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Institutional change versus resilience: A study of incorporation of independent directors in Singapore banks

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Abstract We examine how Anglo-American capital market logic penetrated into Singapore where relational logic tends to guide business activities and illustrate how domestic banks reacted to this imported logic in the corporate governance field. We argue that the banks' ability to accommodate competing logics was enhanced by state agencies' willingness to modify Anglo-American standards to fit the local context. Given the resulting institutional ambiguities in rules, local banks, while incorporating higher outside representation on their boards, reinterpreted the meaning of independence and emphasized the resource provision role rather than the monitoring function of outside directors. The resultant institutional change has been gradual.

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Introduction

Many Asian nations have been becoming increasingly integrated into the global economy and subjected to external pressures to conform to neoliberal market-led practices with respect to economic and corporate governance. Asian firms were severely critiqued for having failed to monitor and check the omnipotent power of controlling families or predatory states, which led to the Asian financial crisis of

1997. Eventually, Anglo-American capital market logic and its associated corporate governance structures were imported as gold standards (Kim and Lee, 2012) and enacted as regulations or codes. Although the content of these national regulations and codes vary, their prescriptions are similar, with aims to enhance the monitoring role of outside directors, ensure accountability to shareholders and protect investors, especially minority shareholders (Aguilera and Cuervo-Cazurra, 2004). These have generated significant institutional pressures for corporate governance change in various nations.

Singapore has environmental conditions similar to a number of other Asian newly industrialized and emerging economies. Hence, it is a highly relevant case for studying corporate governance change in such economies. Singapore is characterized as 'open state-led capitalism' (Carney, 2014), having a high degree of dependence on global trade and finance, a legacy of an activist state, low levels of minority shareholder activism (Gourevitch and Shinn, 2005), and substantial influence from Anglo-American corporate governance principles and structures. Singapore's context also makes it relevant for examining the contest between the Anglo-American capital market and local relational logics, as such conflict is especially acute because of Singapore's small size and economic openness.

In this article, we examine the penetration of Anglo-American capital market logic into the local market of Singapore and domestic banks' actions in managing this imported logic and the local relational logic. We focus on the appointment of independent directors, because this is the most contentious issue in corporate governance not only in Singapore, but also in other Asian economies (CLSA, 2004). Specifically, we discuss how in their attempt to make the country a global financial hub without causing major disruptions in the local market context, different state agencies in Singapore have modified Anglo-American standards regarding the appointment of independent directors to suit the local context. This creates much room for local banking groups to claim compliance, but effectively take advantage of 'institutional ambiguity' (Jackson, 2005) to exploit the multi-dimensionality of board directors' roles, emphasizing the resource provision role of independent directors, and downplaying their monitoring function. Subsequently, institutional change has emerged based on state agencies' promotion of Anglo-American standards and firms' compliance, though coupled with a reinterpretation of the imported institution to protect their existing interests.

The remainder of this article is composed of four sections. First, we outline the theoretical framework. Second, we describe the research design, data collection, and analysis process. Next, we identify the Singapore context and analyze how, in light of imported versus local institutional logics, state agencies enacted recommendations and rules that in turn triggered firm responses and institutional change. Lastly, we summarize the theoretical contributions of the study, and implications for policy and practice as well as future research directions.

Theoretical Framework

Revisiting the convergence–divergence debate on institutional change

Agency theory suggests that convergence to the Anglo-American model is inevitable because of the competitive pressures from market-led neoliberal processes amid intensifying economic globalization (Coffee, 1999; Hansmann and Kraakman, 2001). It is argued that any inefficient system will eventually lose out in a competitive marketplace.

However, contrary to agency theory predictions, most Asian firms have not in actual practice converged to Anglo-American models (Ahmadjian and Song, 2007; Yoshikawa *et al.*, 2007). Specifically, Walter (2008) refutes the convergence argument on ‘regulatory neoliberalism’ and identifies significant gaps between substantive and cosmetic compliance with Anglo-American best practices in South Korea, Thailand, Indonesia, and Malaysia. On the basis of a comparison of eight Asian economies, Walter and Zhang (2012, p. 248) argue that despite the emergence of organizational diversities, ‘national systems of capitalism in the region remain both distinctively East Asian and retain important continuities with the past’. Ownership and control of firms remains strongly held by states and/or politically favored families. Nations’ financial systems ‘bear little structural resemblance to the financial architecture of the United States, a prototype of market-centered financial capitalism’ (Walter and Zhang, 2012, p. 255). On the basis of a political-economy perspective, they argue that domestic politics matter and explain how governments cope with regulatory neoliberals versus domestic pressure groups.

Arriving at a similar conclusion, theorists from the varieties-of-capitalism approach argue that divergence will likely remain because of path dependence, institutional resiliency, comparative institutional advantages and/or sufficient systemic flexibility to shield domestic systems from external pressure (Orrú *et al.*, 1997; Hall and Soskice, 2001).

Although agreeing with the literature rejecting the convergence perspective, Streeck and Thelen (2005) critique its conservative bias. They argue that it lacks analytical tools to depict institutional change in various economies and hence understates the extent and significance of change. In their view, gradual institutional change can be fundamental and transformative, without dramatic disruptions.

Institutions as regimes: Rule makers and rule takers

We draw on an institutional perspective in our analysis because it is particularly useful in addressing institutional continuity and change on corporate governance. Unlike agency theory and the convergence perspective, which anchor on context-free agency, economic rationality, efficiency and utility maximization, unrestricted

information flow, natural evolution, and one-size-fits-all solutions, the institutional perspective is suited to integrating complexity (Djelic, 2010), taking into account the influence of market, cultural, and institutional forces in shaping institutional change and continuity (Orrú *et al*, 1997).

Djelic (2010) succinctly highlighted that under the broad label of ‘institutionalism’, there is also a fair amount of diversity. Disregarding disciplinary, conceptual and geographical divides, the main argument from an institutional perspective is that organizations need to observe laws, rules and norms that are taken for granted in their environment in order to gain legitimacy.

Defining institutions so generally as to cover all forms of normative regulations over social action would make our study too broad to be meaningful. Hence, we adopt Streeck and Thelen’s conceptualization of institutions as formalized rules, confining our analysis to formal legal- political institutions rather than informal ‘anthropological’ ones. Following these authors, we define an institution as a regime: ‘a set of rules stipulating expected behavior and “ruling out” behavior deemed to be undesirable’ (2005, pp 12–13). In a regime, there are rule-makers and rule-takers whose relations and interactions are often critical for the content and development of the regime. The gaps between them create room for strategic action on the part of the rule-takers.

Streeck and Thelen (2005) argue that applying a general rule to a specific context constitutes a creative act, which must take unique conditions into consideration. Rules are likely to vary with time and circumstance, which may allow flexibility for rule-takers in applying them. Rule-takers do not simply observe rules imposed on them, but often attempt to revise them by exploiting their inherent ambiguities and under-definition. In situations where rules demand costly and uncomfortable obligations, rule-takers often attempt to circumvent them by exploiting loopholes. In such an interpretive struggle, rule-takers may evade or subvert rules to their advantage. Institutions are thus perceived as a continuous interaction between rule-makers and rule-takers, during which new interpretations of rules will emerge. Thus, any resultant institutional change may be unpredictable.

Institutional change and logic clash

The process of institutional change is complex, as competing institutional logics often coexist. Various authors observe that multiple fragmented environments can impose uncoordinated demands on organizations (D’Aunno *et al*, 1991), which subsequently have to confront conflicting and changing expectations of powerful external actors (Elsbach and Sutton, 1992).

The varied institutional expectations anchored on different institutional logics were first captured by Friedland and Alford’s (1991) idea of multiple competing institutional logics generating inconsistent expectations. The notion of logic refers to

'broader cultural beliefs and rules that structure cognition and guide decision-making in a field' (Lounsbury, 2007, p. 289). Institutional logics, as overarching principles, guide actors on how to interpret organizational reality, behave in social situations and succeed in the social world (Friedland and Alford, 1991). Often, organizations encounter institutional complexity when they face conflicting prescriptions from contending institutional logics, and hence they unavoidably confront challenges and tensions in institutional change processes (Greenwood *et al*, 2011).

Streeck and Thelen (2005) proposed five types of gradual institutional change with corresponding mechanisms. The first is displacement, which indicates a rise in the salience of foreign practices at the expense of traditional institutions used to impose a dominant logic of action. The mechanism to achieve this is through defection by an increasing number of actors to the new imported institutions. The second is layering, which refers to an attachment of new elements to existing institutions, gradually leading to a compromise between the old and the new, and eventually leading to the defeat of the old. This is prompted by differential growth between the old and new institutions. The third is conversion, whereby rule-takers take advantage of institutional ambiguity (Jackson, 2005) in rules, especially when competing logics are at work, to reinterpret old institutions to serve new purposes. Next is drift, where deliberate neglect generates a neglect of institutional maintenance despite external environmental change, leading to slippage in institutional practices. The last is exhaustion, whereby a gradual breakdown of institutions takes place over time. According to Streeck and Thelen (2005, p. 29), 'different from institutional drift, in which institutions may retain their formal integrity even as they increasingly lose their grip on social reality, institutional exhaustion is a process in which behaviors invoked or allowed under existing rules operate to undermine these'.

How do we conceptualize institutional change versus resilience in relation to corporate governance in an open economy such as Singapore? Is institutional change incremental and yet fundamental, as Streeck and Thelen (2005) perceived, and how do we characterize the change? Or is institutional resilience prevalent, as Walter and Zhang (2012) argued? Our empirical research aimed to address these questions.

Research Methods

This study examines the extent of institutional change versus resilience in an open economy in Asia through an analysis of the responses of Singapore state agencies and domestic banks to competing institutional logics in the field of corporate governance. We chose a case study design, because it allows us to gain, through contextualization, a deeper qualitative understanding of governance reforms and responses from major players in the economy (Miles and Huberman, 1994).

Our empirical exploration shows that state agencies and large firms play a more direct role in influencing the debate on corporate governance in Singapore than other

actors, and we thus identify them as central to our analysis. Clegg (1981) emphasizes that the state structures the space in which organizations operate by devising, enacting and enforcing rules. Its resources are fought over and won among corporations. Specific state interventions have specific effects at specific levels of organizational practice. This conceptualization directs our attention to the actions of two key state agencies, the Ministry of Finance (MOF) and the Monetary Authority of Singapore (MAS), in shaping corporate governance reforms.

As for commercial organizations, we focus on all three domestic banking groups (which own six locally incorporated full banks) for two reasons. First, the banks operate in a global industry because of an increasingly free flow of capital around the world, and yet are subjected to a high degree of state intervention through regulations. This implies that banks are under strong pressure to comply with the Anglo-American capital market logic that the state aims to foster. However, the domestic market is dominated by government-linked corporations and large family-controlled firms, which are embedded in the local institutional logic.

Second, these three banking groups are Singapore's largest companies by total assets, and appeared in the 2011 *Financial Times* Global 500 Listing of the world's top companies by market value. According to Greenwood *et al* (2011), visible and high-status organizations often occupy a central position in the field, being more deeply embedded and highly exposed to tensions between competing logics than peripheral organizations. Hence, a study of these largest companies enables us to explore complex responses from heavily embedded firms to competing logics and the subsequent institutional change in the corporate governance field.

The Development Bank of Singapore (DBS), the largest of the three, was founded by the government in 1969 as a government-linked corporation for development financing. Until the Asian financial crisis of 1997, its board was filled largely by ex-civil servants. The second largest bank, the Overseas Chinese Banking Corporation (OCBC), was incorporated as a limited company in 1932. The owning family eventually relinquished the posts of CEO and board chair in 1999 and 2003, respectively, to managers recruited from the external labor market (Koh, 2001). However, the smallest of the three, the United Overseas Bank (UOB), established in 1935 as the United Chinese Bank (retaining its name until 1965), has remained tightly controlled and run by the largest shareholder's family.

Data sources and collection

Our study relied on both personal interviews and documentary research. Starting from 2005, we collected documentary data for an extended period of 15 years from 1997 (the year in which the Asian financial crisis occurred) to 2012. We sourced data through local, regional and international media reports, annual reports and press releases issued by all relevant entities, including the banks, state economic agencies,

professional associations, and corporate governance watchdogs. In particular, 474 media reports in both English and Chinese were sourced from major local, regional and international media agencies. All published materials concerning institutional and firm-level analyses formed part of our data and simultaneously provided us with a basis on which to develop three interview guides for personal interviews.

Personal interviews were conducted in three phases. In the first phase, from 2005 to 2006, we conducted informal interviews with informants to help determine the scope of the study and to obtain referrals to the most appropriate respondents. The second phase, from 2007 to 2009, consisted of corporate visits, collection of documentary materials, and formal interviews with bank directors, senior executives, government officials and members of professional associations (see Table 1). In the last phrase (2010–2012), we conducted interviews with academics and other professionals in the field.

We used interview guides based on semi-structured questions that allowed us to collect open-ended narrative data in addition to factual information. These interviews were carried out primarily in English (with the supplementation of Mandarin and Chinese dialects). We guaranteed the anonymity of respondents throughout the interview process to promote candor. We enforced a detailed interview protocol and set transcription standards to address the issue of reliability. In accordance with informant preference, the interviews were either taped or recorded in writing and then transcribed within 24 hours. The interviews lasted from 1 to 3 hours. To exercise control over data validation, we triangulated the interview data with data from other sources (Yin, 2003). These procedures enabled us to verify at least some of the data

Table 1: Background of the respondents

<i>Field</i>	<i>Category</i>	<i>Number of interviewees</i>
Institutional	Committees on corporate governance (CGC, CCDG & its Review Committee)	5
	Ministry officers	2
	Members of Singapore Institute of Directors	8
	Members of public service agencies	15
	Members of international bodies	2
	Members of industrial/professional associations	14
Professional	Lawyers	2
	Accountants	1
	Academics	4
	Media (board directors)	1
Corporate	Senior managers	3
	Board directors	13
	Chairpersons of boards and board committees	12

on corporate governance reform measures and the views of board members and senior managers on such measures.

Data analysis

We conducted a content analysis of the data through an iterative interpretative approach of moving between data and literature to develop a coherent explanation (Tsui-Auch and Moellering, 2010). The analysis encompassed three stages. First, we undertook a line-by-line analysis of all the transcripts and published materials to ensure a thorough understanding of respondents' meanings (Battilana and Dorado, 2010) and to extract factual data. Second, we clustered data around the global and local forces, state actions on corporate governance reforms, and firm responses. This data-clustering exercise (Nag *et al*, 2007) enabled us to identify emergent organizational responses and their underlying conditions. In the third stage of analysis, we focused on a dialog between data and explanations (Eisenhardt and Graebner, 2007). We constantly revisited our tentative explanations when responses at both institutional and firm levels emerged and when the underlying conditions and actors' intentions were revealed. Iterating between theory and data, we developed a comprehensive analysis.

Case Study Results

The institutional environment in Singapore

Global economic embeddedness

After independence in 1965, the Singaporean government aimed to foster economic development, reduce unemployment and strengthen social control in order to sustain its political rule. To speed up economic modernization and to create employment, the state adopted a 'two-legged' policy that relied on multinational corporations and government-linked corporations for industrialization. On the one hand, it enticed multinational corporations to establish manufacturing operations. On the other, being inspired by Japan's horizontal corporate groups and South Korea's *chaebol*, the government created large government-linked corporations. These corporations are entities of which at least an equity interest of 20 per cent is held by a holding company wholly owned by the Singaporean government, such as Temasek Holdings.

Foreign direct investment has been the main engine for stimulating economic growth. Before the Asian currency crisis of 1997, foreign direct investment in the manufacturing sector accounted for over 70 per cent of gross output, added value and direct exports. Although the domestic financial sector was under government protection, foreign firms still accounted for over 20 per cent of shareholders' equity,

fixed assets and equity investments. The state, together with domestic firms, has thus become embedded in the wider international business context. Through this process of globalization, the state was eager to maintain investor confidence and strong country credit ratings.

State–business relations

Singapore's state bureaucracy is less autonomous from local private interests than commonly thought. The state has been participating in production, and owns extensive commercial assets through government-linked holdings and corporations. Political leadership is entwined with leading figures from the private sector, to the extent that the separation of public and private sectors is virtually indistinguishable (Hamilton-Hart, 2002). For instance, several former civil servants and ministers have served as former and current board chairs and board directors of the UOB and OCBC. Despite increasing influence from the private sector, the state has continued to co-opt, contain or suppress most challenges (Rodan, 1989). The private sector has shown an amalgamation of interests with the governing elite and become embedded in the formal institutions and values of working with, not against, the government. The governing elite is less bureaucratic than commonly assumed, has few interests vested in bureaucracy (Hamilton-Hart, 2002), and has demonstrated pragmatism and flexibility in steering institutional change (Shein, 1995).

Ownership and control in domestic firms

The majority of companies (including government-linked and family-controlled enterprises) have a block shareholder holding an equity interest of 15 per cent or more (Tan *et al.*, 2006). These shareholders consist mainly of families, the government (through government-controlled investment holdings) and, especially, nominees. A clear separation between ownership and management is often lacking. Given the lack of market discipline through the threat of listed firms being taken over and the virtual absence of minority-shareholder activism, the state has been the principal corporate governance watchdog for listed firms (Gourevitch and Shinn, 2005).

Penetration of the Anglo-American capital market logic

In 1997, the fall of the Thai baht triggered a regional financial crisis. This weakened the confidence of foreign investors and led to an economic slowdown in the region. Banks in Singapore were negatively affected by the devastated property sector, economic slowdown and the political and economic transformation in South-East Asian countries, as they were involved in webs of regional networks. After the crisis, a growing number of International Monetary Fund (IMF) economists and consultants

(Economist Intelligence Unit and Andersen Consulting, 2000; Backman, 2001) advised that Asian businesses seeking outside equity from Western institutional investors would have to professionalize their governance structures. Table 2 summarizes the events and key actors shaping the corporate governance reforms.

The crisis gave impetus for the state to restructure its economy to become more competitive in international financial markets. It prompted the state to build up Singapore as a global rather than simply regional financial hub. Hsien Loong Lee, then Deputy Prime Minister and Chairman of the MAS, said:

Singapore should aim to be a global rather than a regional financial center
Ultimately, we aim to become a vibrant and dynamic global financial hub
(*Dow Jones International News*, 3 April 2000).

To become a global financial hub, it is crucial to attract foreign capital to the country. For that to occur, institutional investors seeking ideal locations for their investments must feel confidence in regulatory standards, including those of corporate governance. For such investors, corporate governance is a set of mechanisms that function to monitor management and reduce information asymmetry between management and capital market participants.

As the small city-state's economy has remained dependent on foreign investment and the import of foreign talent, the state hardened its resolve to improve corporate

Table 2: Events and key actors shaping corporate governance reforms

<i>Event</i>	<i>Implications</i>	<i>Actors</i>
Asian Financial Crisis 1997	Pressures to reform corporate governance	IMF and global institutional investors
Corporate Governance Code 2001	One-third of the board to be independent	MOF, Corporate Governance Committee
	Absence of employment relationship in the past 3 years	—
	No business ties exceeding \$200 000 remuneration a year	—
Corporate Governance Code 2005	Rejection for the CCDG's proposal to delink independent directors from substantial shareholders	MOF, Council on Corporate Disclosure and Governance
Banking Act 2005	Majority of the board to be 'independent from management and business relationships with the bank'	MAS
	Majority of directors to be 'independent from any single substantial shareholder of the bank'	—

Note: As stated in the codes and Banking Act 2005, a nominating committee can determine whether a director who falls short of the definition can be treated as independent.

Table 3: The contending logics

	<i>Local market logic</i>	<i>Anglo-American capital market logic</i>
Role of a firm	To maximize benefits for block shareholders (controlling family or the state)	To maximize profit and shareholder returns
Basis of strategy	Build a relational network of experts in local and regional markets to achieve transaction efficiency	Attract investments to achieve firm growth
Authority Structure	Family/state ownership Closely-knit family/political elite networks	Public ownership Top managers and the Board
Sources of legitimacy	Social/political capital to enhance cooperation and efficient management to maximize firm performance	Efficient allocation of capital in the market through stringent governance rules on managerial monitoring and transparency to reduce information asymmetry
Governance mechanism	Control by block shareholders and their appointees/insiders	Independent monitoring

governance. The second Minister for Finance, Hng Kiang Lim, and a Corporate Governance Committee member, respectively, commented:

The lack of corporate governance impedes our aim of becoming an international business and financial hub. Hence more effort is required in improving our corporate governance standard (Translated from *Singapore's Chinese newspaper, LianHeZaoBao*, 2000).

[It is] like competing in the Asian games. We are No.1, but in [the] Olympics, we are nowhere... . Singapore is clearly ahead in the region in terms of [the] regulatory framework [of corporate governance]. But I think, internationally, we are behind [the] US, [the] UK, and Australia...

The corporate governance standards demanded by global institutional investors have, with state support, gradually penetrated the local context in Singapore.

The resilience of local relational logic

Although the state was interested in introducing Anglo-American capital market logic as reflected in 'market-oriented' corporate governance practices, it needed to take local relational logic into consideration. Historically, domestic banks in Singapore have aimed to become strong banking institutions in the domestic and regional markets. Hence, forming a relational network of experts in such markets

has been considered a strategic priority. A senior manager of the UOB defended the policy of appointing board members with strong business and social ties in the domestic and regional contexts:

We don't have foreign [board directors] because we focus on Southeast Asia ... In fact, 70 per cent of the business is still in Singapore ... We want to have people [board directors] who understand the region.

Relational capitalism anchors in the culturally embedded view in which a firm ultimately belongs to the founder and his or her family (Redding, 1990). Hence, reliance on insiders and close associates to control and manage the firm is strong. A business law academic remarked:

A lot of these companies [including the UOB and OCBC] have majority shareholders who again are either families or, more importantly, who are the ones who actually set up the companies and who want to retain a certain degree of control. There's this trust; you can't expect them to recognize [outside] directors overnight and then get a search committee to appoint someone that they don't know at all to come onto their board. For the majority shareholders, that's quite scary ... Board members in Singapore are so familiar with one another, and the atmosphere is so 'cozy', that honest feedback that could cause confrontation is most unlikely.

Family-owned businesses often face the issue of reluctance to relinquish control to outside directors because of a 'strong sense of connectivity with the companies', according to a senior UOB manager we interviewed.

In the Singapore context, local firms have been embedded in relational norms of trusting insiders (Low, 2001). Resistance to incorporating independent directors onto boards and accepting their monitoring role has thus remained strong among local firms. Essentially, recognizing the tensions between contending logics was critical for the state, because it was promoting Anglo-American capital market logic on one hand, but its firms were embedded in the local relational logic on the other.

The MOF's response

To facilitate corporate governance reforms, the MOF, which oversees the corporate sector, set up a Corporate Governance Committee in 1999. It was chaired by the Chairman of a government-linked corporation, and seven of its eleven members were from the corporate sector.

Many firms articulated concerns over the demand for domestic firms to incorporate independent directors into their boards of directors. The issues included

efficiency concerns and compatibility with the local relational logic, as shown in the following:

Quite a number of firms were concerned with its impact on efficiency. With too many voices, the company may not move as fast as it should ... (extracted from interview with a business law academic).

Someone who doesn't know anyone [or] the business may be independent. But can this person make [a] meaningful contribution? (extracted from interview with an OCBC board director).

This director, in particular, believed that relying on insiders and their associates with social and business ties is a more efficient corporate governance approach than appointing independent directors, as close personal connections facilitate collaboration. This view reflects the entrenched relational capitalism in the domestic and regional contexts.

The MOF, which regulates the corporate sector as a whole, was well aware of the concerns of domestic firms. Although it attempted to improve the nation's corporate governance standards, it aimed to reduce disruptions to the business operations of domestic firms, including its own stable of government-linked corporations, which were run by a closely knit group of insiders (Tan *et al*, 2006). A MOF officer stated:

They [Corporate Governance Committee members] were just looking at the different codes out there and trying to find, based on the developmental stage of the SGX [Singapore Exchange], the listed companies, [and] the culture, what ... [the] companies [would be] comfortable with and [could] comply with We are competing with all [of] these economies ... even China. So we need to have something that protects shareholders' or investors' interest[s]. At the same time, [it is] still friendly to business. But all [of] these requirements add cost[s]. So how are you going to strike the balance?

This statement suggests that the officer did not see stringent governance rules as conducive to efficient business practices in the local context, but was aware of the need to gain legitimacy in the eyes of global investors. To reconcile Anglo-American capital market logic and local relational logic, the MOF would need to strike a balance between demands for change and practical needs for continuity by selectively modifying Anglo-American capital-market standards to fit the local context.

The Code of Corporate Governance adopted by the MOF in 2001 manifested its intention to blend the competing logics. Unlike codes in Anglo-American markets, which require at least 50 per cent of directors to be independent, Singapore's Code recommends that independent directors make up at least one-third of the board. Further, whereas in the combined UK Code directors are deemed to

be independent if they have had no employment relationships with a company for the previous 5 years, Singapore's Code requires the absence of an employment relationship for the previous 3 years only. Furthermore, Singapore's Code deems directors not independent if they have received aggregate payments in excess of S\$200 000 in the current or past financial year, whereas in the codes of many other markets, independent directors must be free from any business relationship, regardless of the amount of money paid. In other words, directors considered to be non-independent in other markets can be regarded as independent in Singapore. This makes it easier for domestic firms to comply with the Code, as the independence criteria are less stringent.

In view of the trend of de-linking independent directors from substantial shareholders in many economies, the Council on Corporate Disclosure and Governance, established by the MOF in 2002 to review the existing corporate governance framework for listed firms, made a proposal to adopt the same rule in Singapore. The banks and other large firms, however, opposed this proposal (Tan *et al.*, 2006). For example, a board director of the UOB argued that the interests of the substantial shareholder were aligned with those of the company:

Wee Cho Yaw [the largest shareholder, chairman, and former CEO of the UOB] always says, I have a billion dollars in the bank. It's my interest at stake. You think I will make a fool of myself?

The new proposal was not well received by the MOF, which, according to four academics and independent directors, has a vested interest in government-linked corporations in which many of the board directors associated with Temasek Holdings would be disqualified to serve on their boards. One of the respondents said:

It [opposition to delinking independent directors from substantial shareholders] came from the MOF and I understand that it's mainly the group of government-linked corporations under Temasek [Holdings]. Temasek [Holdings] has a lot of substantial shareholdings in a lot of GLCs [which] appoint quite a number of directors or appointees from Temasek into the boards.

The MOF eventually rejected the Council's key recommendation of tightening the definition of independent director. It reveals that the MOF accommodated the local relational logic – which emphasizes relational ties and control by insiders – through the definition of independent directors.

The MAS's response

Despite the MOF's objection, the MAS raised corporate governance standards in order to maintain the confidence of foreign investors in Singapore's financial markets. As regulator of the nation's financial sector, it was mandated to uphold

high standards. The managing director of the MAS made the following official announcement on this matter:

The standards of corporate governance for banks and direct insurers need to be higher than [those of] the other commercial entities to take into account the unique roles they play in the financial systems and the economy (Siow, 2005; see also *Business Times Singapore*, 24 September 2006).

In contrast to the compromising attitude of the MOF, the MAS accepted the Council's proposal to de-link independent directors from substantial shareholders and enacted it as a regulation rather than simply as recommended best practice. As stated in the Banking Act, the new regulations (MAS, 2005, p. 12) requires 'at least a majority of directors who are independent [of] any single substantial shareholder of the bank'. Instead of adopting the Corporate Governance Code requirement that at least one-third of the board seats be filled by directors independent from management or business relationships, the regulations raised the requirement to 'at least a majority'. The regulations also stipulate that at least one-third of directors be free from management and business relationships and independent of substantial shareholders. By adding these three requirements, the new regulations represent a departure from the Corporate Governance Codes of 2001 and 2005. The regulations apparently countered the wishes of bank management by imposing Anglo-American capital-market logic.

Yet, consistent with the governing elite's willingness to seek a compromise between conflicting institutional logics, the Banking Regulations, as with the governance codes, allow the nominating committee to exercise residual power to determine whether a director who falls short of meeting the definition is still independent (MAS, 2005). This discretion allows room for banks to determine the 'independence' of their directors.

The banks' responses

All three banks, which had significant economic clout, were able to maintain their influence on corporate governance reforms. The interaction between leading figures in the banks and the MAS was frequent. Senior bank managers articulated their doubts about the effectiveness of the Anglo-American style of independent monitoring for their operations. A senior manager of the UOB and the former CEO of the DBS said respectively:

[The] MAS meets with us monthly ... We know them [MAS's officers] well. We told them our concerns [over corporate governance issues] ... Half of them are scholars from foreign business schools, and first year on the job ... They are scholars and go by the book. They have a checklist ... and follow the most

stringent rules ... It's like an academic exercise, and they have no idea of implications.

Regulators should resist the pressure to airlift practices that work well in the US but may not work here [in Singapore] (Yee, 2005).

Nevertheless, senior bank managers realized that any effort to resist Anglo-American market logic would be futile. As the government removed the 40 per cent foreign shareholding limit for local banks (Low, 2001), the banks have seen an increase in foreign ownership. One of the senior bank managers from the UOB explained:

We now have 40 per cent foreign shareholders ... Most of them are institutional investors ... We have no choice ... If you want to grow, you need foreign investment. Corporate governance change is a natural development.

Yet it is beyond the banks' comfort zone to adopt Anglo-American standards of filling a majority of board seats with independent directors. We observe that all three banks, regardless of their ownership and control structures, adopted similar responses. First, their nominating committees effectively made use of the institutional ambiguity in the rules by exercising discretion over the interpretation of the independence of directors to achieve their goal of maintaining internal efficiency in board decision making while gaining legitimacy from the financial market. The following statements published in the annual reports of the banks were used to justify the independence of the directors not deemed independent by the Codes and Banking Regulations:

Ms Goh and Mr Seah are also directors of companies linked to Temasek Holdings, DBS's substantial shareholder. As their appointments are non-executive in nature and they are not involved in the day-to-day conduct of these companies' businesses, NC [Nominating Committee] has determined that they are independent (DBS, 2010, p. 40).

The law firm of Mr Tan Kok Quan provided legal services to the UOB Group in the past year. The NC [nominating committee] is of the view that Mr Tan's objectivity and independence have not been compromised by his firm's provision of services to the UOB Group (UOB annual report 2007, p. 37).

Second, while the banks incorporated a larger percentage of independent directors on their boards, they were aware of the hidden tensions between the contending logics. To circumvent potential conflicts, they skillfully exploited the multidimensionality of the board role to maintain the existing function of the board. Outside board members were valued for the 'inputs', 'recommendations' and 'help' that they could offer to management. The nominating committee responsible for appointing directors emphasized the ability of potential independent members to provide such resources, while

downplaying their monitoring role over management. Senior managers of the banks expressed:

When a company becomes large, it needs a diversity of inputs ... We need directors in legal development, business development to guide management in strategic directions ... We also have lawyers on board.

We want to have information and [stay] ahead of the cycle [of an industry] so that we can [assess] the risk when lending money to this sector. Otherwise, if we start lending, some will be caught. We wanted to have representation [from] a few key sectors to [assess] the risks ...

Many independent directors also saw their main role as providing resources to management and the company. For example, an independent director of the OCBC and a member of the Singapore Institute of Director stated:

Financial performance is the responsibility of the management and the board. It's important to evaluate if an independent board member contributes effectively to help the company.

For example, you want to expand to China to go into another line of business ... you take [an] independent [director] who has work experience in China [onto] the [board]. Companies like DBS ... are getting to a size where they need a lot of people from outside [independent directors] to help them grow.

The resource-provision role of the board appears to have also been accepted by the state. Then-acting Second Minister for Finance, Raymond Lim, commented:

With the globalization of competition, more companies will need to operate across borders. Hence, companies will find it useful to bring on board at least one international non-executive director with the relevant skills and experience (Lee, 2004).

In summary, as a response to the encroachment of Anglo-American market logic, senior bank managers reinterpreted the role of independent directors in order to serve their own interests. Despite such manipulation, investors did not show negative reactions. A senior executive of the OCBC expressed:

How the board functions is different here. In the Singapore context, shareholders are different. We don't get law suits from shareholders like [those] in the US.

Discussion

In this study, we have examined how Anglo-American capital-market logic has penetrated the local market of Singapore and how the domestic banks subsequently

resolved tensions between the imported logic and the local relational logic in the field of corporate governance. Specifically, we have argued that the banks' ability to resolve the tensions was enhanced by the willingness of state agencies to modify Anglo-American standards to fit the local market. The MOF attempted to blend both logics by modifying Anglo-American standards on the appointment of independent directors to suit the local context. The MAS, however, applied largely Anglo-American capital-market logic in regulating the corporate governance structures of the banks. Yet it granted the banks residual power to exercise discretion over the independence of outside directors.

In light of the institutional ambiguities in rules, local banks have exercised discretion in justifying the appointment of directors not deemed independent by the Codes and Banking Regulations, and have emphasized the resource-provision role of board directors rather than their managerial-monitoring role. Through a reinterpretation of the meaning of independence and the function of independent directors, the banks have been able to maintain the existing function of their boards, which reflects the resilience of the local relational logic.

Contributions

Our study provides empirical analysis to help address the convergence–divergence debate on institutional change. On the basis of the Singapore case, we agree with Walter (2008) that it is important to identify the difference between formal regulatory changes and actual governance practice and that substantive convergence to the Anglo-American model of corporate governance has not taken place. Had we not relied on a field-research approach of studying organizational responses from key players in corporate governance, however, we may have downplayed the gradual but significant institutional change, treating all signs of changes as superficial adjustments.

Rather, our data provides support for Streeck and Thelen's (2005) argument for gradual institutional change. As shown in our case study, state–business relations and interactions between rule-makers and rule-takers were critical for the content and development of the code of corporate governance and banking regulations, and room was created to allow for strategic action on the part of the rule-takers. The meaning of 'independence' of outside directors was not fixed, and was subject to interpretation and reinterpretation by bankers. The MOF's application of general Anglo-American standards to the Singapore context constituted a creative act in which the unique economic development stage, cultural and regional contexts were taken into consideration. The code of corporate governance, first enacted in 2000, varied with time and circumstances. More stringent requirements were imposed in 2005 by MAS, which monitored the financial sector, but allowed flexibility for rule-takers.

The bankers largely complied with the code of corporate governance in terms of board composition. As a banker of the UOB stated, the banks complied with the requirement for an increase in the appointment of independent directors in light of the rise in foreign shareholding. Given the insistence of MOF and MAS to model practice after Anglo-American standards, and the willingness of the banks to comply, we observe the signs of institutional change at least in the banking sector.

Nevertheless, the banks did not simply comply with the rules, but worked to reinterpret the meaning of 'independence' by exploiting their inherent ambiguities (Jackson, 2005) and under-definition. Given the limited pool of potential directors and institutional embeddedness in trust in family and close relations, the incorporation of independent directors was seen as both costly and uncomfortable. Hence, the bankers attempted to circumvent them by exploiting loopholes. Instead of defining 'independence' as being free from management, business and shareholding relationships, they perceived it as reflecting an individual's mindset, judgment and personal integrity. Subsequently, they made use of residual power granted to justify the appointment of those not deemed independent under the Codes and Banking Regulations.

Furthermore, the bankers appear to have taken advantage of 'institutional ambiguity' in rules by reinterpreting the institution of independent directors to serve their own interests. This study reveals the creative way in which local actors incorporated imported institutional logic by reinterpreting the new practice to serve their own ends. As shown in the study, domestic banks in Singapore took advantage of the multi-dimensionality of the role of independent directors when they introduced such directors to their boards. They obviously focused on the resource provision role and downplayed the managerial-monitoring role of independent directors.

On the basis of the case shown, we argue for the coexistence of gradual institutional change and institutional resilience, both being sustained by the interaction between rule-makers and rule-takers. Streeck and Thelen's (2005) five types of gradual institutional change, which account only for change, are limited in explaining the coexistence of change and continuity. The Singapore case shows no institutional drift or exhaustion, leading to a breakdown in traditional institutions. On the one hand, there emerged signs of displacement triggered by MAS, indicating a rise in salience of Anglo-American standards at the expense of local traditional institutions. On the other hand, there appeared to be signs of layering, which entailed the MOF's addition of selected Anglo-American rules to existing institutions, gradually leading to a blending of foreign and local standards. Yet eventually the local institutions were not defeated. The concept of institutional conversion can be applied, though with modifications. Instead of reinterpreting the old institutions to serve the new purposes toward institutional change, the Singapore bankers reinterpreted the new imported institutions to serve their interests in protecting the existing logic in the institutional change process.

The findings of this study also have several implications for research on institutional logic and comparative capitalism. The study shows the impact of contending Anglo-American and local relational logics on an open economy and thereby provides interesting insights for research into institutional change. We observed two logics, characterizing them as Anglo-American and local relational logics (see Table 3). The Anglo-American capital-market logic that the Singapore state agencies attempted to promote is predicated on the view that the role of a firm is to maximize profit and shareholder returns (Weimer and Pape, 1999). A typical strategy is to attract investments to boost firm growth, which is enhanced by an authority structure based on top managers, the board of directors and public ownership of a listed firm. The source of legitimacy stems from efficient allocation of resources based on objective and arm's-length managerial monitoring and information transparency.

However, in the context of Singapore, the local institutions are network-oriented. The salient stakeholders include mainly family shareholders and the government, but exclude employees, unlike the stakeholder governance system in countries such as Germany and Japan (Weimer and Pape, 1999). The role of a firm is to maximize benefits for block shareholders. The firm's strategy is to build a relational network of experts in local and regional markets to achieve transaction efficiency in the local-regional markets. This logic emphasizes the view that relational ties and insider control reduce transaction costs and hence improve efficiency. The apparent concern of both logics with efficiency stands in contrast with many previous studies contrasting institutional logics such as market logics versus non-market logics (Friedland and Alford, 1991; Greenwood *et al.*, 2010). We, however, have shown that both the Anglo-American and local relational logics are concerned with transaction efficiency, but each leads to different outcomes when it comes to the role of the board, consequently leading to unique institutional change.

Our data support Redding's argument (1990) that ethnic Chinese family businesses are characterized by high levels of family control and a preference for flexibility. They are usually not coordinated through managerial hierarchies like those characterizing Western or Japanese enterprises. A focus on personal connections and trust is witnessed in the corporate governance system. Firms are seen as family property and instruments of family enrichment. Top management posts and board posts are often reserved for family members or personal associates who have established *quasi*-family connections with family shareholders. Whereas Redding focused on overseas Chinese family enterprises, as his data were collected largely from Hong Kong and Taiwan, our case shows that some large enterprises are controlled by the government in Singapore. Government-linked corporations are often managed by the closely-knit political elite and the posts on boards and in top management teams filled by ex-civil servants (Low, 2001). The authority structure stems from family or state ownership and family and political elite networks. The sources of legitimacy stem from social and political capital, and governance mechanisms rely on control by large families and the government and their appointees.

Our findings also reveal that despite Singapore's status as a developed economy, market mode in the local context is still heavily influenced by relational logic, as opposed to the arm's-length and contract-based transaction mode (Peng, 2003). Yet, given Singapore's smaller domestic market size and hence heavy dependence on foreign trade, capital and product/service markets, the Singapore state has had few alternatives but to enhance its reputation in global capital markets and strengthen its enforcement of corporate governance standards. The likelihood of corporate governance reforms to trigger a gradual move from a personalized relationship-based structure, based on relational logic and network-centered strategy to an impersonal exchange regime anchored in Anglo-American logic and a market-centered strategy, as in Peng (2003), which remains to be investigated, is arguably higher than in Taiwan, Hong Kong and Malaysia.

Implications for policy and practice

This study offers implications for policy makers. First, the introduction of governance structures imported from institutional contexts that follow different institutional logics may function as a signal to investors and other stakeholders. However, such attempts may not lead to the outcomes that such practices are purported to achieve unless the imported practices are modified to suit local contexts. Second, the state or its agencies can play an important role as a facilitator or mediator to translate foreign practices into locally acceptable ones. Indeed, this study shows that dialog between the domestic banks and state agencies was critical in introducing the new board practices into the Singapore context. Although local actors often resist any changes that cause short-term disruptions, the state can play a role in striking a balance between maintaining some level of stability and setting new directions of institutional change.

With respect to local firms, the existence of contending logics is likely to pose a challenge. as the new structures may not only incur costs but also hinder their objectives. Although foreign institutional investors are likely to appreciate the incorporation of independent directors on to the board, local investors – including members of the founding family, who are more attuned to local relational logic – may be indifferent or even opposed to such structures because of the costs involved and the lack of evidence that those structures would be effective in the local context. In such a situation, local actors are more likely to engage in reinterpretation of imported logic to fit their own interests.

Future research directions

This study has specifically focused on Singapore because it is an ideal context to explore the complex interactions of the Anglo-American capital market and local relational logics and the actions of key players in an economy. We believe our study

has implications for a number of Asian and other emerging economies that have a strong legacy of state intervention and high dependence on foreign investments (Carney and Witt, 2014). Future research on different institutional contexts in which competing Anglo-American and local relational logics coexist would further enhance our understanding of how local actors respond to competing logics.

This qualitative study, covering both government-linked and family-controlled enterprises, can also provide a reference to research into such enterprises, which are prevalent in China and economies dominated by ethnic Chinese capital. In addition, researchers can conduct large-scale empirical studies to examine how firms in different industries in individual economies react to competing institutional logics. In less-regulated industries with a diversity of firms having different field positions and ownership and control structures, firms may have more discretion to choose their actions. Thus, more variance in practices and their underlying conditions can be identified.

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