 to strengthen the anti-corruption legislations, replacing the older Prevention of Corruption Ordinance (POCO) Act enacted in 1937. The new legislation (POCA) increased the penalty for committing corruption-related offences to imprisonment of up to five years (from two years) or a fine of up to S\$100,000 (from S\$10,000) or both. In certain cases like bribery of MPs, the offenders could be jailed up to seven years. The new legislation also required the person accepting illegal gratification to pay back the amount that he/she had taken as a bribe in addition to the punishment imposed by the court (Section 13). More power was given to CPIB officers to arrest and search investigated persons (Section 15) and scrutinise the accounts of individuals working in the public and private sectors regardless of the positions they held (Section 17). CPIB also has the authority to summon witnesses to court to assist in its investigations.	It is well established that an employer has the right to discipline an employee who has acted improperly in the workplace (Dubrin, 2003). In the case of private sector corruption, severe punishments ought to be imposed. Expropriation of organisational funds violates the agents' fundamental duty of care towards shareholders interest, potentially resulting in the organisation's downfall and subsequent loss of shareholders' wealth. It is useful that everyone knows the extent and nature of the 'punishments' that could be imposed by corporations. Perhaps, an ideal situation is for the organisation to create an environment whereby trust, honesty, diligence, cooperation and ethical conduct is appreciated and rewarded. It may be useful to reach a level where fellow workers condemn one who violates these 'virtues'. The violator should bear the cost of violating them, perhaps not necessarily in monetary terms, but non-monetary punishments from fellow workers like being 'neglected' during formal meetings or informal gatherings. How far is this feasible? One of the expected limitations of this is that the affected persons may decide to leave the organisations. Even if the affected workers do not leave, they may be discouraged and segregated from the rest of the workers. The main argument for imposing high penalties therefore may lie in its ability to prevent anyone from acting corruptly in the first place.
Strong political leadership to inculcate the incorruptible virtue	All MPs, ministers and public officers are expected to set good examples for others to follow. For instance, all PAP members are required to declare their family assets to the Prime Minister while the ministers (including the Prime	The Chairman of the Board, the CEO and the executive managers must set good examples for others to follow. Otherwise, efforts to inculcate a desirable culture within the organisation may become ineffective. They should constantly appeal to the moral consciousness of their staff and remind them of the benefits of doing good

	<p>Minister) declare their family assets to the President to prove that they have not acquired funds through illegal means. There were also constant appeals by the political leaders to the moral consciousness of public servants, reminding them of the benefits of doing good and the negative implications of corruption on the nation. The political leaders have not hesitated to shame offenders, regardless of their status, to further raise the opportunity cost of engaging in acts of corruption (names and photos of offenders were often exposed to the public). The initiative imposes high cost to the offenders (and their family members) and is particularly powerful in Asian countries because Asians are generally afraid to 'lose face'. Singapore is not an exception.</p>	<p>and the negative implications of seeking private benefit at the expense of the principals' interest. The intention is to inculcate a corporate norm that acting incorruptly is unacceptable. Studies have shown that a typical person tends to follow the group norm in his/her working place. Ferrell, Fraedrich and Ferrell (2002) noted that as many as 80 percent of the workforce adopted the follow-the-norm mentality rather than following their own instincts or going against the norms. As such, establishing corporate norms is useful so that internal rules are complied with. Executive managers may be requested to declare their family assets periodically to the Chairman. Because of its sensitivity, some may protest against the move. The objective(s) must be clearly conveyed to the staff. This should include the intention to safeguard the company interest. It may be useful to involve only top managers in this exercise, at least in the initial stage. More can be involved when acceptability of the practice increases. However, it should be noted that the above measure might not cure the problem associated with incentive contracts. Stock options plans for example provide the incentive for executive managers to inflate company profits and hide its liabilities so that rewards in excess of what they actually deserve are obtained when the options are exercised. Even if the agents' family assets are declared, executive managers may still be able to manipulate the financial statements and get away with it. If no one spots the irregularities, the resulting gains would have been obtained albeit unethically. Nevertheless, declaration of managers' family assets should serve as a useful deterrence against acts of bribery and extortion. These acts will generate suspicious increments in their assets. If there is an allegation against the executive managers of assets wrongfully gained, they should be asked to explain how the assets were acquired. If they are not able to explain how they had acquired the assets, the anti-corruption committee should further investigate the matter.</p>
<p>Promote service excellence</p>	<p>Efforts are put in to improve standards of operating procedures (e.g. through the 'Public Sector in the 21st Century' – PS21 - initiative which, among other things, emphasises service excellence, greater efficiency in operating procedures and adaptation of the change culture). The government believes that corruption is more likely to thrive in an inefficient administration where agents can take advantage of loopholes to beat the system. Advancement of technology is leveraged to minimise direct contact with public officers (e.g. electronic tax</p>	<p>Service excellence and the need to comply with standard operating procedures make it more difficult to acts of corruption. Bypassing standard procedures in private sector organisations should therefore be condemned and made easier to detect so that the opportunity for corruption can be lowered. It may be useful to standardise and post all relevant rules, procedures and guidelines on the company's website. Availability of updated and complete information may help to decrease the need for offering bribes in order to get things done. In this respect, the anti-corruption committee should establish a company code of ethics and state formally the acceptable</p>

	<p>filing system is adopted by the Inland Revenue Authority of Singapore).</p>	<p>standards, procedures and decisions, which everyone is expected to follow.</p>
<p>Pay competitive salaries to the agents</p>	<p>Salary revision exercises are carried out periodically in Singapore to see that the wage gap between the public and private sectors does not deviate too significantly. Besides lowering the incentive for corruption, paying competitive salary is deemed essential to attract and retain good workers in the public sector. A major salary revision exercise for political appointments was carried out in June 2002. With the revision, Singapore Ministers were paid as much as S\$50,000 per month each while the Prime Minister's salary amounted to around S\$85,000 per month thus making Singapore political leaders possibly the highest paid government officers in the world. Singapore's public sector also adopts the pay for performance principle diligently (Anwar and Sam, 2004). However, it should be pointed out that even if higher salaries were paid, there would still be bribery and extortions.</p>	<p>Competitive salaries can serve as a useful barrier to acts of corruption. The person offering the bribes would have to pay a substantial amount to entice one to act corruptly. Paying competitive salaries also helps the organisation to retain competent staff. To reduce the incentive for corruption, private sector organisations could adopt the pay for performance principle with a greater proportion of the staff salaries converted into variable form. This may be useful because individuals are generally marginal thinkers (Mankiw, 2004). Additional incentives create additional effort to excel at the work place. However, there are at least two issues which should be considered in relation to this approach. First, it is important that a good staff appraisal system is in place so that staff could be assessed objectively and fairly. Second, as a typical public corporation, the pay structure should be designed in such a way that the staff have to go through a long drawn out process before they are qualified for higher compensation or reward (to match with their improved performance). This helps to promote persons of highly developed intrinsic motivation to work in private sector organisations while short-term materialistic ones are avoided (Frey, 2003). Otherwise, improper practices like manipulation of financial statements are more likely to surface since the agents will focus more of their attention on compensation rather than on effort - a root cause of many corporate scandals in recent times (Becht <i>et al.</i>, 2002; Frey, 2003). This is also in recognition of the fact that employment contracts are often incomplete. For example, it is difficult in practice to break down the financial goals into operational goals for the agents, which in turn makes it difficult for them to relate very well to the principals' goals. Accordingly, the principals should not rely exclusively on extrinsic motivation like paying higher salaries to align the agents' interest with theirs. The firm should also pay attention to intrinsic motivation (Osterloh and Frey, 2000; Frey, 2003).</p>