Journal of Business Systems, Governance & Ethics

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Journal of Business Systems, Governance & Ethics

Jointly Published By

Centre for International Corporate Governance Research
Victoria University

Victoria Graduate School of Business
Victoria University

Vol 2, No 2, 2007
ISSN 1833-4318

Victoria University
PO Box 14428
MELBOURNE VIC 8001
AUSTRALIA

The *Journal of Business Systems, Governance and Ethics* is published four times a year by Victoria University in online format for no charge. Printed copies are available, for a fee, upon request.

All articles published in this journal were subject to a process of blind peer review by at least two reviewers before selection for publication by the Editorial Board.

Submissions are welcome for research articles of between about 5,000 and 10,000 words in any area relevant to the journal's coverage. Potential articles should, in the first instance, be sent to: Kumi Heenetigala at the Centre for International Corporate Governance Research: Kumi.Heenetigala@vu.edu.au

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Vol 2, No 2, 2007

Contents

Editorial

This issue of the *Journal of Business Systems, Governance and Ethics* has articles relating to business in Europe, Australia, Taiwan and Malaysia. It covers topics including the use of ICT by SMEs in Europe, Public Private Partnerships in Victoria, family support for expatriate members of multinational companies, financial reporting using the Internet, the impact of children on women's and men's paid and unpaid work, and leadership and ethnicity issues in public companies in Malaysia.

The first paper by Lorna Uden, from Staffordshire University is entitled: *How to Promote Competitive Advantages for SMEs: Issues, Ideas and Innovation*. In this article Uden notes that SMEs have increasingly been enjoying the benefits of e-business and that information and communications technologies (ICT) introduce both opportunities and threats to small to medium enterprises (SMEs). While SMEs have traditionally been restrained from international trade because of resource limitations ICT now enables them to present their products globally. Despite these benefits, however, uptake of e-business by SMEs is still quite low and there are many issues that need to be addressed before SMEs can be convinced to embrace ICT. This paper discusses issues, ideas and innovations important in helping SMEs to remain competitive.

An article by Nick Sciulli: *Public Private Partnerships: Identifying Practical Issues for an Accounting Research Agenda* then offers a structured framework for research into the accounting implications of Public Private Partnerships (PPPs). Accounting principles are used to identify whether a PPP will lead to value for money, and a model is developed to define potential areas of investigation from which a series of research questions are posed. Sciulli argues that public sector managers need to be aware of the failures and the success stories of particular PPP projects so that lessons can be learned from these experiences.

The next article by Joy Lee on *Family Support as a Factor in Cultural Adjustment*, discusses how expatriates have become an important human resource to multinational operations. Following the growing worldwide competition and internationalisation of globe markets, international expatriate assignments have become essential to successful worldwide development for many multinational corporations, but to facilitate this, expatriates need to adjust to an overseas environment and multinational corporations need to recognise the need for expatriate family support. The main purpose of this study was to investigate the relationship between family support and cross-cultural adjustment of Taiwanese Bank expatriates assigned to America.

Tehmina Khan then reports on *Internet Financial Reporting: Disclosure about Companies on Websites*. Khan notes that the Internet has emerged as a medium of communication of financial reporting information by companies since the mid to late nineteen nineties, but that there are aspects of Internet based financial reporting that are quite different from traditional hard copy presentation. One problem is that there is a lack of uniformity of financial reporting disclosure between companies worldwide. Three aspects of financial reporting disclosure were investigated in this paper: fundamental reporting elements, corporate social responsibility reporting elements and corporate governance elements. Khan concludes that it is important for companies worldwide to adopt a uniform approach to financial reporting on the Internet in order for decision making by users to be a more informed process.

The next article, by Marty Grace: *Australian Women's and Men's Incomes by Age of Youngest Child*, examines how the responsibility for children impacts on women's and men's paid and unpaid work, and how paid and unpaid work impact on each other. Grace argues that aiming to allow men and women to care equally for their families, frames the issue as one of gender equality, but that sharing responsibility for children is also a matter of equity between parents and non-parents. This study presents a new way of looking at income data and highlights the need for further research into incomes following childbearing and the way that incomes vary between women and men, and with the age of the youngest child.

The final article is by Dominic Lai Yew Hock who investigates *Leadership and Ethnicity in Public Companies in Malaysia*. Corporate Governance gained prominence in Malaysia during the Asian financial crisis of 1997 and this provided an indication that existing corporate governance structures in public listed companies were insufficient. The article describes empirical research using Chinese controlled public listed companies in Malaysia. The results show that there has been widespread adoption of the leadership structure recommended under the Code by the sample companies, and that adoption of the prescribed leadership structure under the Code has no significant impact on the financial performance of the sample companies.

All papers in the journal have been subjected to a process of blind peer review by at least two reviewers. Articles were then only accepted after appropriate changes and corrections had been made by the authors. I hope that you find the content of this issue interesting.

Arthur Tatnall

Editor

How To Promote Competitive Advantages for SMEs: Issues, Ideas and Innovation

Lorna Uden
Staffordshire University, United Kingdom

Abstract

Information and Communication Technologies (ICTs) have become an integral part of today's economy. Small and Medium-sized Enterprises (SMEs) have been increasingly enjoying the benefits of e-business. ICT introduces both opportunities and threats to the SME. The general consensus of opinion is that SMEs that have traditionally been restrained from international trade because of resource limitations are now able to present themselves and their products globally.

Despite these benefits, the uptake of e-business by SMEs is still low. There are still many issues that should be addressed before SMEs can be convinced to embrace ICT. For SMEs to remain competitive in a rapidly changing world, they need to take up the adoption of new technologies. This paper attempts to discuss the issues, ideas and innovations that are important to help SMEs to remain competitive.

Introduction

The European Commission has recently defined an SME as a company of fewer than 250 employees and a turnover below €50 million (EC 2003). There are many millions of SMEs all over the world. In Europe it is estimated that the 19 million SMEs make up over 95% of the enterprises. SMEs generate a huge share of the GDP and are a key resource of new jobs as well as current employment. They are also a breeding ground for entrepreneurship and new business ideas. The European Commission (EU Report 1998) has recognised the importance of SMEs in society. SMEs are acknowledged as the largest group of businesses in Europe. This is because two-thirds of all European employment is provided by companies with less than 250 employees. Despite being smaller in size, it is believed by researchers that SMEs tend to create the innovation that drives most of the economy (USHER 2006). The EU is not the only organisation that recognises the importance of SMEs in contributing to the economy. Nations worldwide are increasingly depending on SMEs for their economies.

A new economy has emerged around the world in the last two decades of the twentieth century. This phenomenon is characterised by two interconnected events: the globalisation of markets, firms and activities, and the diffusion of information and communication technologies (ICTs) and the Internet. This technological infrastructure allows for unprecedented speed and complexity in the management of the economy (Piscitello & Sgobbi 2003). The internet-based business applications have reduced the costs of information-intensive activities, such as communications management and sales and marketing. These opportunities especially favour small and medium enterprises (SMEs). The advantages provided by ICTs' compression of space-time distances and reduced role of economies of scale in information intensive processes downsize some competitive barriers that historically affected smaller companies as compared to the larger ones.

Currently SMEs are experiencing a complex mix of opportunities and threats posed by both the diffusion of the Information Society and the globalisation of markets. The emergence of online trading has created new opportunities for substitute products and services (USHER 2006). Internet trading allows product and service differentiation, cost reduction and development of substitute services. It also means that dramatic changes in product and service offerings are possible with minimal loss of time or investment in marketing materials and activities. ICTs have revolutionised and transformed the way modern businesses are conducted through the quick and cheap exchange of information. We are currently in a knowledge economy age where ICT enables us to closely connect to a virtual network regardless of geographical location, gender and race. ICTs can benefit SMEs in three main ways (APDIP 2005):

1. Increase productivity in the production processes;
2. Increase efficiency of internal business operation and
3. Connect SMEs more easily and cheaply to external contacts whether locally or globally.

The use of ICT also makes management of supply chains more efficient. Real-time communication and B2B transactions can reduce information asymmetries between buyers and sellers, and help bind closer relationships among trading partners. The Internet provides an effective tool for communication between B2C transactions by providing consumers with better services and allowing their needs to be monitored more accurately, as well as facilitating new product development.

The dynamics of SME business markets are determined by four key factors (USHER 2006). These include suppliers, buyers, products and services. E-business offers several benefits to the above four factors. For the suppliers, entrants to online trading by SMEs helps them reach new markets, reduce the supply chain, improve processes and corporate/brand image, reduce costs and differentiate their products and services against competitors. On the buyers side for SMEs, cost reductions are common in Internet trading and are generally paid for through savings in infrastructure such as shortening of the delivery chain, reduction of expensive shop/outlet, as well as an increase in sales throughput. SMEs benefit forms the lowering of entry barriers to markets as a consequence of e-business. E-business is often cited as the SMEs' gateway to global business and markets.

Despite the obvious benefits ICTs can bring to SMEs, many countries, especially developing countries have been slow to adopt them. In order for SMEs to have a competitiveness advantage, SMEs must be encouraged to embrace e-business. This paper begins with a brief review of the issues facing SMEs in e-business. It is followed by discussion of the different ideas that have been proposed by the EU to help SMEs to remain competitive. The author then discusses how SMEs can be helped to be innovative. The paper concludes with suggestions for SMEs to stimulate competitiveness advantages.

Issues facing SMEs

Organisations today are faced with massive globalisation, demanding customers with rapidly changing desires, shrinking response time, shrinking product lifecycles and demanding employees. This requires organisations to become fast, flexible, participative and focused on customers, competition, teams, time and process (Sussan & Johnson 2003). To respond to these forces, it is important to adopt a market oriented approach. The market oriented approach, proposed by Kohli & Jaworski (1993) can be described in three parts: customer orientation, integrated effort, and profit. It proposes that the business focuses on consumer's needs and desires. Kohli and Jaworski (1993) define market orientation as the organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation-wide responsiveness to it.

Globalisation for SMEs

To remain competitive, SMEs must globalise. SMEs' globalisation processes include a range of cross-border activities, such as trade, international investment, and participation in strategic alliances, partnerships and networking arrangements affecting a variety of business functions ranging from research and product development to distribution (OCED 2004). SMEs with high-growth potential require early access to international markets to ensure their development and growth. Although SMEs have made contributions to local and national economies, overall they remain under-represented in the international economy and change in this respect is slow to happen According to the OCED Report (2004), while SMEs typically contribute around 50% of GDP, and 60% of employment in national or local economies, most evidence suggests they contribute only about 30% of exports, and even less of international investment.

The 2004 OCED Report suggested that increased levels of globalisation can impact on SMEs in two main ways. On the one hand they open up opportunities. For example, SMEs that can grow quickly, that are niche exporters, or are able to tie in with global supply chains are all able to take advantage of opportunities created by globalisation. On the other hand, globalisation poses an increased threat for SMEs that are unable or unwilling to compete. Given that labour is still less "globalised" than other factors, this poses political and social challenges for governments.

Despite the fact the SMEs make up more than 95% of market participants, and contribute around 50% of direct value added or production, they are still relatively under represented in the global economy. SMEs only contribute between one quarter and one third of manufactured exports and account for a very small share, usually less than 10%, of foreign direct investment (FDI) (Hall 2002; Sakai 2002).

The main reason attributed to the smaller SMEs being globally inactive is that international activities expose SMEs to a more complex and risky business environment, for which, compared to larger firms, SMEs are relatively unprepared and less well-resourced.

OCED (2004) listed the following points as the barriers to SMEs taking a global role in competitiveness:

- Competition policy, legislative and regulatory frameworks, telecommunications infrastructure, research and education policy all contribute to SME preparedness or lack of preparedness for globalisation.
- Barriers can concern *inter alia*, intellectual property rights; political risks; corruption and rule of law issues. They can relate to the entire range of business operations, having implications for business and organisation models, managerial and technological capability; and innovative capacity.

Integration

Technologies help organisations to better manage their supply chains. Supply chain management applications built on technology platforms have enhanced the ability of organisations to integrate their processes through collaborative information sharing and planning (Charles *et al* 2001). The use of integration technologies such as EAI and Web Service help to support the integration of supply chains. Companies can anticipate customers' desires and meet their demands with supply chain integration. A company's competitive advantage depends in large measure on the adaptability and agility of its supply chain (Chen *et al* 2004).

Integration is an important issue for SMEs. Enterprises are seeking ways to integrate their applications at both intra and inter-organisational level. (Chen *et al* 2004). SMEs are not only seeking ways to integrate the disparate systems within the organisation, they also moved to extend the whole domain beyond the boundaries of the organisation to include their suppliers, trading partners and customers (Charlesworth *et al* 2002). Integrating SMEs' systems with their customers and trading partners will give SMEs greater competitive advantages to compete with the larger companies or their competitors (Chen *et al* 2004). The emergence of supply chain integration is therefore undoubtedly a critical component to strengthen competitive advantage of both suppliers and their customers.

To be competitive, a firm must have the ability to acquire the goods and services it needs just when and where it needs them, at a favourable price, and with acceptable payment and delivery terms. The firm also needs to directly manage the flow of goods through its distribution networks in a cost-effective manner. This can be achieved through integrating their supply chains. There are several benefits of implementing supply chain integration (Chen *et al* 2004):

- It can lower the costs of labour, increase flexibility, achieve faster response times and cut down the occurrence of errors on paper based operations, reduce unauthorised buying outside preferred supplier agreements, and reduce stocking, hence achieving competitive advantage
- Automating processes also can shorten the cycle time from ordering to distribution, thus resulting in enhanced production ability and increased efficiency.
- Suppliers can also benefit from supply chain integration as this will shorten the business transaction cycle, lower capital cost in stocking, lower labour costs, increase efficiency, enhance accuracy and give a faster handling time and speed of delivery.
- Adopting supply chain integration can help SMEs to standardise production, which can result in improved quality control, improved efficiency and shortened production time.

E-business

There is evidence from research that the use of advanced Information and Communications (e-business) Technologies (ICT) by small firms makes a strong contribution to their productivity and profitability. 80%-90% of the benefits are attributed to e-business derived from business to business transactions as well as from savings resulting from making internal business processes more productive. According to USHER (2006), e-business is not only the specific online trading processes commonly described as online transactions. It is also a host of other business trading activities that benefit from the increasingly networked economy. This networked economy includes distributed working practices (teleworking) and distributed teams, supply chains, virtual business and remote collaboration. It also allows remote marketing and the building of relationships with customers and trading partners at a distance.

There are several constraints found by SMEs for adopting ICTs. These include:

- High cost of purchasing hardware and software, as well as IT maintenance.
- Poor communication infrastructure.
- Limited ICT literacy.
- Undeveloped legal policy for electronic payment.
- Too much legislation.
- Inexperience in integrating ICTs into the business process.

The use of new technology to support the integration of the supply chains is much harder for SMEs. This is due to:

- Lack of financial resources and technology ability (Burns 2001).
- The maturity of integration technologies (e.g. EAI and Web Service)
- Lack of cases in integration technologies adoption in SMEs have made the problem even worse for SMEs

Barriers to E-business

Studies have shown that SMEs have embraced e-commerce to strengthen their competitive position. SMEs have increasingly enjoyed the benefits of e-commerce, which are that it is a low-cost and effective marketing tool and it also has an ability to reach out to a global audience (Hornby *et al* 2002). SMEs are of crucial importance to many countries, both developed and developing. Traditionally, SMEs have faced a number of barriers to the adoption of e-commerce. Chau and Pederson (2000) list the following barriers:

- General lack of resources.
- Lack of cost-effective e-commerce enabled software.
- Lack of technical skills and training.
- Complications in implementing change.
- On-going support costs.
- Computer apprehension.
- Inter-organisation motivation.

- Giving priority to e-commerce initiatives.

According to Clegg and others (2005), effective development of e-business requires understanding of the interplay between people, processes, organisation, business models and technology. Kalakota and Robinson (2001) state that the creation and manipulation of an e-business project is inextricably linked to the management of change. Few SMEs have taken steps to manage e-business change and involve users in the design and adoption of e-business (Lin *et al* 2005). People resistant to new technologies believe that they do not have the skills to use and gain benefits from them and because they lack understanding as to how it changes how business is done and processes are executed (Wargin & Dobiey 2001). It is generally acknowledged that the success of e-Europe is critically dependent on whether SMEs are fully engaged in e-business.

Some barriers to e-business, however, are beyond the control of SMEs. For example, the telecommunication infrastructure, which is a fundamental enabler to SME e-business adoption. Besides infrastructure there are other reasons why SMEs are not 'e-volving'. Firstly, they are too preoccupied with survival, with focus on short-term issues such as profit, regulation, tax and competition. Secondly, SMEs have limited recognition of opportunities available through e-business. Finally there is very little strategic view of their businesses. To help SMEs enter the digital economy, the above barriers need to be removed. This clearly requires a consistent policy that provides a conducive environment for SMEs to take up e-business.

Ideas and suggestions

Small- and medium-scale enterprises (SMEs) can play a key role in economic growth and equitable development in developing countries. The following are some of the ideas and suggestions can be used to help SMEs to promote competitiveness.

Networking

Individual SMEs experience difficulties in achieving economies of scale in the purchase of inputs and are often unable to take advantage of market opportunities that require large production quantities, homogenous standards and regular supply. (UNIDO 2005). It is generally acknowledged that isolation, rather than size, is the key obstacle, preventing SMEs boosting their competitiveness. Isolation is also a constraint on internalisation of functions such as training, market intelligence, logistics and technology innovation. Because of these, small-scale entrepreneurs in developing countries are often unable to innovate products and processes. Networking offers an important route for individual SMEs to address their problems as well as to improve their competitive position. Clusters (groups of firms located in close proximity have proved to be capable of rapid economic growth, sustainable leadership in export markets, significant employment generation and/or preservation of high-value-added jobs, sustained technological progress. There is much evidence that in both developed and developing countries that SME cluster development provides for reconciling the objective of economic development, environmental sustainability and social equity. In the many dynamic clusters to be found around the world, these features are the outcome of the co-operative linkages both between local firms and among local firms and business partners (such as suppliers of plant & machinery, producers of raw materials, testing laboratories, financial institutions, industrial associations; technical and management consultancy organisations, training institutions and local government agencies).

Internationalised infrastructure

Factors such as rapid changes in ICT and access to the worldwide web would appear to make it easier for SMEs to move across borders. Other factors are at play, however, which may be impeding SMEs' access to the global economy. One major factor said to continue to impede SMEs contribution to the global economy is the complexity and differences in the regulatory systems and business environment between countries.

A more internationalised infrastructure geared to the smooth growth of firms across borders will help the growth of international SMEs. This includes the infrastructure for financial markets, advisory services, information access, telecommunications, intellectual property rights markets and regulation, dispute resolution processes, etc. all of which need to be internationalised. To achieve these requires active collaboration between governments, international agencies and the private sector to address these issues with the view to reaping the significant potential benefits that should accrue from the creation of a simpler, more business-friendly, and more integrated economy at international levels (OCED 2004).

The OCED Report (2004) recommends the following policies:

- Seek, through the WTO Round and other channels, to ease trade barriers. Progress in this regard will facilitate efforts by SMEs to access international markets.
- Promote the role that foreign direct investment can play as a vehicle for SMEs to access international markets. In particular, the inclusion of local SMEs in the supply chains of multinational enterprises, and their resultant (indirect) involvement in exporting activity can lead to significant diffusion of technology and more efficient business models, thereby raising the international competitiveness of SMEs.
- Encourage the smooth, cross-border growth of SMEs by reducing the need for internationally active SMEs to comply with multiple sets of rules or requirements. Important areas in this regard include standards, intellectual property rights, financial market regulations and other regulatory domains.
- Facilitate access to the information SMEs need to operate internationally. Particularly important is information relating to tax, regulatory frameworks and requirements, advisory and support services for SMEs and dispute resolution procedures.
- Enhance incentives for new public-private partnership initiatives that would help SMEs reach global markets for innovative products and access foreign sources of advanced technologies and knowledge. This involves broadening the scope for foreign participation in national programmes and linking national networks of SMEs with similar needs and complementary capabilities.

Governments must play a role in lowering the barriers faced by entrepreneurs who wish to globalise their activities. Governments need to ensure that regulatory, administrative and policy environments do not inhibit access to global markets. Efforts by governments seeking to ease such barriers through the WTO Round and the appropriate channels would benefit SME trade and FDI involvement (OCED 2004).

The author concurs with OCED that governments can correct such imbalances within global innovation networks by: (i) ensuring that their promotional programmes help national actors to access international networks, and (ii) developing the international dimension of public-private partnerships. They must also co-operate to avoid mismatches between the strong regional dimension of most self-organised SME networks, the national scope of many programmes to promote them, and the increasingly global nature of the knowledge infrastructure and of markets for innovative products and services. This involves interconnecting national and local hubs of technology transfer, linking national networks of SMEs with similar needs and complementary capabilities, building global networks of intermediary organisations, and coordinating national support programmes.

Virtual enterprises

Manufacturing organisations must be able to respond quickly to customer requests, cooperate closely with their global partners and participate actively in order to remain competitive. This is particularly true for SMEs. The virtual enterprise concept is increasingly gaining importance in manufacturing as an instrument to help organisations facing the challenges of fast-evolving market conditions (Sislak & Valcuha 2005). A virtual enterprise is a temporary network of autonomous firms dynamically connecting themselves, driven by business opportunity by the market (D'Atri 2003). Each member makes available some sub-processes and part propriety of its knowledge. When the business is over, members disconnect and look for new business.

The virtual enterprise consisting of a set of SMEs is usually informally organised. It adopts a non-hierarchical, lean and modular configuration. The network acts towards the external environments as a single organisation and is shaped to exploit the emerging opportunity as best as possible (Barbini & D'Atri 2005). It is flexible, dynamic, proactive and not constrained by predefined structure (Goldman *et al* 1995). There is evidence from the German IT sector that SMEs which adopt the virtual organising approach to managing their online operations tend to be successful (Tetteh & Burn 2001). Virtual enterprise is consistent with the policy of European integration pushing for a culture of cooperation in order to join forces by SMEs to remain competitive (Sislak & Valcuha 2005).

Government Measures

Because SMEs have the potential to drive economic growth, the government of the country should move beyond politics that encourage basic connectivity and to foster business environments that facilitate e-business and the use of more complex applications of information technology. It is the responsibility of government to target programmes to overcome failures to the extent that they are needed in particular areas (e.g. framework for standard, skill information, R&D initiatives, information and demonstrations on best practices and benefits from adoption and use of ICT). These include:

- Encourage roll out of affordable quality bandwidth network to underpin the competitiveness and growth of SMEs (OECD 2004).
- E-government services to enterprises should be used as tool to improve efficiency of government interactions and operations with SMEs.
- Strengthen the infrastructure of trust, security (including spam and virus), privacy and consumer participation.
- Expand, in conjunction with business and consumer groups; strengthen cross border cooperation between stakeholder and the development of rules with cross border applications (OECD 2004).
- Strengthen government and private sector roles to improve basic ICT skills and developing frameworks to encourage higher level ICT and e business skill formation.
- Strengthen SMEs capacity to improve their competitiveness in domestic, regional and global markets.
- Develop a national ICT strategy and establish a National council on e- economy to advance ICT in Taiwan.
- Government should create a conducive investment climate that encourages domestic and foreign investment in e business for SMEs.
- Government should remove constraints and create an enabling environment.

Governments are responsible for establishing an environment conducive to the development of SME competitiveness. They can generate policy that impacts the trading environment. Policies that can encourage the growth of SMEs include:

- The creation of science parks and incubators.
- Providing business consulting services.
- Providing business skills education.
- Simplifying registration and other legal processes.
- Implementing favourable tax and trade policies,
- Helping SMEs link to larger companies.
- Providing SMEs' finance.

SME development agencies

One of the main problems facing SMEs today is the lack of knowledge, expertise and financial resources to carry out in-depth research in order to appropriately assess the current and potential market situation with regards to products and consultancy services in international markets. SMEs also need to cooperate to be successful in transferring technology. They need to set up international joint ventures. This requires the support of agencies. SME Development Agencies (SMEDAs), trade promotion organisations (TPOs), trade and industry associations, chambers of commerce and other agencies can offer other assistance to exporting SMEs (TSS 1995).

Integration and automation of the supply chains

A supply chain is a network of facilities and distribution options that performs the functions of procurement of materials, transformation of those materials into intermediate and finished products and the distribution of finished products to customers (Kulkarni 2001). The aim of the supply chain is to link different functions and entities within and outside the company from raw materials to manufacturing, distribution, transportation, warehousing, and product sales, joining together a large number of partners and customers like manufacturers and parts suppliers, logistics suppliers, wholesalers and retailers (Zaremba *et al* 2004). SMEs should achieve greater coordination and collaboration among supply chain partners known as supply chain integration to remain competitive.

Zaremba and others (2004) list the advantages related to integration and automation of the supply chains of SMEs over the Internet as:

- Cost saving based on keeping minimum inventory level. Suppliers can access information about inventory that allows them to react faster.
- Increased revenues. Reducing levels of inventories enables cost saving leading to increasing revenues.
- Cost savings based on integration. Improved vendor management.
- Reduced cycle time.

The actual cost of supply chain management, if properly done, should be more than recouped from greater supply chain efficiencies, increased sales and reduced cycle time. Although ICT plays a crucial role in supply chain management, having the information technology is not a guarantee of success. The IT must be capable of improving communications between companies and their suppliers, their customers and the consumer in the chain. Several measures recommended by the United Natural Industrial Development Organisation can help developing countries to make significant progress towards achieving an environment that fosters SMEs full integration into the international supply chain. The measures can be from government and/or from private sectors.

New Initiatives and Innovations

E-business offers a range of benefits in terms of efficiency and market access for SMEs. At the inter-firm level, it reduces the costs and increases the speed and reliability of transactions, especially over long distances (OECD 2004). Because of the importance of e-business for SMEs, many countries have launched initiatives to promote the use of ICT for SMEs. A brief review of some of the initiatives is given.

Initiatives by Asian Countries

There are several initiatives that Asian governments have launched to encourage and enable SMEs to use ICTs. Examples include (APDIP e-note 2005).

- Japan provides tax rebates for SMEs using ICT.
- Hong Kong targets training at different sectors.
- The Philippines is working to reduce cost of international phone calls by deregulating Voice-Over-Internet-Protocol.

- The Republic of Korea provides a web forum for SMEs to showcase their products to an international market.
- Singapore subsidises computer training for SME employees and provides the foundation for developing secure e-payment services.

Researchers (Wilson *et al* 2001) believe that the threat of marginalisation faced by SMEs in the digital economy can be reduced by systematic support for transformation of traditional business approaches, sectors and networks. Various regional innovation strategy projects for SMEs have been developed, such as EURADA, ERISA and Go DIGITAL, RITTS and USHER.

Technology Means Business (TMB) in UK

Technology Means Business (TMB) is the standard for the provision of business IT support to Small and Medium Enterprises (SMEs). TMB provides a regional and widely accepted standard against which the competency, proficiency and professionalism of both advisors and the centres from which they operate are measured. TMB was launched by the then e-commerce minister in 2000, following the publication of the DTI's competitiveness white paper, which called for a national IT business advisors accreditation programme. Its purpose was to address the problem of poor support to UK SMEs. Funding and current partners/suppliers include members of the private, academic and public sectors such as BT, Microsoft, HP, Intel, Business Link for London, Scottish Enterprise, Durham Business School, University of Central Lancashire, Advantage West Midlands, Sunday Enterprise, The Welsh Development Agency, McAfee and the South West Regional Development Agency. The medium-term aim for TMB is to provide an environment in which balanced advice and reliable delivery mechanisms are available to the SMEs. The TMB standard will reflect the constantly changing landscape of the business professional. It is based on competent academic research and practical experience. Besides these initiatives, there are several new initiatives that have just been announced by the EU to encourage research and innovations to foster competition as well as to stimulate diffusion of innovation. Subsequent sections discussed some of these initiatives.

New initiatives By EU

Knowledge management

Globalisation is a major driver that has impact on nearly every business. SMEs face new challenges in a globalised economy that will impact dramatically the way they do business. Only sustainable strategies will save them from destructive power of the heavyweight companies. The EU has been paying much attention to small and medium enterprises (SMEs) to increase their competitiveness and contribute to the employment generation within an increasingly globalised context. To be successful requires that they can combine flexible production with the continual innovation of products and production processes. In order to achieve this, enterprises must learn to compete in a fast changing environment. (EC 2006). The European Commission, in April 2006, adopted a proposal for a new EU programme for research. The proposal aims to provide new impetus to increase Europe's growth and competitiveness, recognising that knowledge is Europe's greatest resource.

Knowledge management can be used to increase productivity, effectiveness and efficiency in operations for SMEs. Knowledge is at the heart of any business. Master knowledge and the business will prosper; ignore it and the business will fail. When time is short, the ability to make informed decisions rapidly is critical to sustained performance and to establishing an enduring competitive advantage (Chesebrough, D.E. 2006).

In June 2006, the European Parliament has adopted the first "Competitiveness and Innovation Framework Programme" (CIP). Between 2007 and 2013, some 350,000 small and medium-sized enterprises (SMEs) will receive € 3.6 billion in EU support to invest in all forms of innovation and growth. (Finfacts 2006). The new programme will support actions to help enterprises and industry to innovate. It will also boost energy efficiency and renewable energy sources, environmental technologies and a better use of information and communication technology (ICT).

Networked European Software & Services Initiative (NESSI)

The president of the European Commission has re-emphasised the importance of the objective for Europe to become, by 2010, "*the world's most dynamic and competitive knowledge-based economy*". The objectives set in Lisbon in March 2000 were higher growth, more and better jobs and greater social inclusion. Information and Communication Technologies (ICT) were identified as playing a key role in driving the transformation of the European economy. (NESSI 2005).

Software and IT services take a significant share of the European economy within the ICT area. In 2004 they directly employed more than 1 million European professionals. Taking into consideration the added value of IT for economic sectors that utilise it, the actual share of software and IT services ranges between 5% and 6% of the European GDP. The software and IT services is a growth engine that stimulates the creation of high added-value, sustainable jobs. It is estimated that that in the last five years, 60% of the jobs created in Europe were highly skilled, and the increase of 'high-knowledge' employment was three times faster than the average growth in more traditional sectors.

The NESSI Technology Platform was set up and promoted by thirteen major European ICT corporations, totalling almost a million jobs and about 300 B€ revenues. It aims to provide a unified view for European research in Services Architectures and Software Infrastructures that will define technologies, strategies and deployment policies fostering new, open, industrial solutions and societal applications that enhance the safety, security and well-being of citizens. Partners of the NESSI technology Platform include Atos Origin, BT Engineering, Ingegneria Informatica S.p.A, IBM, HP, Nokia, ObjectWeb, Software AG, Telecom Italia S.p.A. and Tales.

NESSI is an enabling infrastructure. The strategy of NESSI is to provide environments that will empower citizens and companies across a wide range of applications. The aim of Nessi is to pull together competencies and resources to create a dynamic and dependable software infrastructure middleware. This will allow a seamless and cost effective composition of web services. The NESSI Technology Platform offers software services and infrastructure for the mobile European citizen. This infrastructure will connect data sources, software-intensive systems, European, national and regional laws and regulations by offering services that support the citizen in all roles – as a consumer, as a traveler using cars, trains, etc., as an entrepreneur, as a user of medical services, in dealing with administration, in learning and teaching, etc. Services will be provided adapted to the users' needs and habits (Achatz 2005).

It builds upon open standards that offer participation for big and small companies alike, fostering Open Source solutions, particularly for certification purposes. The platform will comprise middleware that allows the retrieval and composition of services and will facilitate secure connections and transmissions as shown in Figure 1. The variety of information sources, data formats, rules, and regulations will be maintained while services will provide users with a harmonised view and easy usage.

The purpose of a business is to create a customer. It has two entrepreneurial functions – marketing and innovation (Drucker 1955). Marketing is more than selling. It encompasses everything from identifying needs to fulfilling those needs. Innovation is more than new products. It is about doing things differently, meeting customer's needs and desires in new ways, getting ahead of the game (Irwin 2000). Business needs to innovate in order to survive and remain competitive.

Today, business faces many challenges, including increasing reliance on the successful exploitation of intellectual capital; rapidly expanding technological advances; satisfying ever-more-demanding customers; more efficient use of natural resources and less waste, and increasing industrialisation by developing countries. In order to survive, business today must turn these challenges into opportunities, that is, they must innovate (Irwin 2000). Business needs a constant flow of new ideas and imaginative applications for their products, marketing and distribution. Effective businesses need to constantly capture new ideas, keep ideas alive, imagine new uses for old ideas and put promising concepts to the test. Because business today relies more on the development and exploitation of intellectual assets, as compared to physical assets, they must have the capacity to capture and share knowledge. Consequently, the effective application of knowledge becomes a source of competitive advantage for the organisations. Innovation is about opportunity-spotting. It is about meeting customer needs and wants. Innovation is about using technology to differentiate products and services. Innovation also requires entrepreneurship and risk taking. It is about spotting and exploiting opportunities quickly before others.

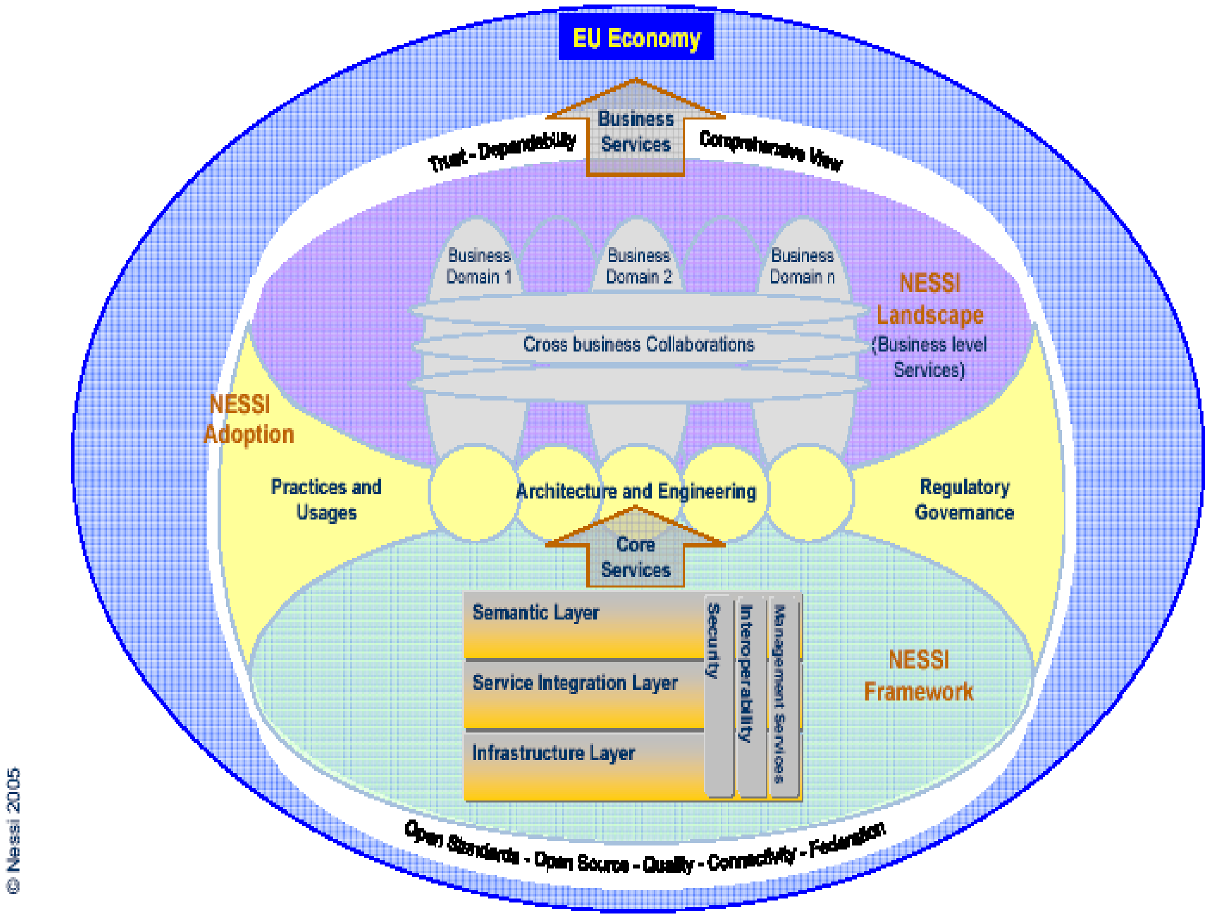

Figure 1: The holistic NESSI view from Boeckle (2006)

Innovations

Innovation is important in today's economy and can dramatically change an organisation's competitive position. However, the management of innovation is a complex process. In order to support innovation management, a well-structured innovation approach is needed for idea-generation to the dissemination and service of the whole process. This is particularly important for SMEs. A structured approach leads to reduction in time for marketing, a reduction of the R&D and production costs, and to an improvement of product quality (Eversheim 1997). How do we promote innovation?

E-innovation

E-innovation is a new way to conduct innovation. It emphasises effort to improve innovations (Kogut & Mieta 2000). It is not confined to a particular industry, but occurs in different fields.

E-innovation includes e-services, e-government and other categories. It has become part of a nation's security (William 2000). E-innovation is the use of the Internet to plan, initiate, conduct, run, facilitate, and/or promote innovation (Lau 2004).

Communities of creation are another new way for e-innovation. In communities of creation, the entire community owns the intellectual property rights. A central firm acts as sponsor and defines the ground rules for participation governing the community. Explicit knowledge and tacit knowledge within the community can be shared. The community functions as a complex adaptive system (Sawhney & Prandeli 2000). Each of the community members can access and contribute to the community.

Technology foresight

Technology innovation management has become the dominant issue in managing worldwide competitiveness (Roberts 2002). Firms need forward thinking and related foresight systems to remain competitive. The main function of entrepreneurs in private firms is to combine existing resources to put forward new uses and new combinations or innovations. Many different factors influence the innovation process. These include factors such as economic, technological, social, political, environmental and value changes.

It is the author's belief that technology foresight plays a crucial role in innovation. Technology foresight is the process involved in systematically attempting to look into the long-term future of science, technology, the economy, the environment and society with the aim of identifying the emerging generic technologies and the underpinning areas of strategic research likely to yield the greatest economic and social benefits. (Martin 2001)

Foresight is a relevant competence. It includes the ability to think ahead about issues that are not measurable, but can shape the future. Foresight research is needed because it produces foresight knowledge concerning trends, and alternative development options. Besides foresight knowledge, other knowledge such as hindsight and insight knowledge are also needed.

Early foresight activities were mainly concerned with science and technology resource allocation (Irvine & Martin 1984). Recent activities have emphasised the importance of common-vision building as a step towards the synchronisation of the whole innovation system. Totti and others (2005) distinguish foresight activities as consisting of, (i) setting of S&T Priorities, (ii) developing the connectivity and efficiency of innovation system, and (iii) creating shared awareness of future technologies. Besides these activities, Totti and others also argue for the importance of diversity in foresight activities. They agree that diversity is a key determinant of innovative capabilities. Diversity is defined as the presence of a wide range of variation in the qualities or attributes (Wikipedia 2005). Within innovation systems, diversity contributes to the ability to anticipate different kinds of futures and assists in responding to them in an adequate way (Totti *et al* 2005).

Conclusion

E-business is not only the specific online trading processes commonly described as online transactions. It is also a host of other business trading activities that benefit from the increasingly networked economy. This networked economy includes supply chains, virtual business and remote collaboration, distributed working practices (teleworking) and distributed teams. It also allows remote marketing and the building of relationships with customers and trading partners at a distance.

Globalisation is a major driver that has impact on nearly every business. SMEs face new challenges in a globalised economy that will impact dramatically the way they do business. Only sustainable strategies will save them from destructive power of the heavyweight companies.

The only way to remain competitive in business today is to be constantly and fully alive to new ideas, new practices and new opportunities. Although Information Technology remains a powerful transforming force in our modern competitive society, it is the author's belief that the success of every organisation centres ultimately on the effective performance of its workforce.

The increasing importance of globalisation for organisations in today's economy has sharpened competitiveness. This is particularly true for small - medium enterprises (SMEs). For small firms to meet the challenges of globalisation, they need to take advantage of new resources and markets while dealing with intense and global competition.

Innovation is a necessity in a knowledge-based economy in order to retain competitive advantage. It is not science and technology or research or ingenuity or enterprise that innovations are dependent on. Although these factors are important, innovation is more than that. Innovation also depends on economic, marketing, social, organisational and other knowledge innovation activities that require creative and intellectual skills.

There are several ways that we can stimulate more innovation. Firstly it is important to share and exploit knowledge. This can be achieved by closer collaboration between universities and businesses, making use of such schemes as the Teaching Company Scheme; College Business Partnership; Shell Technology Enterprise Programme; Faraday Partnership and Higher Education Reach Out to Business and the Community Fund. Secondly, encourage foresight for smaller businesses. Encouragement should be given to managers to engage in networking to exploit 'know-who' both at home and internationally. Finally, assist businesses to think strategically and creatively. Businesses need to be encouraged to foster innovative ideas among their employees. Training can be given to help employees to be technology-foresight focused and innovation oriented. Many universities have now embarked on teaching postgraduate students how to be research oriented, innovative and entrepreneurial. It is important that employees of SMEs to given training to help them to identify problems, generate new ideas to meet the needs of consumers in order to stay competitive.

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Public Private Partnerships: Identifying Practical Issues for an Accounting Research Agenda

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Abstract

This article provides a structured framework for research into the accounting implications of Public Private Partnerships (PPPs). PPPs worldwide have taken on increasing significance as a tool that governments can use to develop infrastructure and for the delivery of services. Given the minimal coverage in the literature of the Victorian State Government experience to date regarding the efficacy of PPPs, this report establishes a number of parameters from which academics can conduct research into this strategy and, moreover, make policy recommendations based on those findings. Accounting principles are used to identify whether a PPP will lead to value for money. Consequently, a model is developed to define potential areas of investigation, from which a series of research questions are posed. This is important because, public sector managers need to be aware of the failures and the success stories of particular PPP projects so that lessons can be learned from these experiences. This would inform government officials of any necessary reforms that need to be undertaken for future PPPs.

Introduction

Private Public Partnerships (PPPs/PFI)[1] fall under the ambit of the privatisation of government infrastructure and related services. There is no one authoritative definition of PPPs. For example, the Department of Treasury and Finance (Victoria) defines PPPs as:

> *'.... a contract for a private party to deliver public infrastructure-based services' (DTF 2001, p.3).*

Whereas Broadbent and Laughlin (2003, p.334) refer to PPPs as:

> *'...an approach to delivering public services that involves the private sector, but one that provides for a more direct control relationship between the public and private sector than would be achieved by a simple market-based and arms-length purchase.'*

Further, PPPs are unique in that they utilise private sector finance to design, construct, maintain and operate the infrastructure. They normally involve a capital component and an on-going service delivery component, which is paid for over the long term by a series of payments from the government similar to lease payments and/or in combination with a user-pays regime (Malone 2005).

1 For the purpose of this article the Australian term Public Private Partnerships (PPPs) is used synonymously with the UK's Private Finance Initiative (PFI).

The continuing blurring of what constitutes 'public services' and the constant debate regarding the 'profit' versus 'service' motives of the private and public sectors, respectively, is set to continue (Broadbent & Laughlin 2003). However, appropriately monitored and managed contracts under the auspices of PPPs may be able to clarify the issues.

It is argued in this paper that privatisation falls *outside* the scope of PPPs because privatisation refers to the case where the government of the day decides to sell off a major asset completely. Examples include the privatisation of telecommunications, airlines, banks and utilities. In these cases, governments believe they have no role in owning the asset and delivering a service but have nevertheless maintained some regulatory control over these important services. In Australia, in the ten years to 2000, approximately $72 billion of public assets were transferred to the private sector. This represents 12% of Australia's infrastructure assets (Earl & Regan 2003, p.528).

PPPs deal with a private sector entity, usually set up as a special purpose vehicle (SPV), designing, financing and building an infrastructure asset. The private sector partner may also provide ancillary services connected with the asset such as security and/or maintenance services (Malone 2005). In return, the government commits to pay the private firm a revenue stream for the duration of the contract.

The origin of PPPs is not clear. However, the UK Government made the first concerted push for the use of private sector financing of its infrastructure projects under the Private Finance Initiative (PFI), which was launched in the UK in 1992 (UK Treasury 1993; Lambert & Lapsley 2006). In Australia the Victorian State Government was viewed as the leading advocate for a partnership approach to the delivery of infrastructure services and other states replicated the principles contained in their policy document (DTF 2000).

The Bracks Labor Government in Victoria introduced its *Partnerships Victoria* policy in 2000 and has made a number of advances on the PFI. These include determining that a project proceeds based on a *public interest* test rather than because the government was committed *per se* towards the partnership method of financing. Whilst there is a wealth of research into PPPs, the Victorian experience deserves further investigation given that they have been the most enthusiastic supporters of this policy in Australia.

PPPs originally fell under the category of 'Build Own Operate' (BOO) or 'Build Own Operate and Transfer' (BOOT) schemes. Strictly speaking, a PPP would involve the design, construction, finance, operation and maintenance of the infrastructure asset. These schemes allowed the private sector to build infrastructure under their ownership, operate the facility for a set period (usually several decades) and then transfer the asset back to the government at the end of the contract period. Some examples of PPP projects across Australia are illustrated in Table 1.

Table 1: Projects Contracted Under PPP Government Policy

Jurisdiction/PPP project

Commonwealth Government of Australia	
Defence Headquarters Joint Operation Command Facility	Single Living & Environment Accommodation Precinct
NSW State Government	
Parramatta Transport Interchange	New Schools Project #1 and #2
Newcastle Community Health Centre	Cross City Tunnel
Newcastle Maternity Hospital	Western Sydney Orbital
Long Bay Prison & Forensic Hospitals	Alternative Waste Technology Facility
Chatswood Transport Interchange	Lane Cove Tunnel
Railcorp Rolling Stock	
Northern Territory Government	Darwin City Waterfront & Convention Centre Project
Queensland State Government	Southbank Education & Training Precinct
North South Bypass Tunnel	Townsville Ocean Terminal
South Australia State Government	Regional Police Stations & Courts Administration
Authority facilities	
Tasmania State Government	Risdon Prison Redevelopment
Victorian State Government	County Court
Film & TV Studios	Campespe Water Reclamation Scheme
Correctional Facilities	Emergency Alerting System Project
Royal Women's Hospital Redevelopment	Melbourne Convention Centre
Wodonga Wastewater Treatment Upgrade Project	Casey Community Hospital
Southern Cross Station	Mobile Data Network
Mobile Metropolitan Radio	Eastlink
Royal Melbourne Showgrounds Redevelopment	Central Highlands Water – Ballarat North Water Reclamation
Western Australia State Government	CBD Courts Complex

Source: http://www.pppforum.gov.au/national_pipeline/projects_contracted

Grimsey and Lewis (2005) argue that with PPPs the government is not contracting with the private sector to secure an asset. Rather the government agency contracts to buy infrastructure (and related ancillary) *services* over the long term (Torres & Pina 2001). This is an important point because it has implications for whether assets and liabilities under the PPP model ought to be accounted for in the balance sheet of the government or the private company. The notion of the party best able to manage risks associated with the design and construction of an infrastructure asset is also integral to how PPPs operate.

PPPs are used worldwide and their use is increasing. Watson (2003) identified two main reasons for their increased use. The first is for government to reduce debt, and the second is to attain value for money (VFM) from these large projects. Lilley and De Giorgio (2004) identify VFM and the timely delivery of new infrastructure as the main reasons for their increased use.

There are a number of potential advantages in adopting the PPP policy for the provision of government services. Value for money appears to be the main rationale for the use of PPPs. This would entail providing the infrastructure asset and any ancillary services at least cost compared to conventional government procurement. This is based on the assumption that quality standards are maintained as per the contract specifications. Risk transfer is another potential benefit. In essence, the party best able to manage risk at least cost should manage it. Some of the major categories of risk include design and construction, financial, operating, legislative and government policy risk. PPPs allow for greater predictability of costs for the government and revenues for the private company since both of these are articulated in the contract. However, it can also be reasoned that, by locking itself into such a long-term agreement, the government faces the risk of not being able to re-negotiate the contract if and when circumstances and needs change over time. Finally, PPPs may be politically attractive to government because it does not actually sell infrastructure assets to the private sector, which may be a more sensitive issue to an apprehensive electorate.

Disadvantages of PPPs include that they can be quite complicated and complex arrangements and the associated process of preparing the contractual documentation and bidding process may lead to judging whether value for money has been achieved problematic. In addition, raising public sector finance is cheaper given that governments have the capacity to levy taxes to repay borrowings. If a private partner develops cash-flow problems and eventually is unable to fulfil its contractual obligations, this may have serious consequences for users of that particular service as well as for government generally. This situation occurred with the failure of the Latrobe Regional Hospital in Victoria. Rather than renegotiating this PPP contract, the State Government of Victoria decided to step in and take over the operations of the hospital due to the financial problems experienced by the private operator (English 2004).

There is a real need to evaluate PPP projects comprehensively to ensure that the expected benefits from adopting this policy are realised. This deficiency was highlighted by an OECD report that concluded that there was a lack of systematic evaluations of the results from PPPs and it was inconclusive to judge whether the potential savings generated from adopted PPPs were maintained in the long run (OECD 2002). Thus, how governments cost and account for PPPs is central for determining the effectiveness of this policy.

In other words, a government adopting PPPs is still accountable for the delivery of services to the public and therefore, is required to demonstrate that the objectives of the project are met. These outcomes could be expressed as a project delivered on time and within budget. If this is not achieved, then a thorough investigation may be warranted to determine what factors led to a less than satisfactory outcome. Unfortunately, there appears to be resistance to ‘show the books’ to interested parties because of commercial-in-confidence constraints and because access to vital information must come from both partners; the government and the private sector entity (Spackman 2002).

As part of this need to hold governments accountable, and to bring together evidence of successful and unsuccessful PPP projects, a collection of studies focusing on some of the critical areas of PPPs is warranted. Value for money is a driver for the expanded use of PPPs, and thus this aspect needs to be part of a robust research program. Accounting standards and principles adopted by government are important as they establish the parameters that guide the likely savings from adopting PPPs. These principles are also essential to the control and management of PPPs and therefore, a critical appraisal of them is warranted.

The Need for a Structured Framework

Given the many facets of PPPs that can be investigated, it is important to develop a frame of reference so that both specific and general issues regarding the efficacy of PPPs are explored. A plethora of research opportunities should be possible because, ideally, both the government agency and the private company that has won the tender ought to be key sources for data collection. Moreover, the quantum of PPP projects undertaken worldwide has increased providing researchers with a varied selection of examples that can be investigated in more detail. The challenge for researchers however, is in defining and articulating *critical* concepts in the PPP agenda. A framework identifying problems at the decision stage of whether to proceed with a PPP project, how the PPP project was managed and the mechanisms for ensuring the government and private sector party fulfil notions of accountability would be a sound approach to take. These three areas capture the core issues that need to be addressed in any PPP project, however other approaches are readily available.

For example, Lambert and Lapsley (2006) use a four-paradigm framework to analyse how published research articles on PPPs (from 1986 to 2005) and public sector budgeting have been categorised. However, the authors here tend to support a more critical approach to accounting research to develop an argument for or against a public policy stance rather than take PPP as a given. The work of Hood (1991,1995) in highlighting the commercialisation of government via 'New Public Management' (NPM) approach offers another relevant framework. The focus of this research is to offer explanations for the rise of NPM practices in OECD countries rather than investigating a particular government policy in action.

PPPs used as a mechanism to acquire infrastructure offer unique opportunities for researchers to explore various levels of the PPP arrangement. In fact, one of the dangers of investigating PPPs is that, because the investigation covers so many different aspects of organisational and political behaviour, that focusing on one selected problem can become problematical.

Research on PPPs offer opportunities for discipline-based research in accounting, economics, management, political science and law. It is beyond the scope of this article to highlight in depth the range of research possibilities across these disciplines. For example, however, a typical PPP would use a legal team to develop the contractual obligations of the government agency and the private sector consortium. In addition, there are taxations implications regarding PPPs that are yet to be resolved. An important issue is that the Commonwealth denies taxation deductions to the private company on the basis that it does not have *control* of the asset (Grimsey & Lewis 2002, Lehman & Tregoning 2004). Thus, this is a starting point for a range of legal issues that could be investigated.

Economic analyses of whether savings are likely to be made from adopting PPPs would necessarily involve undertaking statistical analysis across various countries. Management scholars may be interested in the inter play between the government and the private sector managers and analyse if and how this relationship differs from other contractual relationships the government has entered into with the private sector. Political scientists may analyse PPPs critically to discuss the origins of this tool and what has led to its increased use worldwide. Finally, accounting is also offered a rich source of research possibilities, including changes to internal and external reporting requirements and regulatory regimes.

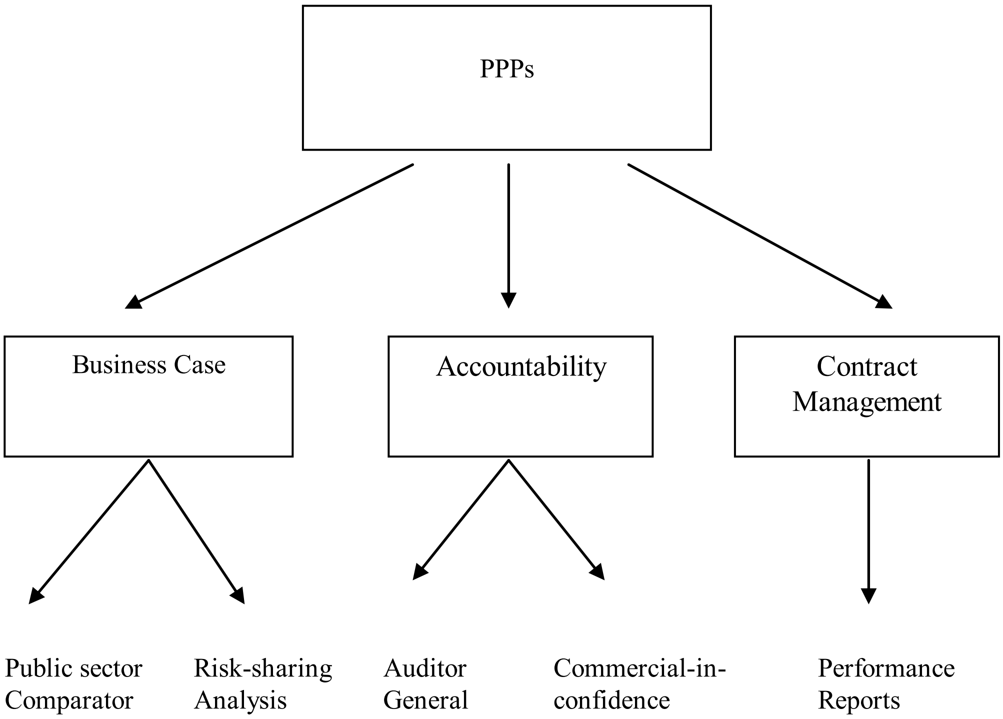
While this article will focus on accounting issues, it should be understood that a complete analysis requires a multidisciplinary approach. Moreover, what emerges from the literature is that the research must be *contextual* and focus on the particulars of a given government policy. In this paper, that focus will be on the accounting implications of PPPs (not on, for example, PFIs). This is the rationale for alluding to a possible research framework on PPPs as illustrated in figure 1.

Accounting Related Research

A starting point for identifying research possibilities in the accounting discipline is suggested in figure one. This framework provides a more practical orientation to research questions than does the questions identified by Broadbent and Laughlin (2004). The framework presented centres on two themes in the context of PPPs, that is, decision making and evaluation. Although decision making is made throughout the life of the PPP project, an analysis of the costs and benefits of a PPP project is undertaken initially and compared with traditional government procurement. Hence, the *business case* is the key driver to be investigated. Responsibilities and the reporting of outcomes fall under the ambit of *accountability* and the conversion of the contract into delivery of the outputs is governed under the *contract management* principles employed. A more detailed discussion of these three concepts is provided in the next section.

The first area that could be investigated is the business case. The purpose of the business case is to ensure that the project corresponds with government policy objectives and that the financial impact to government is such that the benefits outweigh the costs.

Figure 1: A Possible Research Model:



The Business Case

Two critical areas under the business case phase are discussed. They are the public sector comparator (PSC) and risk sharing.

Public Sector Comparator

The PSC is a hypothetical model of what it would cost to deliver the infrastructure asset and services under the traditional government procurement method (Grimsey & Lewis 2005). To evaluate any value for money benefits accruing from using the PPP mechanism, this is then compared with bids from the private sector. The PSC must include all the direct and indirect costs associated with constructing the infrastructure asset and delivering any related ancillary services. To deliver these estimates, it is expected that there would be considerable reliance on the reliability of the department or agency's accounting information system. Further, where costs are not available internally, external support may be required to provide estimated costings. The process of arriving at a raw PSC figure can be perplexing due to unavailability of 'hard' numbers and the process of providing estimates over the long-term (20-30 years). This course of action would necessarily involve a large resource commitment, given that the PSC figure arrived at would determine to a large extent whether the government will achieve VFM and hence, whether the project would proceed under the PPP policy framework. Problems of identifying and allocating indirect costs and differences in costing methodologies across government departments exacerbate this problem (Watson 2003).

Hence, a possible research question with respect to the PSC is:

> *'What problems are encountered in developing the raw public sector comparator and how were they resolved?'*

Risk Sharing

With PPPs the government allocates risks such as design, construction, ownership and operation of the infrastructure asset to the private sector. The notion of risks is significant on two fronts. First, at its inception, PPP policy was developed because it could be used to transfer particular risks to the private sector. However, the question of risks is also intrinsically linked to if and how PPPs are reported in the financial statements of the government and/or the private sector entity (Heald 2003). The latter is discussed under the heading accounting and accountability.

Risk transfer lies at the core of PPP policy (Hodge 2004). The nature and measurement of risks are important because they will ultimately be used in the calculation of the PSC (Broadbent Gill & Laughlin 2003). It is presumed that those entities that are better able to manage particular risks (at lower cost) ought to be responsible for them (DTF 2001, p.55). Under traditional procurement methods, governments had to contend with the risk of significant cost over-runs for large infrastructure projects. This risk is now mitigated under PPPs as the private sector partner assumes this risk. The government also assumes a risk in that the financial stability of the private partner may falter, and the government would be expected to continue to provide the services to the public. This occurred in Victoria when the private railway franchisees threatened to walk away because their profit expectations were not being met (Davidson 2006, p.11). In fact in 2002, the UK company National Express walked away from its contractual obligations in delivering transport services in Melbourne and other franchisees were experiencing financial problems. A new partnership agreement between the government, Connex (trains) and Yarra Trams was established to replace the former franchise agreements and therefore offered more stability to the public transport system (Stanley & Hensher 2004).

Potentially additional risks in a project are not so easily identified such as native title or archaeological and cultural heritage discoveries, some are shared between the government and the private partner, such as the market risk of competition where new suppliers of a contracted service are competing for customers. Other risks can arise from unforseen events through the life of the project such as *force majeure*. The work of Edwards and Shaoul (2003, p.414) suggests that the concept of risk transfer is problematic and that the risks may also be borne by others not party to the contract. It is therefore imperative that the questions of risk and risk transfers feature as part of the development of the business case. For this reason, the following research question is proposed:

'How were the risks associated with this PPP project identified and quantified?'

Although detailed guidelines regarding the adoption of PPPs and the notion of risks have been produced, there are still areas of uncertainty and assumptions made that require further investigation (DTF 2001, 2003). For example, there is no one acceptable method for valuing certain risk-transfers, indirect costs of the government agency and competitive neutrality adjustments.

Accounting and accountability

In the case of PPPs accounting practice has been ahead of the law. The accounting standard setters were simply not ready for the rapid uptake of PPPs by governments resulting in questionable accounting reporting techniques. Australian Accounting Standard (AAS) 17 deals with leasing arrangements and has been utilised to account for PPPs. However, it was never the intention of this standard to deal specifically with PPPs, hence it is less than adequate because a PPP can be structured so that the disclosure of the governments' requirement to make periodic payments to the private sector consortium over the course of the contract remain off the governments' balance sheet (Maguire & Malinovitch 2004).

One of the most significant accounting issues in the context of PPPs, is 'off-balance' sheet financing, whereby the government does not record any increase in debt or asset levels for the required infrastructure (Walker 2003; Baker 2003). This is because the private consortium owns the asset and makes this available to the government over the long-term; being the contract period. Conversely which partner recognises the infrastructure asset and how that asset is to be valued is also an area of contention (Officer 2004). Although it may be argued that the balance-sheet treatment does not drive PPP projects, nevertheless, the government is undertaking long-term projects which will expose the current and future generations of taxpayers to risks that need to be appropriately recorded and reported (Maguire & Malinovitch 2004).

Governments in general have been keen to minimise debt levels and operate budget surpluses, both of which develop a sense that the government is a prudent economic manager. A possible research question under this category is:

> *'What are the external accounting reporting implications of PPPs for both the government and the private sector?'*

A second source of concern is the notion of accountability. On the one hand, PPPs can be structured so that the private consortium simply produces an infrastructure asset and then passes it on to government. On the other, governments are increasingly making use of the private sector for not only producing the asset but also for providing ancillary services, maintenance of the asset and direct service delivery to users. In the past governments would use the terms 'core' and 'non-core'services, denoting that core services are always delivered by government employees, whereas non-core services can be provided by the private sector. However, this can be a case of moving goal posts, as the private sector continues to shift the location of traditional core and non-core services. This has implications for who is accountable for what. In a broad sense being held accountable suggests being able to justify one's actions. In the case of government it can be argued that they continue to be accountable for the delivery of services to the voting public. However, the private sector is governed by different regulatory mechanisms such as the Corporations Act (2001) and, if it is a listed company, by the Australian Stock Exchange Listing requirements and continuous disclosure provisions. In Victoria, the government's main reporting obligations are contained in the *Financial Management Act 1994.*

In general, the private sector would advocate less rather than more transparency in terms of disclosing cost-sensitive information relating to their PPP bid. The term 'commercial-in-confidence' is used to designate information that must not be made available to the public, as it would put the private sector party at a competitive disadvantage. Watson (2003) notes that the freedom of information acts do not override commercial-in-confidence agreements, and there is the perception that the PPP bidding process would not be as competitive because few private sector entities would become involved in a process where they would be obliged to 'open up their books'. It is typical that PPP contracts are not available to the general public. Only the contract process and the level of savings expected from facilitating a PPP project is generally announced (Newberry 2004). What makes evaluating PPPs more complex is their long-term nature. It could take decades to assess whether the expected benefits from this arrangement have been realised. A possible research question therefore is:

> *How are notions such as public accountability and commercial–in-confidence applied in PPP projects?'*

State and Commonwealth auditors general will continue to have a role in scrutinising PPP contracts to report to Parliament whether, and to what extent, notions of efficiency, effectiveness and VFM have been achieved (English & Guthrie 2003). Watson (2004) goes further and argues that public accounts committees must also play a role to ensure that the PPP policy is being implemented as intended.

Contract management

Contextually, the management of contracts under a PPP arrangement is different from say, a government agency simply contracting out security services. This is because under PPPs there is just *one* contract for the construction of the facility *and* for the service agreement, which can include, for example, security, maintenance, cleaning and catering. This process is known as the 'bundling' of services. Thus, it is often the case that the private sector consortium establishes a Special Purpose Vehicle (SPV) to facilitate the design, financing, construction and maintenance of the asset (Grimsey & Lewis 2004).

The crucial area of contract management is entered into once the construction phase is completed. This operational phase of the PPP is critical because it involves the transformation from project inception to project delivery of outputs. Contract management requires appropriate management systems to be put in place as well as a mechanism for their audit. Both the government agency and the private sector entity have an interest in ensuring that the contract specifications are being adhered to. User dissatisfaction, unfavourable audit reports and a possible voter backlash are the possible costs that government could face in the event that the contract specifications are not met. Non-compliance of the contract could ultimately mean that penalties are imposed on the private operator, reduced periodic payments are made or the government refuses to pay the periodic payments completely.

This could have serious cash-flow implications for the private sector entity. The Latrobe Regional Hospital (LRH) in Victoria is an example of a failed BOO, where the underestimation of many costs by the private operator (Latrobe Regional Hospital Pty. Ltd.), and a failure to understand how hospitals in Victoria were funded, resulted in serious financial problems (English 2004). LRH Pty. Ltd. was finally de-registered as a company and the State Government has now assumed total control over the LRH.

One component of contract management is the development of performance reports. The reporting and monitoring system required ought to be set out in the contract. However, the execution of performance needs to be scrutinised to ensure that the objectives of these reporting systems are being met.

A possible research question for this aspect is:

> *'How effective were the reporting and performance monitoring systems used during the operational phase of this PPP project?'*

This question deals with the extent to which the reporting systems met their objectives. This is essential because it confirms whether or not the private sector partner is performing according to the pre-set criteria.

Research Method

Given the possible research questions posed in the previous section, the next step would be to decide what would be the most appropriate research method to conduct an investigation into PPPs. Research questions are what drive the research method to be used (Yin 2003). It can be argued that the research questions developed in the previous section lend themselves to the case study approach. Case studies normally make use of documentation (both internal and externally available), observations in the 'setting' and interviews of which they can be structured or unstructured.

Whilst the limitations of case-based research have received much attention in the literature, the contributions that case-based research has made to accounting thought have at times been treated with contempt (Willmott 1983). It is argued by this researcher that the apparent distaste for certain research methods lies not in the inherent limitations that a research method possesses (and *all* methods have limitations), but that confusion exists amongst researchers because of the failure to understand the *objective* of a particular research method. Suffice to state here that survey-based research is aimed at making generalisations across the sample population, whereas the objective of case-study research is to develop or modify a theory and/or provide the researcher with a basis for developing new or improved research questions.

There are persuasive reasons for conducting case-based research in the context of PPPs. One of the main reasons for the conflicting evidence regarding the overall benefits or costs of PPPs is that generalisability of the empirical results is difficult to obtain because the outcomes generated from entering into PPP contracts are specific to time, function, location and how they were managed. To complicate results further, because decisions regarding the selection of bidders involve, at times, quite a substantial degree of *professional judgement* (such as applying various weightings to qualitative and quantitative criteria*)* then the *management* of PPPs would influence whether the strategy was successful, rather than making claims that PPPs itself causes failure or successes. The sort of relationship that has developed between the government and the private sector entity would also have a bearing on whether strict performance of a contract would be applied, or whether there would be some flexibility provided by either party for mitigating circumstances.

Edwards and Shaoul (2003) for example investigated two unsuccessful UK PPP projects which generated so much controversy that the matters were raised by The National Audit Office (NAO) and the Public Accounts Committee. The projects were the Information Technology systems to handle passport verification and the collection and recording of National Insurance contributions which determine welfare payments. The documentation analysed consisted of NAO reports, Public Accounts Committee investigations, press reports and internal documents. Jamali (2004) undertook an in-depth investigation of a PPP telecommunications project in Lebanon. Again multiple sources of data such as documentation, archival records and interviews with key informants were analysed. The lesson learned in this case was that PPPs require a sound legal and regulatory framework and complete transparency with respect to financial accountability. English (2004) used the case study approach to investigate the failure of the Latrobe Regional Hospital PPP project in Victoria. Reasons given for the failure included that the private operator underestimated staffing requirements, underestimated costs and not understanding the way in which public hospitals in Victoria were funded for acute health services.

Multiple case studies of PPP projects would also be advantageous because they are analogous to multiple experiments where a replication logic is followed rather than a sampling logic. That is, multiple case studies are used for *comparative* as well as *replication* purposes. Comparisons can be made across the individual cases as a whole or when comparing individual units of analysis. This type of analysis provides an insight as to why certain procedures or observations were reported in one, a few or all the cases under investigation. Comparisons are also made to judge whether certain PPP projects were shown to be successful while others were unsuccessful, which will eventually lead to policy recommendations being made.

Conclusion

This report has demonstrated a possible route that researchers may take to advance their knowledge on another public sector management tool known as PPPs. There is currently a dearth of empirical research studies investigating the efficacy of PPPs in the Australian and particularly Victorian context. This may in some part be associated with a lack of desire by government agencies to 'open their books' to academic researchers for fear of any negative findings and consequences. Alternatively, the private sector may also be reluctant to expose any weaknesses in their systems as this also could jeopardise future contracts with governments. This will remain a challenge for academics, however, it is possible that future PPP contracts may include clauses that allow bona fide researchers access to data on a confidential basis.

Governments have signalled their intention to investigate the possibility of using PPP policy for infrastructure assets that are particularly politically sensitive such as schools. The Treasuer of Victoria Mr. John Brumby stated that:

> *There is a place for PPPs in schools; we haven't used them to date because traditional procurement has done the job very successfully. We will be using traditional procurement in this budget but that is not to say at some stage in the future we may not use PPPs (Dowling 2006, p. 6).*

Again, this highlights that the scope of future PPPs may widen in the future and provide further interesting case study possibilities.

Researchers may need to draw attention to government managers of the benefits of this type of research. For example, the research questions are not esoteric and yet they offer a balance between theoretical validity and practical usefulness. Knowledge regarding these research questions could inform government managers of the need to make policy adjustments to the PPP model or that on a more practical level, technical adjustments may be warranted to ensure that the concepts of value-for-money and public interest objectives are met.

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Acknowledgments

The author gratefully acknowledges the financial support provided by Victoria University through its Outside Studies program and the helpful assistance from officials of the Department of Treasury and Finance (Vic) who helped facilitate initial contacts within various departments. Special thanks also to the two anonymous reviewers who made several excellent suggestions on an earlier draft.

Family Support as a Factor in Cultural Adjustment

Pei-Chen (Chiu-Yi/Joy) Lee

Abstract

Following the growing worldwide competition and internationalisation of globe markets, international expatriates' assignments are become more and more essential to successful worldwide development for many multinational corporations. Therefore, expatriates can become an important human resource to international enterprises or multinational operations. Especially, investigating the influential factors as family support of expatriate adjustment is significant for several reasons. Firstly, failure of expatriate adjustment may cause premature return from overseas assignments, which may be very costly financially for international enterprises. Secondly, failure to accomplish the plan of the assignment is as harmful to the expatriate as it is to the parent and host companies. Inability of an expatriate to complete the assignment is likely to damage his or her self-esteem, and self-confidence, and cause a loss of prestige among co-workers. Thirdly, an unsuccessful period of expatriation is likely to decrease both the subsequent commitment to the parent company.

Therefore, to facilitate business expatriates adjustment to an overseas environment and to enable them to work effectively, Multinational Corporations (MNCs) need to recognise the expatriates' family support factor to affect cross-cultural adjustment. The main purpose of this study involves utilising previous researcher Lee's (2002) questionnaire to investigate the relationship between the family support and cross-cultural adjustment of Taiwanese Banks' expatriates assigned to America, and this study employed same questionnaire to examine the relationship between the family and cross-cultural adjustment of Taiwanese expatriates in several different industries assigned to Mainland China. Also, the empirical outcomes were compared between Taiwanese expatriates located in Mainland China and United States. In examining the significant degree of Taiwanese expatriates assigned to Mainland China, the instrument was a questionnaire survey conducted to this study. The variables of interest were measured using items Likert-type questions, and those items are divided into seven categories. Data collected from 353 participants who have experience of a posting to Mainland China for international assignments. Multiple regression and correlation were employed to analyse data.

The statistical results of this study were compared Lee's (2002) research that associated with Taiwanese banking expatriates in United States. Both studies indicated that the expatriates' family support factor to affect cross-cultural adjustment without doubt. This article concludes with suggestions for both international enterprises or MNCs and individual expatriate who operate overseas journey in their normal path of business.

Introduction

As enterprises develop globally, there is a growing challenge to utilise expatriates on international assignments to complete strategically significant tasks (Brewster 1998; Downes and Thomas 1999; Gregersen and Black 1996). Multinational corporations (MNCs) utilise expatriates, not only for reasons of corporate organisation and expertise in critical global markets, but also to smooth the process of entry into new markets or to extend international management abilities (Bird and Dunbar 1991; Boyacigiller 1991; Forster 2000; Rosenzweig 1994; Shaffer, Harrison and Gilley 1999). Particularly, previous researchers (Black and Stephens 1989; Harvey 1985) pointed out that the family situation is an important element of expatriate turnover. Expatriate assignments frequently involve either uprooting families for a move to a new country or making expatriates live away from their families, both of which are stressful to the expatriates and their families. There is a need to look beyond individual influences and to consider job, environment, and family-related factors that would affect expatriate success. Family considerations are frequently mentioned. The presence of family-related problems always elicits more resistance to leaving, but once in the host country it also has a significant effect the desire to return early. Family support practices are often critical during expatriation in order to facilitate the achievement of the objectives of an assignment, so, family support definitely is a significant factor related to adjustment (Caligiuri 1997; Caligiuri et al. 1998; Harvey 1985; Shaffer, Harrison, Gilley, and Luk 2001; Tung 1987).

Therefore, investigating the influential factors as family support of expatriate adjustment is significant for several reasons. First, failure of expatriate adjustment may cause premature return from overseas assignments, which may be very costly financially for international enterprises. In addition, non-financial costs of failure, which include damage to the reputation of enterprises, lost business opportunities and lost market or competitive share (Black and Gregersen 1991; Coperland and Griggas 1985; Naumann 1992). Second, failure to accomplish the plan of the assignment is as harmful to the expatriate as it is to the parent and host companies. Inability of an expatriate to complete the assignment is likely to damage his or her self-esteem, and self-confidence, and cause a loss of prestige among co-workers (Mendenhall and Oddou 1985; Tung 1987). Third, an unsuccessful period of expatriation is likely to decrease both the subsequent commitment to the parent company (Naumann 1993) and job performance upon repatriation (Adler 1981). Fourth, an expatriate failure will have an adverse impact on the decision of qualified expatriates to accept overseas posts (Stroh 1995). Nowadays, despite these negative possibilities, those influential factors still exist, nevertheless, following the increasing investment; many more people volunteer to develop their careers in Mainland China for longer periods. The recent growth of international business has guided enterprises to examine more closely their policies for transferring employees from one country to another (Aryee and Stone 1996; Black, Gregersen and Mendenhall 1992). Without proper international human resource management, the advantages of overseas operations may not be fully realised. Yet in Taiwan, very few studies concerning expatriate problems have been conducted (Huang et al. 2000). Therefore, this article investigated the relationship between family support and cross-cultural adjustment based on four theories as following. These four theories which have directed this research on international expatriate adjustment are: Lysgaard's (1995) u-curve theory of adjustment and the cross-cultural cycle of Havelock (1963), Conner (1993), and Zakaria (2000); Mendenhall and Oddou's (1985) dimensions of cross-cultural acculturation; and Black, Mendenhall and Oddou's (1991) an integration of multiple theoretical perspectives.

Literature Review

In this article investigated the relationship between family support factor and cross-cultural adjustment, therefore, the literature review will included family support factor and cross-cultural adjustment in this section.

Family Support Factor

International enterprises that have a system of Human Resource practices of careful planning of an assignment's purpose, selection of the candidate to match the purpose, compensation to suit achievement of the objectives of the assignment, and training and development to enable the assignee to effectively carry out the assignment, are also likely to deal with the assignee's family system. This is because family support practices are often critical during expatriation in order to facilitate the achievement of an assignment's objectives. A survey conducted by Windham International and the

National Foreign Trade Council (1999), revealed that a large number of international assignments are turned down or interrupted because of spouse and family issues. It seems, nevertheless, that much of the research about the development of international expatriates almost makes them appear as isolated individuals without spouses, families, or friends. In fact, the procedure of posting expatriates to an international location often involves the family of the expatriate. In a longitudinal study of families on international assignments Caligiuri et al. (1998) declared that family characteristics, such as support, were significantly connected to the expatriate's adjustment to the work assignment. It is therefore this study proposed that the family support factor can potentially influence expatriate adjustment.

An increasing number of researchers is explaining the role of family variables in the adjustment of expatriates. Nevertheless, most expatriates still have obstacles of family responsibilities. Approximately 80 percent of international assignees are accompanied by a spouse, children or both (Black and Gregersen 1991; Guzzo, Noonan and Elron 1994; Stroh, Dennis and Cramer 1994). Therefore, it is essential to investigate and gain further understanding of the cross-cultural adjustment issue associated with the family or spouse. The family related factor perhaps will achieve success in international expatriations due to the fact that family support assists expatriates to enhance their ability to manage cultural dissimilarity and work challenges in their assignment. Besides, it may increase the expatriate's appreciation of the host country and its culture, and lessen the duration of the expatriate's adjustment to the overseas assignment.

Cross-cultural Adjustment

Generally, cross-cultural adjustment is defined as the process of adaptation to living and working in a foreign culture. It is the perceived degree of psychological comfort and familiarity a person has with the new host culture (Black, 1988; Mendenhall and oddou, 1987). Several researchers have highlighted factors affecting the process of adjustment. For example, Black, Mendenhall and Oddou (1991) identified anticipatory (before-leaving) and in-country (post-arrival) factors. In addition, they noted work, interactions and general adjustment as three levels of adjustment. Feldman and Tompson (1993) identified six sets of factors: demographic variables; the extent of 'internationalness' of the job change; job characteristics variables; amount of organisation support vis a vis assistance and career development; degree of difference between successive job assignments; and types of individual coping strategies. It is possible to classify factors affecting cross-cultural adjustment into two broad types; extrinsic (those relating to the organisation and environment) and intrinsic factors (those relating to the characteristics, psychological and physical, of the individual. Many studies have found that the crucial problem for the expatriate is that adaptation to the unfamiliar culture than with their professional expertise (eg. Aahad and Osman-Gani, 2000; Dowling et al., 1999; McEnery and DesHarnais, 1990; Osland, 1995). Successful adaptation and cultural adjustment not only directly influence expatriates performance but also lead to corporate success in the international stage.

Methodology

In order to investigate the family support of Taiwanese expatriates adjustment in Mainland China, the study was adopted quantitative research approach, where the quantitative research approach will then be employed to test the hypotheses.

The Research Sample

The target population of this study was 1,786 Taiwanese manufacturing firms located in Shanghai. Shanghai is the most developed city of east China and many Taiwanese investors set up their manufacturing company in here. This study used a stratified sampling procedure based on type of industry to select the sample. There are 20 different categories of industries such as food industry, plastics industry, cement industry, spinning and weaving, electric machinery, electric equipment and so on included in these 1,786 firms. Ten companies were selected from each industry by using a random numbers table. Therefore, there a total of 200 firms were selected from the address book that is issued by the Straits Exchange Foundation of Taiwan. Non-response was managed by replacement. In this study, the respondents targeted are one expatriate in the each firm.

Due to the employees in each firm can not be calculated definitely, therefore, the author selected six employees from each firm, total of 1200 questionnaires initially mailed to Taiwanese business expatriates in Shanghai and followed-up by e-mail. Total responses were 353, but there were 22 invalid questionnaires. As a result, total response 353 minus the invalid questionnaires 22; therefore, 331 returned surveys were usable. The percentage of valid questionnaires was 27.58 percent. Table 1 also showed the Standard Deviation of family support was 0.3534.

Statistics Analysis

All of statistical data analyses were performed using SPSS (Statistical Package for Social Science) for Windows. The analysis used Correlation Coefficient; Descriptive statistics methods were used to describe the sample and inferential statistics to draw conclusions about the theoretical model.

Correlation Coefficient

Correlation coefficients were computed between the family support and cross-cultural adjustment. The correlation coefficient was used to describe directions and strengths between the independent variable and the dependent variable.

Research Results

This section of the study, through regression analysis investigated the influence of family support on cross-cultural adjustment through the stepwise method.

Because stepwise regression was requested, SPSS first investigated a model with the correlated independent variable family support, as demonstrated in Table 2. It also revealed that the partial correlation for family support was 0.414, In effect, independent variable as family support was significant for explaining the cross-cultural adjustment model. The bi-variate correlation between family support and cross-cultural adjustment was positive. At the same time, the independent variable was statistically significant as revealed in Table 1 and Table 2 below: Family Support ($P= 0.000 < 0.05$). This appeared to verify that the practical predictor in this study for cross-cultural adjustment was family support. It accounted for 28.94 percent (0.538^2) of the variance of cross-cultural adjustment.

Table 1: Correlations

		Cross-cultural Adjustment	Family Support
Pearson Correlation	Cross-cultural Adjustment	1.000	0.538
	Family Support	0.538	1.000
Sig. (1-tailed)	Cross-cultural Adjustment	.	.000
	Family Support	.000	.
N	Family Support	331	331

Table 2: Coefficients of Proposed Model

	Un-standardised Coefficients		Standardised Coefficients			95% Confidence Interval for B	
Model	B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
Constant	-3.860	.506		-7.633	.000	-4.855	-2.865
Family Support	0.902	0.110	0.318	8.191	0.000	0.686	1.119

	Correlations		
Model	Zero-Order	Partial	Part
Family Support	0.538	0.414	0.292

Note: a Dependent Variable: CAA(Cross-cultural Adjustment)

Discussion and Comparison

The results of this study were also compared with Lee's (2002) research shown in Table 4. Results were quite not different between Taiwanese located in the United State and Mainland China. In this section, independent variable which was significant in the present study: family support was statistically significant, and the statistical result of Taiwanese expatriates assigned to Mainland China was compared with the Taiwanese expatriates located in the United States (Lee 2002) as shown in Table 3 below.

Table 3: The Significance of the Relationship of Independent Variable to Adjust In Mainland China and the United States

The Significance of the Relationship of Independent Variable to Adjust in Mainland China and the U.S.		
	Mainland China	**United States ⁎**
Family Support	Significant	Significant

Source: Lee, H.W. 2002, '*A study of Taiwanese banking expatriates in the United States*', published dissertation of University of Idaho

According to the statistical analysis in this study the adjustment of the expatriate's family support was positively correlated to the adjustment process of the expatriate. The findings definitely suggest that family support was a key element in the ability to adjust to the overseas assignment. This result is consistent with past research (Black and Gregersen 1991; Black and Stephens 1989; Fukuda and Chu 1994; Schneider and Asakawa 1995; Caligiuri et al. 1998) that found that family support was significantly related to the expatriate's ability to adjust overseas. The result also indicated that expatriate adjustment is not a unitary phenomenon. Clearly family issues, involving the spouse/partner or family members are one of the key problem are as faced by Taiwanese expatriates. To overcome the family support issue, this study suggests that Taiwanese headquarters may help their expatriates by encouraging expatriates' families to accompany them to Mainland China.

In contrast to this study, Lee's (2002) published research provided weak evidence (as $r=0.16$, $p > 0.05$) for the mediating role of family support on cross-cultural adjustment of Taiwanese expatriates in the United States. Consequently, family support plays an important role affecting cross-cultural adjustment for Taiwanese expatriates assigned to Mainland China. For Taiwanese expatriates placed in the United States the factor of family support was not a very strong issue determinant of cross-cultural adjustment.

Conclusion

Besides taking up the challenge of new job responsibilities, international expatriates are also normally required to adjust to different living conditions and various other obstacles. Expatriates' international assignments often involve either transferring families to the new country and a foreign environment or involve forcing the expatriate to live away from their families. Both cases put tension on expatriates and their family members. There is a need to look beyond individual influences and to consider the job, environment, and family-related factors that may affect expatriate success. Past research has found that support from family plays an important role in reducing work and non-work conflict. More specifically, spousal support has received a great deal of attention. For instance, higher levels of family emotional and instrumental support were associated with lower levels of family interference with work conflict. That means that spousal support and family support are direct negative predictors of family interference with work conflict. Therefore, family support has been demonstrated to significantly relate negatively to family interference with work conflict.

In anticipation of such a trend continuing, it is suggested that organisations might be encouraged to implement a career counseling program for the spouses of their expatriates. Alternatively, Taiwanese enterprises could consider paying double salary when spouses or partners sacrifice their own career, to encourage Taiwanese expatriates to succeed in their overseas assignment. Other benefit programs could be developed for Taiwanese expatriates assigned to Mainland China. Perhaps non-accompanied expatriates could be given a ticket for a trip to Mainland China once a year for the whole family.

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Internet Financial Reporting: Disclosure About Companies on Websites

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Abstract

The Internet has emerged as a medium of communication of financial reporting information by companies since the mid to late nineties. There are various aspects of Internet based financial reporting that are different from the traditional hard copy presentation. These factors include the actual mode of presentation and, the process of access to the information, that is accessing a company's website rather then the hard copy version of the financial reports. Various bodies mentioned in this paper have made recommendations to improve financial reporting disclosure online. There is lack of uniformity regarding financial reporting disclosure between companies world wide. This is in relation to various aspects of financial reporting. The three aspects of financial reporting disclosure investigated in this paper include: Fundamental reporting elements, Corporate Social Responsibility reporting elements and Corporate Governance elements. Four samples of companies were selected for comparison regarding financial reporting disclosure. These include: diversified companies, hotels, companies listed on the London and the New York Stock exchanges. It was found that 31 percent of the sample companies did not have a website. The diversified companies had the highest percentage of financial reports on their websites, with the hotels having the least presence of financial reports on their websites. The companies listed on the London Stock exchange had more financial reports available on their websites as compared to the ones listed on the New York Stock Exchange. The item that was least disclosed was the Analysts' Coverage item. Twenty percent of the sample companies with financial reports did not have accompanying audit reports. This is a cause for concern because all companies are required to have audit reports with their annual financial reports under national and international regulatory requirements. Out of the financial statements, the least disclosed statement was the Shareholder's Equity statement. It was found that the disclosure was varied from none to adequate but not 100 percent complete in regards to the three types of financial reporting disclosure mentioned above. It was also found that most companies were not following the best practice guidelines as recommended by various national and international bodied therefore having a negative impact on the implementation of the fundamental qualitative characteristics of accounting information being reliability, understandiblity, completeness, timeliness and verifiability of information. It is important for companies world wide to adopt a uniform approach to financial reporting on the Internet in order to make decision making by users a more informed process.

Introduction

The Internet offers the potential for companies to reach a wider range of users due to the availability of financial reporting information on the websites without time limits, or boundaries. According to Cucuzza and Cherian (2001) E-Business tools are providing new ways to communicate vast quantities of information, in an environment where information flows continuously and without hindrance.

The issue that arises from using the Internet for presentation of financial reporting information, then, is the lack of uniformity between companies in regards to the nature and detail of information provided. A major contributory factor is the lack of a coherent framework for Internet based financial reporting, that all companies using the Internet can follow, regardless of country origin, national requirements or company preferences in the selection of information to be presented on a website.

According to Litan and Wilson (2000) the transition from hard copy to Internet usage for presentation of financial information requires major changes in the legal and regulatory framework in which economies function. Litan and Wilson (2000) have also proposed that utilising the Internet capabilities more efficiently should generate financial reporting that is forward looking, describing not only historical cost, but also providing a more accurate picture of the organisation's current and future prospects. This is a strong statement since Litan and Wilson (2000) are implying that the Internet would generate good quality financial reporting based on better technical usage of the Internet. The question that needs to be addressed is whether companies actually do provide good quality financial reporting on the Internet? Or at least provide the same scale and scope of information that is expected in traditional, hard copy versions.

Use of the Internet for Financial Reporting

A range of research has been conducted in the past in regards to the percentage of companies using the Internet for financial reporting purposes. Cook (1999) has provided a summary of the research conducted in this regards by various authors, summarised in Table 1.

Table 1 Cook's Summary of Surveys on Companies' Use of the Internet

Study	Companies Surveyed	Web Sites	Financial Reporting
CAROL survey (1999)	Top 1000 companies in Europe	67% +	80 % (of those with websites)
Debrecency and Grey (1998A)	45 companies from Dow Jones Global Index	98%	80% (annual reports)
Hussey et al. (1998)	FTSE-100 companies	91%	63% (of websites that were contactable)
Lymer (1997)	Top 50 companies in the U.K.	92%	60%
Grey and Debreceny (1997)	U.S. Fortune 50 companies	98%	68%
Tallberg and Lymer (1997)	All 72 listed Finnish companies	90%	69%
Wildstrom (1997)	Companies on Business week 50 list (U.S.)	94%	78%
Marston and Leow (1996)	FTSE 100 companies	63%	45%
Petravick & Gillett 1996	Fortune 150 companies	69%	53%

Source: Cook (1999)

There has been a trend of increase in the use of the Internet for financial reporting from the earliest period mentioned 1996 to 1999 from 45% to 80%.

A survey conducted by Lymer et al. in 1999, found that 86 percent of the corporations surveyed had a website. 268 out of the 410 companies had corporate information on their website and 62 percent of the corporations made some form of financial disclosure on their websites. In the 1998 survey, by Marston & Leow (1998), which involved the analysis of websites of the 100 FTSE companies, 63% of the sample companies had web sites or home pages on the Internet. Out of these 63, 45 (71 percent) disclosed financial information, and 34 (54 percent) disclosed detailed annual reports.

The aim in this study has been to conduct a similar study of corporations' websites, in order to determine the level of disclosure and transparency in relation to financial reporting.

The financial reporting elements investigated have been classified into three main categories after investigating a general category of whether the companies have websites or not, whether they have financial reports on their websites or not and whether they have an analysts' coverage section or not.

The three main categories are: fundamental reporting elements such as financial reports, corporate social responsibility reporting elements and corporate governance reporting elements.

In order to ensure a better and more informed disclosure, various national and internal bodies have made recommendations and provided guidelines for companies in relation to online financial reporting. These recommendations are provided as follows.

This is important in order to compare what is recommended versus what is actually presented on the websites.

Recommendations by Bodies for Optimal Financial Reporting on the Internet

Various bodies have made pronouncements and recommendations to make Internet financial reporting more reliable, of better quality and useful. These bodies include the International Accounting Standards Board (IASB), Webtrust, COB (France) and FASB (United States).

International Accounting Standards Board (IASB)

According to the guidance issued by the IASB, published in a report prepared by Lymer et al (1999) the financial reports provided online should have the same scale and scope as traditional hard copy versions, otherwise any information lacking or additional information should be disclosed as such.

The guidance requirements also include the following factors:

1. Boundaries should be clearly set out between audited financial statements and related financial information,
2. Users should be notified of significant changes to the website,
3. Internal link integrity should be assured at all times,
4. External link integrity should be assured to an optimal level,
5. All security provisions should be made to ensure integrity of the data,
6. Errors existing should be clearly identified,
7. Multiple GAAP reports should be presented on the company's website,
8. GAAPs and IAS based financial reports should be clearly identified,
9. Supplementary financial information should be made widely available for the benefit of the stakeholders,
10. If the main language of the stakeholders is different, the information should be presented in multiple languages for the wider use,
11. All price sensitive data should be available as soon as reporting restrictions have been complied with on the website,
12. Data provided by others should be clearly identified,
13. Contact points should be given for further information. (Lymer et al. 1999).

As demonstrated above the aim of the IASB report has been to provide more transparent, usable and secure financial information online. There is also an emphasis on provision of complete information that can be utilised by multiple users. Point 12 emphasises the importance of segregating and presenting third party information in such a way that users will be able to determine that this information is not from the primary source, that is the company. One of the reasons for this recommendation could be the liability and accountability aspect of information.

Web Trust

The Web Trust program undertaken by the AICPA and the Canadian Institute of Charted Accountants also incorporates security issues as the responsibility of the issuing organisation. There are six standards incorporated in the program including a standard dealing with security. The Security standard assures that the website of the organisation should maintain effective controls and practices to address security matters such as encryption of private and confidential customer information, protection of information once it reaches the site, protection against virus transmission, and customer approval before the site stores, alters or copies information on the customer's computer. A further standard on non-Repudiation assures that the site discloses its practices for non-repudiation, complies with such controls and appropriate records to provide reasonable assurance that the authentication and integrity of transactions and messages received electronically are provable to third parties in conformity with its disclosed non-repudiation practices. A third standard on Availability assures that the site discloses its availability practices, complies with such practices and maintains effective controls to provide reasonable assurance that its e-commerce systems and data are available as disclosed (WebTrust 2006).

Commission des- Operations de Bourse (COB)

The Commission des -Operations de Bourse (COB) is a public independent regulatory agency in France whose mission is to ensure the protection of investors whether their investments are in securities or other financial products involving public offerings. COB also emphasises the adequacy of the information given to investors and the proper operation of the markets in financial instruments. COB issued a press release regarding the use of the Internet for distribution of financial information by listed companies in May 1999.

Some of the recommendations are listed below:

1. The information provided by a company on its web site should be accurate, precise and sincere. Any links to additional sites should be easily identifiable. Disclaimers on the website of the company should be clearly identified with all contents of the website to which they hold.
2. If there are any errors on the website they should be quickly identified, a warning should be issued and the mistake should be rectified.
3. Documents listed on the website should be clarified as either complete, or as summaries or extracts. With summaries and extracts reference should be made as to where the whole document can be obtained.
4. The source of the information should be clearly identified and mentioned if it’s from a public source and if it has been audited or not and if there are comments made on the document they should be referenced. Outside information should not be included on the website without the author's permission. Financial research regarding the company should be carefully evaluated before being added to the website. It should be presented honestly and should not mislead the public. Extracts of the research should not be presented in such manner as to favour the company and the details of the author and the full research should be provided (Commision des-Operations de Bourse 1999).

FASB Institutional Framework

The United States standards setting body, Financial Accounting Standards Board (FASB) has provided a more precautionary approach to be taken by companies on their websites. According to Financial Accounting Standards Board (2000):

> *Companies should provide cautionary disclaimers accompanying everything presented on the web page including forward-looking statements and speeches, not provide links to analysts' websites, include full sets of statutory reports and notes, avoid duty to update disclosures by putting disclaimers against updated information and update security measures.*

Auditors are not required under the FASB Framework to read information contained in electronics sites, or to consider the consistency of other information in electronic sites with the original documents' (Gray & Debreceny 2001). In Australia, this added responsibility has been recommended to be taken as additional engagement by the auditor, if the auditor may choose to study the information presented by companies on their websites.

Methodology

There were four samples of companies that were investigated for the purpose of this study. These included twenty-six diversified companies, representing twenty-three countries, seventy-eight hotels, representing thirty countries, fifty-six companies listed on the New York Stock Exchange, representing forty three countries and seventeen companies listed on the London Stock Exchange, representing seventeen countries, generating a total of 177 companies. SPSS was used to create a data base of twenty four variables (defining financial reporting disclosure online) in relation to the sample companies. The data collection period was from January to March 2005 inclusive.

Kaye and Yuwono (2002) have asserted that the specific objective of the conglomerates or diversified companies is to increase long-term value for shareholders. Kaye and Yuwono (2002) have stressed that a major factor influencing this goal is to make reporting more transparent. Therefore it would be expected that diversified companies would have extensive financial reporting disclosure on their websites.

The diversified group of companies was therefore selected to represent the opposite of the Hotels and Motels, in that these companies emphasise the transparency of financial reporting. The diversified group represented twenty-three countries. The Hotels and Motels were assumed to use their websites for other purposes than financial reporting, such as the promotion of their products and services.

The third sample group was derived from non-U.S.companies listed on the NYSE, representing forty-three countries. Reasons that this group was selected included: The NYSE is the largest stock exchange in the world, it has the most extensive disclosure requirements, it requires use of U.S.GAAP or reconciliation to the U.S.GAAP and it has extensive corporate governance disclosure requirements. Therefore the assumption made was that companies listed on the NYSE would have extensive transparency and disclosure due to the regulatory requirements, regardless of the country of origin.

The fourth sample group includes non-British companies listed on the London Stock Exchange from seventeen countries. The reasons that this group was selected included: it is the second largest stock exchange in the world and the disclosure requirements are less rigorous then the NYSE. It would be an adequate group for comparison regarding differences in disclosure levels, in comparison to the NYSE.

The initial approach was to send a questionnaire to companies requesting information in relation to the financial reporting disclosure. The response rate was 40 percent. These were not direct responses to the questionnaire, rather statements suggesting that the answers to the questions addressed in the questionnaire were answered in the company's website and that the researcher should study the company's website for the information required. This lead to the investigation of the companies' websites as well as the Internet in order to attain information in relation to the variables mentioned in Table 2, 3, 4 and 5.

Table 2 Variables investigated in the Study: General

Variable number	Variable Title	Explanation
1	Website	Did the company have a primary website?
2	Secondary websites	If the company did not have a primary website, then were secondary websites available with financial data on the company, accessible via the search engine?
3	Annual Report	Did the company have annual reports/ interim reports/other documents with financial data accessible on the website?

4	Analyst Coverage	Did the company have a link to a list of analysts providing coverage on the company?

Table 3 Variables investigated in the study: Fundamental Reporting

8	Audit Rep	Did the company have an audit report online?
9	Income St.	Did the company have an Income statement?
10	Shareholder's equity st.	Did the company have a statement of changes in shareholder's equity?
11	Balance Sheet	Did the company have a Balance Sheet?
12	CFS	Did the company have a Cash Flow statement as part of its financial reporting online?
13	Notes	Did the company have notes accompanyinhg the statements on its website?

Table 4 Variables investigated in the study: Corporate Social Responsibility (CSR) Reporting Elements

16	CR REP1	This variable incorporated any information provided on employees, work conditions, value added statements.
17	CR REP2	This variable incorporated environmental policies disclosed online

Table 5 Variables investigated in the study: Corporate Governance Reporting Elements

20	DIR BIO	Did the company provide director biographies?
	CG Policies	Did the company display corporate governance policies in its annual report?
21	COMM	Did the company have any information on Corporate Governance committees on its website?
22	COMM CH.	Did the company provide any committee charters?
23	C of Conduct	Did the company provide a code of conduct?
24	ArtInc	Did the Company provide an Article of Incorporation?

Research Findings

The findings indicated that 31 percent of the companies formulating the sample did not have a website at all, of which 78 percent were hotels. 62 percent of the companies that did not have a primary website did have some information available on secondary websites such as "Yahoo Financials" and "Bloomberg".

In regards to annual reports, 86 percent of diversified companies, 46 percent of hotels, 79 percent of companies listed on the NSYE and 92 percent of the ones listed on the London stock exchange had financial reports present on their websites. These results were expected for the diversified companies and the hotels, since it was assumed that hotels would use their websites for other purposes than presentation of financial reports. Kaye and Yuwono's (2002) point of view that diversified companies' success has been on making reporting more transparent was also supported by the findings in this research.

The results for the NYSE and the London stock exchange listed companies were more surprising since it was assumed that companies listed on the NYSE would be more transparent (due to rigorous disclosure requirements) and would thus be more probable to include financial reports on their websites. On the contrary there were 13 percent less companies with financial reports on their websites listed on the NYSE, as compared to the ones listed on the London stock exchange.

The results regarding the remaining variables in relation to each sample are presented in Table 6.

Table 6 Percentage of companies with disclosure of variables

Variable	Total	Variable	Total
Analyst Coverage	6.5%	Audit Report	80%
Income St.	97%	Shareholder's Equity St.	75%
Balance Sheet	100%	CFS	90%
Notes	62%	CR REP1	72%
CR REP2	48%	DIR BIO	89%
CG Policies	34%	COMM	77%
COMM CH.	71%	C of Conduct	72%
	ArtInc	17%	

Table 6 provides a valuable insight into the nature of financial reporting on the Internet by companies. It supports the notion that the level of disclosure is varied in regards to different elements of financial reporting. This variance exists regardless of the requirements under regulatory frameworks.

Analyst Coverage

Analyst coverage is a recent addition to financial reporting. A survey conducted by Thomson Financial Publishing revealed that 76% of all investors say they are "most influenced" by an analyst report (http://www.investrend.com/iciresearcharticle.htm, accessed July 2004). There are some important issues in relation to analyst reports as part of the financial reporting online. One of the issues is the ability to distinguish between 'legitimate' research announcements and 'promotional clutter'. One-way of confirming that third party opinion, as part of the company's financial data is 'legitimate' is for the company to have a list of analysts that the user can rely on for additional information. On the other hand, conservatism would encourage the company not to have any third party links at all on its website. The extremely low percentage of companies with this information disclosed would suggest support for the conservatism approach, where companies would not even provide a list of analysts in order to minimise the risk of litigation.

Audit Reports

Twenty percent of the companies with annual reports did not have accompanying audit reports. Companies are not only required to provide audit reports with their annual reports, according to the IASB requirements, the IASB as well as the other regulatory frameworks have also emphasised for the companies to ensure that they segregate audited information from un-audited information on their websites. The companies also need to ensure that there is no implication that information is audited when it's not (Lymer et al. 1999). Such degree of clarification in the audit reports was not found with any of the sample companies.

Financial Statements

Out of the reports considered fundamental under the IASB requirements to be included in the annual reports and interim reports, the Shareholder's Equity Statement had the least presence as part of companies' websites. Notes to the statements were also missing for forty percent of the companies.

Corporate Social Responsibility (CSR) Reporting

According to the World Business Council for Sustainable Development (WBCSD) Corporate Social Responsibility is defined as 'The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life' (KPMG Global Sustainability Services 2005).

Choi & Meek (2005) have described 'Social Responsibility Disclosures' as measurement and communication of information about a company's influence on employees' welfare, the community, and the environment. Wilson & Lombardo (2001) as well as Choi & Meek (2005) have referred to CSR as incorporating the Triple Bottom Line Reporting, concentrating on Economic, Social and Environmental Reporting. Wilson & Lombardo (2001) have also mentioned that shareholders are demanding companies to include environmental reporting in the annual reports; Internet based financial reporting being partially responsible for this shift in demand. The reason presented is the increase in the amount of stakeholders being interested in corporate financial data, thus the wider scope of interested parties, including users placing a major emphasis on environmental reporting.

In regards to information provision on employees, work conditions, gender proportions, community programs and other type of information relating to the affect on employees' welfare and community, represented by the variable CR REP1, the disclosure was much higher than disclosure on environmental policies, represented by the Variable CR REP2.

KPMG (2005) found that 64 percent of Global 250 and 41 percent of National from the top 250 Fortune 500 companies issued Corporate Social Responsibility (CSR) reports in 2005.

The average for CR REP 1 and CR REP 2 corresponds with the results obtained by KPMG for the Global 250 companies.

Corporate Governance Reporting

In relation to the corporate governance items, the variables investigated are based on the work done by Radner (2002) incorporating "Best Practices in Online Corporate Governance Disclosure." Radner (2002) generated a checklist, which is based on the Sarbanes Oxley Act (SOX) of the U.S. The average disclosure level for the Corporate Governance items was found to be around 60 percent, with the least presence of Articles of Incorporation and Corporate Governance policies. Jubb, Smith and Haswell (2002 p 939) have defined Articles of Incorporation as "The rules that govern the rights and obligations of a company's members…a company's by-laws". The reason that companies may not include the Articles of Incorporation in their corporate governance disclosure is because this document is produced and filed in the initial stages of incorporation. None the less it has important information such as details on shareholder meetings, roles and responsibilities of the Board and details on the nature of shares issued and should be disclosed.

According to Radner (2002) web based disclosure of corporate governance policies is a NYSE listing requirement. It was found that some of the companies provided detailed information on the differences between the corporate disclosure requirements in their countries, the disclosure requirements of the stock exchange on which they were listed and the actual practice by the company. Majority of the companies ignored the disclosure of the corporate governance policies including the mandatory NYSE listing requirements of fulfilling three conditions applicable to listed companies.

According to section 303 A listed companies must have an audit committee; listed companies must provide disclosure regarding the differences between the national and NYSE listing requirements and a statement by the CEO that he or she is not aware of any violation by the company of NYSE corporate governance listing standards (http://www.nyse.com/pdfs/section303Afaqs.pdf, accessed November 2005). Most companies from the NYSE sample chose to ignore all or some of the three conditions specified.

Departure of Actual Disclosure from Recommendations and Guidelines

It was found that most companies have failed to abide by the recommendations and guidelines suggested by various bodies in relation to financial reporting disclosure on their websites. The IASB has recommended that companies should set clear boundaries between audited and unaudited information.

No such boundaries were clarified by a single company. Not a single company provided any notification of important changes to its website. Majority of the companies had disclaimers relieving the company of any responsibility of protecting the integrity of its website. A majority of the companies had vast differences between the financial statements' contents if presented in the local language and English. There was a lag of one to two years from the financial year end to the financial reports disclosed on the website for some companies.

The Web Trust's recommendation that companies provide assurance that all important information is up to date and available on their websites was not implemented by all the companies. In fact the disclaimers protected the companies from any litigation if information was to be incomplete or out dated.

The COB made similar recommendation of providing clear, precise and honest information on the websites. The major area of concern is the lack of complete information and clarification in relation to information as to whether it is audited or not.

Majority of the companies eagerly followed the recommendations made by the FASB of providing cautionary disclaimers and not providing links to analysts' websites.

The findings as well as literature review have demonstrated the point that financial reporting on the Internet is varied, in some circumstances considerably. These variations relate to scope, quality, completeness, as well as timeliness of financial reporting disclosure on the Internet. This can pose a problem as far as understandability and utilisation of information is concerned from the point of view of the user, for optimal decision-making.

Recommendations to Improve Online Financial Reporting

Based on the research and findings the following recommendations are proposed to improve financial reporting and disclosure on the Internet by companies:

- Base the financial reporting disclosure on the qualitative characteristics formulated by the IASB framework such as reliability, understandiblity, completeness, timeliness and verifiability of information. Ensure that online financial reports meet these characteristics,
- Release reports online at the same time as hard copy. The time frame should be based on individual country requirements,
- Provide audit reports in relation to all accounting information released on the website,
- Provide corporate governance disclosure based on internationally recognised guidelines,
- Provide a more user-friendly format for presentation of financial reports such as a Table of contents at the start of the report, with links to individual items. If interactive reports are used then a complete list of financial reports' items should be presented,
- Maintain the same content of reports in 'English version' of the reports as in the 'local' version. Provide the same depth and detail in the English version,
- All companies with online reporting disclosure should have brief surveys in relation to attaining views on the improvement of companies' websites from the users of the websites regarding content, quality and accessibility of information,
- The regulatory bodies and professional bodies as well as the large multinationals around the globe should work together on setting templates for companies to work with, therefore providing a uniform disclosure of financial reporting,
- Regulatory bodies should make the rule that companies with Internet presence should have the information verified by either an auditor from a well-known accounting body or at least a member of a professional body,
- Actual enforcement of mechanisms that are in place to improve quality of online financial reporting.

Conclusion

The article provided insight into the disclosure aspects of financial reporting on the Internet. The analysis can be considered from different aspects including the preparer's viewpoint, the user's viewpoint, the regulators' viewpoint as well as other parties' viewpoints such as analysts. The factors identified in relation to various aspects of online financial reporting can be used by these parties to implement changes and put the recommendations provided in practice to make the Internet a better medium of information presentation and disclosure. As mentioned at the beginning, the literature has pointed in the direction of the Internet offering capabilities and potential for better and more useful financial reporting. The catch though is that it's not up to the Internet as a medium but rather the preparers (the companies) to utilise the capabilities offered to make the financial reporting online an enriching, benefiting and informed decision making process for the user.

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Australian Women's and Men's Incomes by Age of Youngest Child

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Abstract

Responsibility for children impacts on women's and men's paid and unpaid work. Paid and unpaid work impact on each other. Aiming to 'allow men and women to care equally for their families' frames the issue as one of gender equality. While this is valid, sharing responsibility for children is also a matter of equity between parents and non-parents. The unpaid work of caring for children is an economic input, and the person who contributes this work is likely to suffer the consequences of reduced labour market earning. In Australia, there is some recognition of these matters, with government assistance to most families with the costs of raising children. As we develop a better understanding of how the work of caring for young children restricts parents' ability to earn labour market income we will be better placed to develop realistic resourcing models. This study presents a new way of looking at income data and highlights the need for further research into incomes following childbearing and the way that incomes vary between women and men, and with the age of the youngest child.

Keywords

Paid work, unpaid work, families, children, average weekly income.

Introduction

Responsibility for children impacts on women's and men's paid and unpaid work. Time use surveys reveal gendered impacts, with changes in women's paid and unpaid work much greater than those for men. Typically, women who become mothers, whether partnered or single, whether in paid work or not, undertake more than a full working week's worth of unpaid work, and their paid work drops dramatically. As children grow, mothers' paid work increases, and unpaid work decreases a little (Lyn Craig 2005, 2004, 2002; Craig and Bittman 2005; Pocock 2003).

Paid and unpaid work impact on each other (Alison Morehead, 2005). The HREOC Inquiry into balancing work and family responsibilities is just one sign of the widespread dissatisfaction with Australia's current social arrangements for people to raise children and earn a living. Introducing their *Striking the balance* discussion paper, the HREOC website (2005) states:

> *[W]e will not be successful unless we ensure men and women have the same opportunities to engage in paid work and unpaid caring work. While we have come a long way in opening up opportunities for women in paid work, we have not had the same success in allowing men and women to care equally for their families. It is this second half of the equality revolution that this project aims to accelerate.*

Aiming to 'allow men and women to care equally for their families' frames the issue as one of gender equality. While this is valid, sharing responsibility for children is also a matter of equity between parents and non-parents. Nancy Folbre (2005) argues that while the community as a whole benefits from children, the costs are borne disproportionately by the parents, or those who raise the children. Similarly, Bittman and Pixley (1997) argue that children should be seen as 'public goods' with the rest of the community free riders on the labour of parents, especially mothers. The key factors in this argument are that time spent on caring for young children is not available for labour market earning; and raising children is productive work that benefits the whole community.

The unpaid work of caring for children is an economic input, and the person who contributes this work is likely to suffer the consequences of reduced labour market earning. In Australia, there is some recognition of these matters, with government assistance to most families with the costs of raising children. However, these payments are seen as assistance with costs rather than recompense for lost earnings, with the possible exception of the maternity payment that was introduced following consideration of the introduction of paid maternity leave. Acknowledging both the economic value of caring for young children and opportunity costs to parents, Folbre (2005) argues that cash transfers to parents (which may be called welfare payments, family tax benefits, or tax credits) should be seen as payment for services rather than as welfare payments.

In order to achieve worthwhile change in our social arrangements, we must attend to both gender equity, and equity between parents and non-parents. In a humane society, we must make it possible for people who have responsibility for children to patch together an adequate income. If we aspire to gender equity, we must enable parents, regardless of gender, to care for their children and earn a living rather than having to specialise in one or the other.

We need to know more about the time required to care for babies and young children of different ages, and costs of providing that care in different circumstances. We need a better understanding of the failures of income support that allow so many Australian children to live in poverty. Keeping in mind that people's actions reflect both preferences and constraints, we need to know more about income patterns among parents of babies and children of different ages. Are there common transition points when people typically reduce or increase labour market earning? What are the gender patterns?

The patterns of paid and unpaid work among Australians are complex, with many factors influencing and impinging on the overall picture. A good understanding involves looking at the picture in many different ways. Previous research has looked at time use, employment and family type. This article reports on research that adds another dimension to the picture – Australian women's and men's incomes by age of youngest child and family type. It shows that couple-family men are the only parents of dependent children who have any likelihood of achieving incomes commensurate with economic independence. Couple-family mothers, single mothers and single fathers are relatively unlikely to have incomes over $700 per week. This relationship to gender and family type was found to be much stronger than the relationship with age of youngest child.

Literature Review

Following the birth of children, women typically reduce their labour market activity and increase their unpaid work. Men typically increase both paid and unpaid work a little, but the impact on their paid and unpaid work is much less than is the case for mothers (Craig, 2002). As children grow, both women's and men's unpaid work decreases. By the time children reach school age, men's average unpaid work has returned to pre-parenthood levels, but women's unpaid work remains high, and is more than twice that of men (Craig, 2005) . Responsibilities for paid and unpaid work interact to produce the patterns of people's lives (Campbell & Charlesworth, 2004). Pocock (2003) found that both single mothers' and couple mothers' employment increased with the age of their youngest child.

The gendered division of labour that continues in Australia is understandable, as people try to make their lives work. However it has serious implications for women's aspirations for economic independence and wellbeing, with flow-on impacts for children living in single-parent families.

Research in this area has included examination of time use survey data (Bittman & Pixley, 1997; Graig, 2004, 2002; Gilding, 2004; Ironmonger, 2001), modelling of loss of lifetime earnings (Breusch & Edith Gray, 2004; Gray & Chapman, 2001), modelling of costs of children (Australian Institute of Family Studies, 2000), examination of mothers' labour market activity (Cass, 2005; Walters, 2002), findings that divorcing women are likely to be worse off financially than their ex-partners (Bittman & Pixley, 1997; O'Connor, Orloff, & Shaver, 1999; Wolcott, & Helen Glezer, 1995), studies of attitudes and preferences in relation to work and family (Evans & Kelley, 2001; Hakim, 1996), and critical reflections on the concept of preferences (Morehead, 2005; Probert & Murphy, 2001), studies of household income across different household types (Household income and wealth, 2005), and international comparative modelling of mothers' ability to form an independent household (Shaver & Sharon Burke, 2003). Related research includes international studies of fertility rates (McDonald, 2001) and qualitative research into the experiences of mothers following childbearing (Brown, Lumley, Small & Astbury, 1994).

Social Policy Significance

For better or worse, the subsistence way of life of our ancestors is simply not available to most of us. At a personal level we may resist capitalism, its values and imperatives. However, the provisioning of everyday life rests on what could be seen as modified capitalism. The basic capitalist proposition is that people can provision their lives either by investing wealth or selling their labour. Australia's 20th century wage earners' welfare state modified capitalism in two important ways. The Harvester decision established the family wage – the idea that an employer was obliged to pay men, as family breadwinners, a family wage sufficient to support their dependants as well as themselves. The second important modification was the introduction over many years of various welfare state provisions, including welfare payments to those unable to earn a living in the labour market.

Australia no longer has a family wage, but vestiges of male breadwinner expectations continue to underpin the structure of government cash transfers (welfare payments). For families caring for dependent children, these benefits have been somewhat de-stigmatised and de-gendered. However, social arrangements tend to privilege the male-breadwinner family model. The gendered division of labour in Australian families could be seen as couples 'choosing' a particular division of labour, particularly mothers 'choosing' to 'be at home' with babies and young children. Within this framework, single motherhood is seen as deviant. However, public dissatisfaction with present arrangement indicates that choices are forced by constraints rather than being expressions of preferences. In addition, poverty among single mothers and their children indicates that there is something badly wrong with the allocation of resources.

Public policy developers, politicians and activists in Australia and overseas struggle with this area, usually referred to as work / family policy. Important questions include how much state support should go to families raising children; whether that support should be used to encourage particular practices, such as marriage, gender equity in caring for young children, one-to-one care for the early period of a baby's life, or encouragement for mothers to return to labour market earning; and whether single mothers should be treated differently from couple-family mothers.

As demonstrated by the recent struggle in Australia to establish a national paid maternity leave scheme, and its ambiguous outcome, these matters are complex and hotly contested (Grace, 2003). We need to have the philosophical and moral arguments about what is considered as real work worthy of a living wage, who should bear the costs of raising children, and whether it is reasonable for governments to assert a moral superiority for marriage. We need good quality qualitative and quantitative research into the impacts of children on parents' lives, their aspirations, what frustrates those aspirations, and what policy initiatives would assist them to be 'both the parents and the workers they want to be' (Probert, 2001).

Income research that focuses on household income treats couple-family mothers as gendered members of households. In contrast, this study, consistent with Peter McDonald's (2001) suggestion that mothers should be treated as individuals, attends to individual weekly income. This approach challenges the underlying male breadwinner assumption in Australian social policy.

In 2004, in order to find out more about Australian patterns of parental incomes as children grow, the author conducted a detailed study, based on 2001 census data, of the relationship between women's and men's incomes and the age of their youngest child. This article reports on selected findings of that study, which was supported by a Victoria University Discovery Grant.

Methodology

Sometimes, social research is characterised as either qualitative or quantitative, with 'quantitative' often used as shorthand for 'positivist'. This study of incomes following childbearing is quantitative, but not positivist. It does not seek to discover some natural laws or causal relationships between variables. Rather, within the typology of research that includes positivist, interpretivist and critical, this research is critical, because of its political intention to contribute to transformational social change that will improve people's lives, in this case mothers of young children.

Most studies of household income and labour market activity use survey data, which is generally considered more accurate than census data. However, studying individual income by age of youngest child requires both data on all sources of income, and a very large data set. The only suitable Australian data set is the Census of Population and Housing, the most recent available data being from the 2001 census. Although ABS publications on income use household income, the census collects information on individual weekly income.

When considering income as an indicator of wellbeing, it is important to consider income from all sources. Labour market income reflects individuals' ability to engage in paid employment, but total income from all sources including government transfers, income from investments and self employment is a better indicator of ability to meet the expenses of everyday life.

Published census data was not available in a form suitable for this research, and I purchased a customised data cube from the ABS. It is data for all persons in Australia with dependent children, not a sample file. The census form instructs people to include all sources of income and to report gross income.

Using Supertable, I extracted from the data a series of tables detailing individual weekly income for women and men by age of youngest child, from 0 years to 25 years. For this study, I did not include educational level or parental age, although these variables would clearly be relevant for inclusion in future research.

Average Weekly Income by Age of Youngest Child

I undertook this research with a view to understanding in more detail how caring for children of different ages impacts on parents' ability to gather together sufficient income to sustain a decent life.

As shown in Tables 1 and 2, responsibility for children has impacts on women's and men's incomes. In general, having children results in an increase in men's incomes and a lowering of women's incomes (see Table 1).

Table 1: Average weekly incomes of Australian women and men with and without dependent children

	Females	Males	F:M Ratio
All persons (aged15+)	$370.88 (n=3,914,499)	$615.73 (n= 3,700,898)	60%
Without dependent children	$407.64 (n=596,184)	$558.89 (n=695,033)	73%
With dependent children	$364.60 (n=3,318,315)	$629.04 (n=3,005,865)	58%

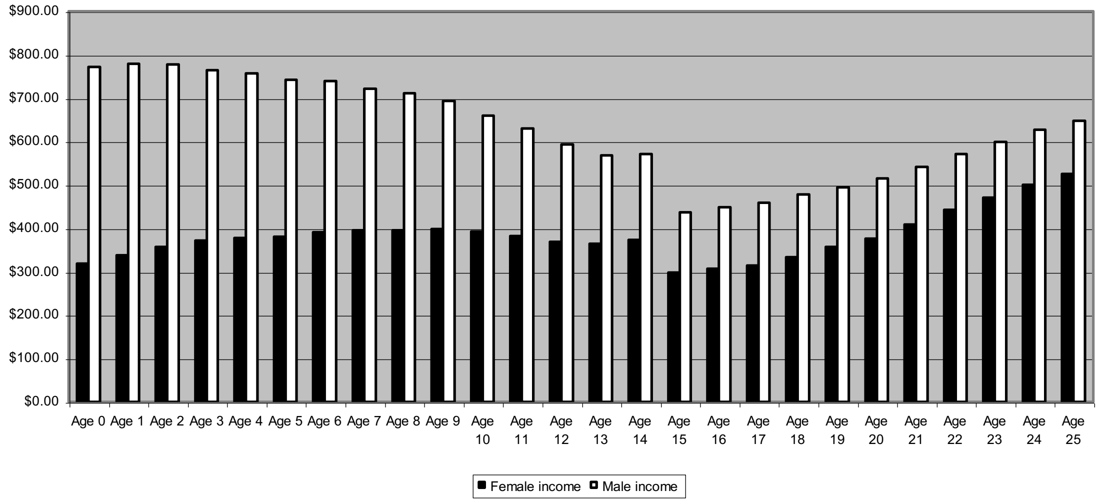
As shown in Table 2, single mothers' incomes are higher than couple-family mothers' incomes, but are nowhere near the couple-family fathers' incomes. Surprisingly, single fathers' incomes were even lower than single mothers' incomes. These figures are discussed more extensively elsewhere, and are presented here as context for the following findings about income by age of youngest child.

Table 2: Average weekly incomes of Australian women and men with dependent children by family type

	Females	Males	F:M Ratio
Couple family with children	$356.43 (n=2,610,129)	$662.91 (n=2,670,796)	54%
One parent family	$397.25 (n=659,950)	$352.49 (n=284,622)	113%
Other family	$359.85 (n=420,500)	$396.45 (n=519,465)	91%
Couple family without children	$468.64 (n=175,684)	$627.80 (n=175,568)	75%
Other persons	$382.15 (n=420,500)	$535.60 (n=519,465)	71%

Figure 1 (below) shows the distribution of average weekly income for all people with dependent children, by age of youngest child.

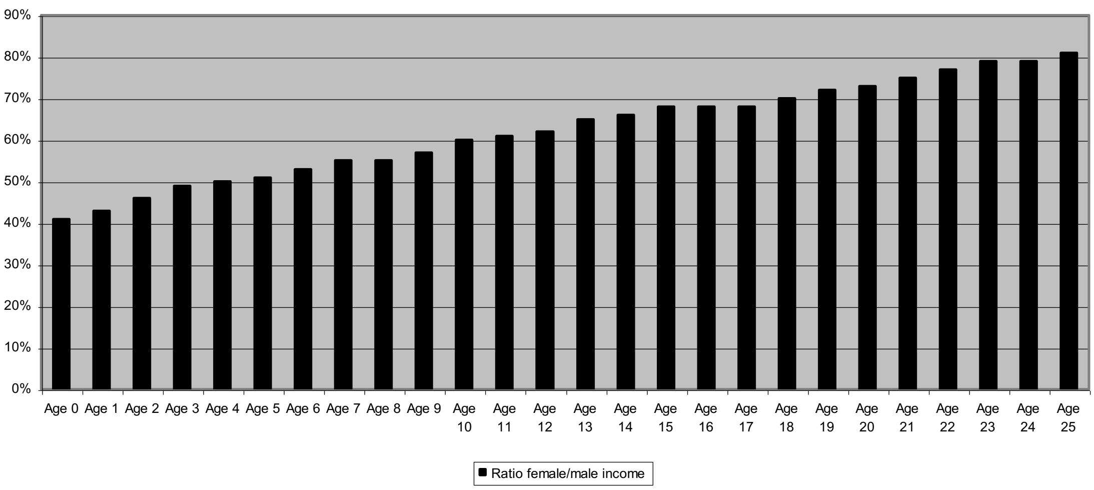
Figure 1: Average weekly income by age of youngest child, Australia 2001



Surprisingly, mothers' average incomes varied little, sitting between $300 and $400 weekly until the youngest child was over 21. Men's incomes showed a curious pattern of being at their highest when children were under 10 years of age; something strange happening at age 15 with a sudden drop, and then a gradual rise as the youngest child is older.

Figure 2 shows the ratio of female to male average weekly income by age of youngest child.

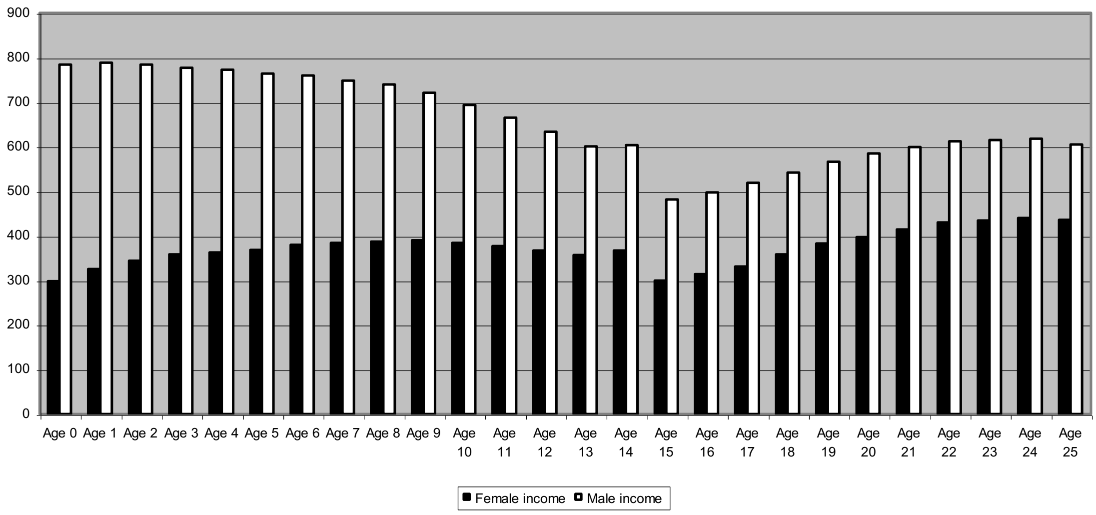
Figure 2: Ratio of female to male individual weekly income by age of youngest child, Australia 2001



The ratio of female to male average weekly income indicates that women's incomes as a proportion of men's incomes rise steadily from a low of 40% when youngest child is under one year of age to a high of 80% when youngest child is 25.

I compared these same measures for people in couple families and single parent families. Figure 3 shows couple family mothers' and fathers' average weekly incomes by age of youngest child.

Figure 3: Couple family individual weekly income by age of youngest child, Australia 2001



Men in couple families had consistently high average weekly incomes, between about $500 and $800 per week. They were at their highest when children were young, dropping off between ages 10 and 15, then climbing again, but not to the previous high levels. Couple family mothers' average weekly incomes did not change greatly with age of youngest child, varying from about $300 to $400 per week until the youngest child was 20, and sitting just above $400 per week after that.

As Figure 4 shows, the ratio of female to male earnings rose steadily with age of youngest child from about 40% to about 70%. It seems that while mothers' incomes do not increase greatly with age f youngest child, the drop in fathers' incomes means that mothers' incomes supply a greater proportion of couples' total income as the age of youngest child increases.

Figure 4: Ratio of female to male income, couple families, by age of youngest child, Australia 2001

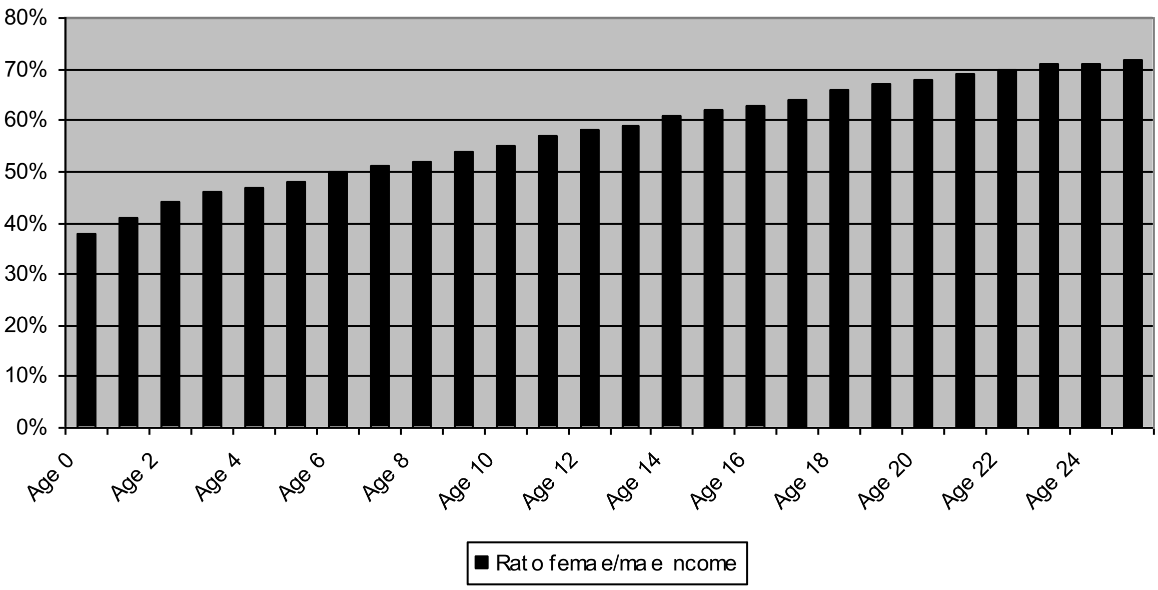


Figure 5 shows women's and men's average weekly incomes by age of youngest child for single parents. For both women and men, income stayed low, between about $300 per week and $500 per week. Once again, there was a curious dip at age 15. Significantly, neither women nor men achieved the high incomes of men in couple families, whose average incomes were between $500 and $800 per week. Women's average incomes were higher than men's until the youngest child was aged 20, at which point men's incomes slightly exceeded women's.

Figure 5: Single parent family income by age of youngest child, Australia 2001

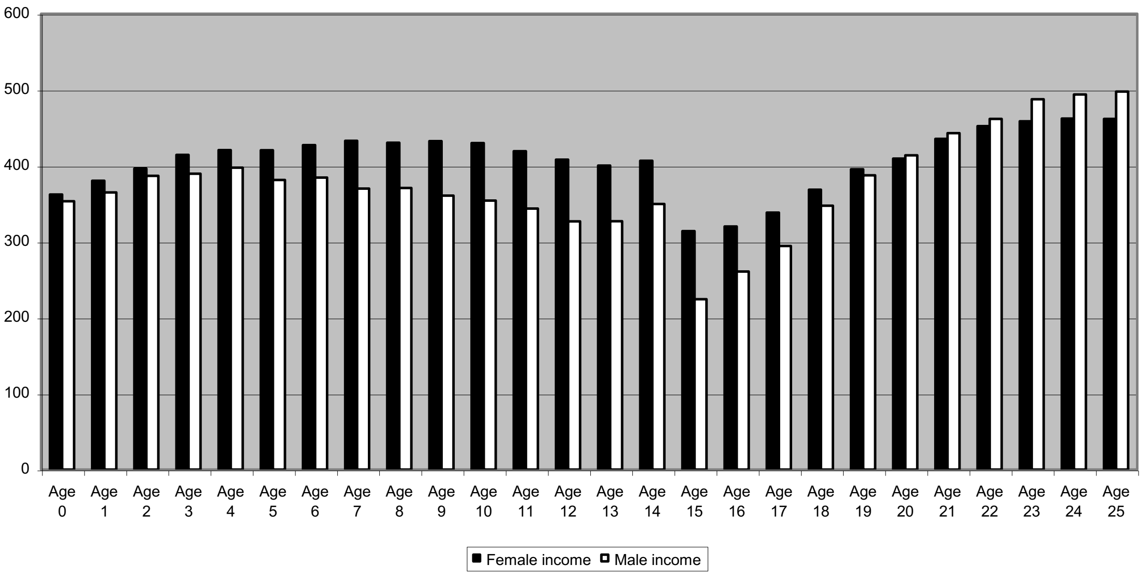
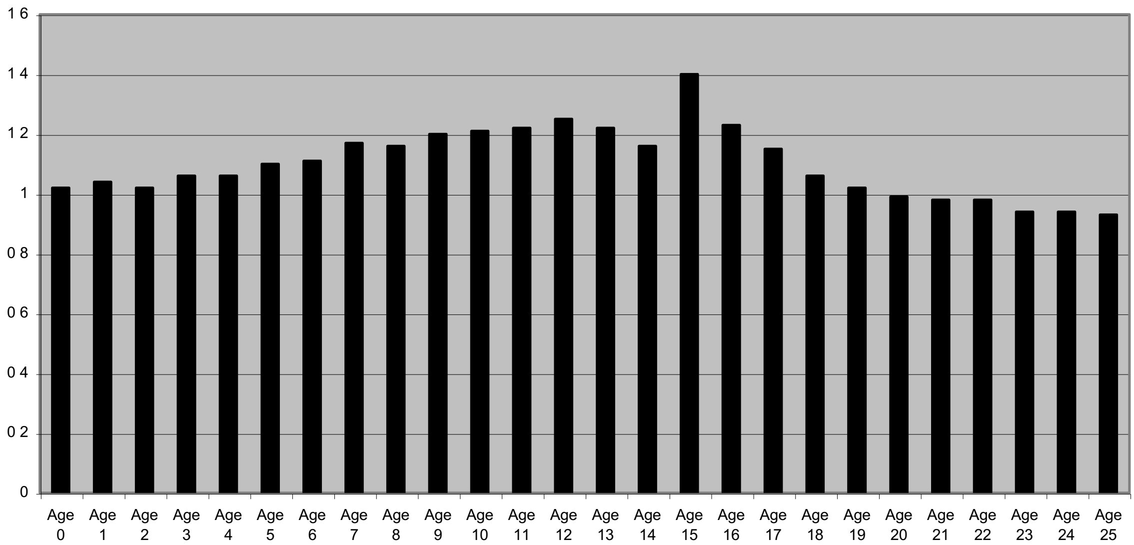


Figure 6 shows the ratio of female to male average weekly income by age of youngest child for single parents.

Figure 6: Ratio of female to male income, single parent families, by age of youngest child, Australia 2001



Single mothers' average incomes exceeded those of single fathers until youngest child was 20. The highest ratio was at age 15. While both women's and men's incomes dropped at youngest child age 15, women's did not drop as much as men's.

Discussion

Craig (2002) found that the arrival of children had much more impact on mothers' lives than those of fathers in terms of paid and unpaid work. Gray and Chapman (2001) estimated that women with one child lose about 34% of their lifetime earnings, increasing to around 40% for those with three children. The findings of this study of average weekly income by age of youngest child are consistent with these earlier findings, showing that in general women's incomes are much lower than men's following childbearing. This confirms what we know about the gendered division of labour in Australian families with dependent children.

This research showed that age of youngest child clearly has an impact on individual weekly income. The arrival of children puts upward pressure on couple-family fathers' incomes, and downward pressure on the incomes of mothers and single fathers. This interpretation should be treated with caution, given Silvey and Birrell's (2004) finding that low incomes pre-dated separation and divorce.

Although government assistance with the costs of raising children softens the impact a little, single parents are managing on incomes that are not much more than that of mothers, the 'secondary' earners in couple families. The apparent higher incomes for single mothers than for single fathers are discussed elsewhere.

I expected to find transition points in these data, for example a jump in mothers' incomes at about the time that the youngest child starts school. However this was not the case, with mothers' incomes showing only a slight and gradual increase with age of youngest child. Fathers' incomes showed a gradual decrease after youngest child was about seven, perhaps reflecting an easing in the pressure for high earning. Australian children aged 7-15 typically participate in organised sport, and perhaps fathers reduce their paid work and increase their voluntary activity with sporting teams.

The most striking feature of these findings is the sudden drop in parental incomes when youngest children are aged 15. It happened for all parents, but was more marked for men than women. In 2001, age 15 was the legal school-leaving age in all Australian states except for Tasmania where it was 16.

Given that the apparent school retention rate in 2001 was 73.4%, we could conclude that about one-quarter of Australian young people were leaving school before completing Year 12. Some but not all of these would have left at age 15. For the young people who left school at age 15 to take up employment, their parents who were receiving Family Tax Benefit payments and Parenting Payment would have lost them at this time. For young people continuing at school, the Family Tax Benefit Part A maximum rate drops from $86.87 per week to $22.05 per week when they turn 16. It could be that the drop in average weekly income when youngest child is aged 15 reflects these institutional arrangements. However, the size of the effect and the lesser impact on single fathers' incomes than on single mothers' incomes suggest that this is an area for further research. It is not, in my opinion, an artefact of the data, as the average incomes rise gradually after this drop. I would be interested to hear from other researchers who may be able to throw further light on this matter.

Following the age 15 drop, parental incomes rose again, with mothers' incomes reaching their highest post-childbearing level once youngest child was over 21, consistent with some decrease in unpaid work as children enter adulthood. Couple-family fathers' incomes did not return to the very high levels that they reached when youngest child was under seven years of age. It seems likely that there is cultural pressure on couple fathers to maximise income when children are very young, and this goes along with minimising unpaid work at a time when mothers' loads of unpaid work are high. This has clear implications for mothers' wellbeing and for fathers' opportunities to share in the hands-on care of babies and young children.

Single parenthood could be seen as a significant leveler. Single fathers' incomes resembled mothers' incomes much more closely than they did couple-family fathers'. It seems that when men become single fathers they gain responsibility for their children, but lose significantly in terms of income, notwithstanding evidence that low-income fathers are over-represented among those who separate and divorce.

Conclusion

As we develop a better understanding of how the work of caring for young children restricts parents' ability to earn labour market income we will be better placed to develop realistic resourcing models. Using this approach, single parents' poverty is seen not as a welfare issue, but in the first instance as a failure by the community to recognise that time spent on caring for infants and young children is not available for labour market earning. Rather than treat single parents as unemployed and entitled to a welfare payment, this approach raises the issue of balancing income sources. For how long is full-time one-to-one care worthy of community support? How can both single parents and couple-family parents be supported to exercise their preferences for parental care, family care and/or formal childcare?

This study has presented a new way of looking at income data. It highlights the need for further research into incomes following childbearing, and the way that incomes vary between women and men, and with age of youngest child. In particular further research could focus on:

- Barriers to income-earning for single parents
- Exploration of impacts of educational levels, ethnicity, parental age and location
- The youngest child age 15 dip in parental income
- Which parents with children of what ages are unable to assemble an adequate income?
- What supports, services and changes to public policy would enable people to combine parenting and income-earning?

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Leadership and Ethnicity in Public Companies in Malaysia

Dominic Lai Yew Hock

Abstract

Corporate Governance gained prominence in Malaysia during the Asian financial crisis of 1997, which operated as a wake up call that the existing corporate governance structures in public listed companies were insufficient. In response, Kuala Lumpur Stock Exchange issued the Listing Requirements on 22 January 2001 to regain investors' confidence and attract foreign direct investments. The Listing Requirements included a Code of Best Practices in Corporate Governance that favours the leadership structure of separate Chairman/Chief Executive Officer posts. Malaysia is a multi-racial country comprising predominantly of the indigenous Malays, the Chinese and the Indians. The Chinese in Malaysia continue to play a significant role in the economy. These Chinese practise a distinctive Chinese business culture in the running of their businesses. The literature reveals that the adoption of the prescribed leadership structure of separating the Chairman and Chief Executive Officer positions is not likely to improve the financial performance of Chinese controlled companies. An empirical research is conducted, using 218 Chinese controlled public listed companies in Malaysia. The data covered three years from 2001 to 2003. Financial performances of the companies were measured using return on equity, earnings per share, dividend per share, liquid asset per share and gross margin. t-test and Mann Whitney test were used. The results show that there has been widespread adoption of the leadership structure recommended under the Code by the sample companies. The results also show that adoption of the prescribed leadership structure under the Code has no significant impact on the financial performance of the sample companies.

Keywords

Corporate governance, separate chairman/CEO posts, Chinese business culture.

Development of Corporate Governance in Malaysia

There were already some measures of corporate governance in Malaysia before the 1997 Asian crisis. Malaysia Securities Commission is the securities regulatory body established under the Securities Commission Act 1983, with investigative and enforcement powers. In 1995, the Securities Commission started the disclosure based regime (DBR) of the primary markets. The implementation of DBR was premised on the high corporate governance standards practised by public listed companies. In 1996, the Registry of Companies, the body in charge of the administration of the Companies Act 1965, developed a Code of Ethics for directors (Kadir, 1999).

The Asian economic crisis began with the plunge of Thai baht on 2 July 1997, and rapidly swept through other neighbouring countries, including Malaysia (Kotler & Kartajaya, 2000). Foreign direct investments in Malaysia dropped from USD5.1 billion in 1997, to USD3.7 billion in 1998 (Haley, 2000). Weak corporate governance was cited as the major cause of the Asian crisis (Mitton, 2002). As a result, Malaysia saw the need to improve corporate governance in companies to regain investors' confidence.

The Finance Committee on Corporate Governance was set up in 1998 to review and reform the standards of corporate governance (Kang, 2001). The Finance Committee defines corporate governance as "*the process and structure used to direct and manage the business affairs of the company towards* *enhancing **business prosperity** and **corporate accountability** with the ultimate objective of realising long-term shareholder value, while taking into account the interest of other stakeholders*" (Abdullah, 2004, p. 49) [emphasis added]. The mandate given to the Finance Committee was wide, which covered (Kadir, 1999):

- ***A code of best practices in corporate governance***. The Malaysian Code on Corporate Governance is conceived. The Code sets out broad principles of good corporate governance, and best practices for companies. Companies are required to disclose in their annual reports a narrative statement of how they apply the relevant principles, and the extent to which they have complied with the best practices (Kang, 2001).
- ***A review of the legal infrastructure, and enforcement mechanisms***. Enforcement has always been a weakness. In the *Corporate Governance Watch-Corporate Governance in Asia* published in April 2003, Malaysia scores the highest (9 out of 10) in legal infrastructure, compared to Singapore (8.5) and Hong Kong (8.0). However, Malaysia is weak in enforcement, scoring only 3.5, compared to Singapore (7.5) and Hong Kong (6.5) (Osman, 2004).
- ***A training and education programme for directors***. Kuala Lumpur Stock Exchange has taken steps to educate all directors of public listed companies, as they are required to attend a mandatory induction programme (MAP). The Exchange then introduced a Continuing Education Programme (CEP) on 1 July 2003, which requires directors of public listed companies to attend a minimum number of training programmes each year, in order to maintain their directorship (KLSE Practice Note No. 15/2002).

In March 1998, the Malaysian Institute of Corporate Governance (MICG) was established, who was charged with promoting public awareness of corporate governance practices (Haat & Mahenthiran, 2003). A Minority Shareholder Watchdog Committee (MSWG) was also set up to fight abuses against minority shareholders. MSWG became a platform for initiating shareholder activism against questionable conduct by the management of public listed companies. MSWG could represent the minority shareholders to vote on their behalf in general meetings (Kadir, 1999). In year 2000, the Taskforce on Internal Controls was established by Kuala Lumpur Stock Exchange. The Taskforce was responsible for the formulation of guidance to assist public listed companies to report the state of their internal control in the annual reports.

On 22 January 2001, Kuala Lumpur Stock Exchange introduced the Listing Requirements which included a Code on Corporate Governance. The Listing Requirements are modelled after the Anglo-Saxon model, more particularly the UK Codes comprising of the Cadbury, Greenbury and Hampel Reports (Kang, 2001). The government has taken proactive steps in encouraging compliance with corporate governance. In 2003, Public Bank and IJM Corporation, public companies in Malaysia, were named as the joint winners of the prestigious Malaysian Business Corporate Governance Award (Low, Yong & Shanmugam, 2004). The Malaysian government hopes that improvements to corporate governance will boost the confidence of foreign investors. This will position the nation with a competitive advantage globally in order to attract foreign direct investments, and to attain developed nation status (Chan, 2003).

In January 2004, the powers of Malaysia Securities Commission are enlarged, following amendments to the Securities Commission Act 1993. With the increased powers, Securities Commission now has the power to take pre-emptive actions (even before the commission of the offence) against any director who is found likely to contravene any securities law. The errant director may be removed from office, or barred from becoming a director of any public listed company. Provisions are also made in the amended Securities Industry 1983 for whistle blowing, and the protection of whistle blowers. Enforcement systems are now being used.

Chinese Business Culture

Malaysia former Prime Minister, Tun Dr Mahathir Mohamad, acknowledged in his speech at the 7th World Chinese Entrepreneurs Conference held in Kuala Lumpur on 28 July 2003, that the Chinese constitute the third largest economy in the world, after USA and Japan, and the estimated wealth has reached USD1.5 trillion (The Borneo Post, 29 July 2003, p. 1). The acknowledgement is warranted. The fast food chain, Kenny Rogers' Roasters of USA, is now owned by Vincent Tan of Malaysia. The fashion house, Laura Ashley of UK, is now owned by Khoo Kay Peng of Malaysia (Backman, 2001). The top ten Chinese owned companies in Malaysia control 28.3 percent of total market capitalisation (Khan, 2003, p. 14).

The Chinese have a distinctive culture in running their businesses. They operate their enterprises as family companies (Backman & Butler, 2003). The company is synonymous with family. The family is synonymous with the recognition of the anointed leader as the patriarch (Yeung & Soh, 2000). The family members have a strong sense of hierarchical power. They accept decisions handed down, and are cautious about how they present their own ideas upward (Crookes & Thomas, 1998). They know their places in the company, and hardly challenge formal authority. Decision making rights are not normally disputed (Yu, 2001). In return, the family members are well looked after, and generously compensated for their undivided loyalty and trust (Haley & Tan, 1999).

The Chinese way of doing business is different from westerners. The Chinese believe that one builds *guanxi* (relationship) first, and the contracts will follow, whereas the westerners build transactions, and if they are successful, a relationship will follow (Hutchings & Murray, 2002). While the western concept of networking depends on legal contracts, the Chinese businessmen use *guanxi* for reciprocity, and perceive the relationship as a means to an end (Li & Wright, 2000). It is, thus, quite common for Chinese business leaders to undertake projects to support government policy, regardless of the profits. In return, the government rewards them by giving favourable concessions (Haniffa & Cooke, 2002). This symbiotic relationship between the Chinese leaders and the government works well.

Practice of Leadership Structure in Companies

Support for separate titles

The chairman is normally a part timer, and his role is to monitor and evaluate the performance of management, including the Chief Executive Officer (***CEO***). The chairman should be distanced from daily operations of the company, in order to stay objective when making strategic policy decisions (Roberts, 2002). On the other hand, the CEO is a full time post, and he is responsible for the daily operations in the company. The chairman runs the board, and the CEO runs the company. Leading the board and leading the company are two distinct jobs (Gunther, 2002).

The most important role of the board is to appoint, monitor, mentor and replace (if necessary) the CEO (Nicholson & Kiel, 2004). It will be difficult for the board to efficiently carry out that role if the chairman of the board is also the CEO. The separation of the two roles will ensure effective checks and balances over the management's performance (Haniffa & Cooke, 2002). No one single person should possess unbridled power in the company. When companies perform poorly, stockholders often push for the separation of the chairperson and the CEO positions as a means to restore the company's credibility with investors (Sundaramurthy, Mahoney & Mahoney, 1997).

Should a chairman of the board occupy an executive or non-executive position? The possible chairmanship options in situations of separate chairman/CEO roles are shown in Figure 1.

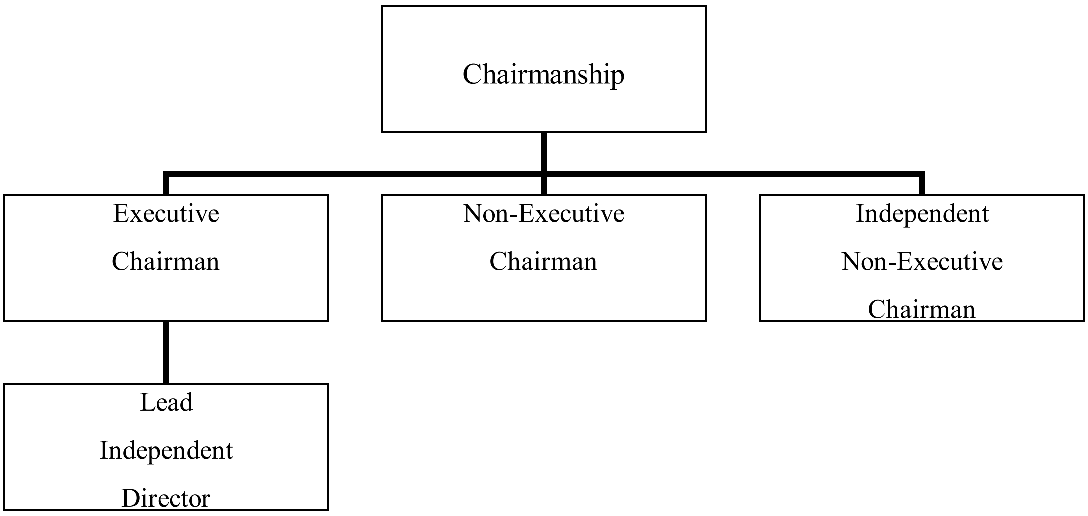

Figure 1 Possible chairmanship options in situations of separate chairman/CEO roles

Separate titles will become meaningless if the chairman occupies an executive position. It has been proposed that the board should be led by a ***non-executive chairman*** (Keenan, 2004). In Malaysia, a study of 92 companies listed on the main board of Kuala Lumpur Stock Exchange shows that only 23 percent of these companies have non-executive chairmen (Low, Yong & Shanmugam, 2004).

Another suggestion goes further– that the board should be led by an ***independent* *non-executive chairman*** (Zong, 2004). The rationale is that the independent board chair will be in a better position to ensure proper and timely disclosure of information, set sensible agenda, and encourage candid discussion in the boardroom. What if the company appoints an executive chairman nevertheless? In that case, a ***lead independent director*** should be named, whose task is to work with the executive chairman to set the agenda for the meetings, and to liaise between the board and management. The lead independent director can be the bridge between the management and outside directors (Dalton & Dalton, 2005).

Is the suggestion of appointing an independent non-executive chairman acceptable to Chinese controlled companies? Not likely. It is inconceivable that the chairman, being the leader of the top echelon of the Chinese enterprise, is not the founder/patriarch of the company. What then is the efficient matrix between chairman and founding shareholder in Chinese controlled companies? The possible matrix is shown in Figure 2.

		Leadership Structure		
		Executive Chairman	Non-Executive Chairman	Independent Non-Executive Chairman
Ownership Structure	Substantial Shareholder	✓	✓	✗
	Nominal or Non-Shareholder	✗	✗	✗

Figure 2 Matrix of leadership structure and ownership structure in Chinese controlled companies

The boxes marked "√" mean that option is perhaps acceptable in Chinese business settings. In the context of separating the positions of the chairman and the CEO, it exposes the range of possibilities on the relationship between leadership structure and ownership structure in Chinese controlled companies:

- ***Executive chairman***. He will inevitably be the founder and substantial shareholder. The chairman is involved in operational matters of the company, albeit on a part time basis. He becomes the founder/owner/manager/chair. The board chairman is unlikely to monitor the activities of the management in an independent and objective matter. In fact, there is no need at all for the chairman to monitor the affairs of management, because he is the management.
- ***Non-executive chairman***. The chairman leads the board and makes policy decision. He confines himself to managing the board rather than the company. His influence on the managers depends on whether the chairman is a substantial shareholder of the company. If he were, it matters not whether he holds the executive or non-executive chair, because he will have absolute influence over the CEO. If he were not, he is likely to be the nominee of the substantial Chinese owner, and is not in a position to influence the management anyway.
- ***Independent non-executive chairman***. This option will not materialise in a Chinese controlled company. It is unlikely to happen in a family company, because the founder needs to maintain control over the family members.

Support for combined titles

For Chinese businesses, unitary leadership structure is often indispensable. The owner of a public listed company is often the founder. He is akin to the brand name of the company. While the corporate sector in the west is a community of companies, the business community in Asia is a community of personalities (Backman, 2004). The emphasis is different. When China Cyberport in Hong Kong bought a stake in Kerry Group, the big news was that Indonesian tycoon Oei Hong Leong had bought a stake in the company owned by Malaysian tycoon Robert Kuok (Backman & Butler, 2003). Robert Kuok is nicknamed the 'sugar king of Malaysia' because he produces the sugar needs of the country, and owns 30 percent of Sucden Kerry International, the world's largest sugar trader (Yueng & Soh, 2000). Yet people hardly know the name of his company that produces the sugar.

It is thus inconceivable in the filial minds of family members, workers, suppliers and customers that the founder does not occupy the top positions in the board and management. Lim Goh Tong, founder of Malaysia sole casino operator, Genting Berhad, recently announced his decision to step down as CEO after 34 years at the helm, to be replaced by his son (The Borneo Post, 28 Nov 2002, p. 1). He remains as chairman. He steps down for one reason only: he was 85 years old.

One of the strengths of Chinese businesses is the speed of decision making that is centralised in the leader (Li, Khatri & Lam, 1999; Haley 1997). Missing an opportunity is worse than losing family fortune, because it means losing face, and losing the ***guanxi*** (relationship) (Yu, 2001). The founder often unilaterally makes business decisions, and seeks board endorsements subsequently (Yueng & Soh, 2000). A unitary leadership structure becomes important in maintaining this decision making process to sustain competitive advantage in the Asian and global markets, because it offers a clear mandate to a single leader to react faster to external events (Fan, Lau & Wu, 2002).

The founders of Chinese listed companies often have little formal education (Kim, Kandemir & Cavusgil, 2004; Haley & Tan, 1999). Their decision making process is thus different from western models. They draw from their experiences, advice from trusted friends developed through ***xinyong*** (trust), and their intuitive perception of the situations (Haley, 1997). Board deliberations before decisions are an archive concept to them. They assume positions of chairman and CEO to preserve the powers to decide within the corporate structure.

Is the perceived goodness of separate titles, therefore, a myth? Companies like Enron, World-com, Vivendi and Deutsche Telecom practise the separate titles, and yet the scandals could not be avoided

(Sonnenfeld, 2004). On the other hand, Parmalat Finanziara SpA of Italy that practised a combined chairman/CEO role, filed for bankruptcy protection in late December 2003, and was regarded as the biggest corporate collapse in Europe (Buchanan & Yang, 2005). Theoretically, it is not possible to determine which leadership structure is best. The optimal leadership structure varies according to the economic circumstances facing the company, and there is no formula of universal application.

Practices in Leadership Structure and its Likely Impact on Financial Performance of Chinese Controlled Public Listed Companies in Malaysia

Part AA II of the Malaysia Code of Best Practices in Corporate Governance states that there should be a clear division of responsibilities between the chairman and CEO. This will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. The Malaysia Finance Committee on Corporate Governance that formulated the Code acknowledges that enhancing shareholder value is the long term overall objective of the company (Ow-Yong & Cheah, 2000). The issue is whether this leads the prescribed leadership structure under the Code to be a better monitor and, thus, is capable of enhancing shareholder value.

The Code supports and prescribes **separate titles**. The link of separate titles to financial performance of companies produces mixed results. Some authors find that separation of board chair and CEO has no significant impact on financial performance of companies (Daily et al., 2002; Fan, Lau & Wu, 2002; Elloumi & Gueyie, 2001; Weir & Laing, 2001; Daily & Dalton, 1997). However, Brickley, Coles & Jarrell (1997) find that companies with separate titles consistently outperform companies with combined titles. Then Simpson and Gleason (1999) find that the combined titles may positively influence the internal control system of a banking company, and improve financial performance. Overall, there is no compelling empirical support for the view that separate titles have a positive impact on financial performance of companies.

In Chinese controlled companies, the ownership structure is concentrated (Low, Yong & Shanmugam, 2004). The Chinese (typically family oriented) controls more than half of the public listed companies in Malaysia (Low, 2003). In Chinese family owned companies, family members usually control the board and management. These family companies inherently have a more complex structure than non-family companies. The Chinese patriarch has to balance the interplay between family traditions and family business culture, continuing employment for filial relatives (regardless of their competency), against the need to engage professional managers, which ultimately affect the goals, strategies, structure and performance of the family company. Direction of the company is often determined more by emotion, than by principles of sound governance.

The entwined relationship among family members, and between family members and non-family members, may cover the whole spectrum of stewardship at one end, and agency theory at the other end (Steier, Chrisman & Chua, 2004). The accountability aspect of corporate governance may not be all important, when the owners are also managers of the company. Minority interests are often ignored. The business prosperity aspect of corporate governance is fulfilled as long as the company thrives. The substantial shareholders in the company are the family members, and they are unlikely to expect higher dividends, as long as the founder is the chair of the board. In fact, most of the profits will be retained for investment purposes.

In such situation, there is really no division between owner/board/management, and accountability through separation of chairman/CEO positions becomes insignificant. In the circumstances, the Code that recommends separate chairman/CEO titles is perhaps misguided. Splitting the titles will diffuse leadership, and confuse the workers as to who is in command (Allan & Widman, 2000). Dual leadership structure makes it difficult to pinpoint the blame for bad corporate performance. Moreover, the person holding the combined titles would be driven by the desire to do well, because he is ultimately responsible

(Weir, 1997). A strong unitary leadership structure can send signals to the market that the company has a clear sense of direction (Finkelstein & D'Aveni, 1994).

Research

Abdullah (2004) perceives that a company that adopts the prescribed leadership structure will enjoy improved monitoring ability and accountability, which will then lead to improved financial performance. This is possible because management abuses will be curtailed. It means that a company that splits the positions of chairman and CEO will enjoy improved financial performance. There is thus a perceived association between leadership structure and financial performance of a company. Because of the high economic influence of Chinese in Malaysia (Ward, Pearson & Entrekin, 2002), it becomes necessary and interesting to test the said perceived association in one demographic condition – the Chinese business cultural environment. An empirical study is conducted.

Variables

The independent variable is the separate titles. The dependent variable is the financial performance of Chinese controlled public listed companies in Malaysia that is measured by **return on equity (ROE), earnings per share (EPS), dividend per share (DPS), liquid asset/share (LAS)** and **gross margin (GM)**. **ROE** is a measure of net profit relative to ordinary shareholder's investment in a company, and is measured by dividing net profit after tax by total ordinary shareholders equity. **EPS** is a measure of the earnings performance of each ordinary share during a fiscal period, and is computed by dividing net profit after tax by the ordinary shares outstanding. **DPS** is measured by dividing dividends after tax by the ordinary shares outstanding. **LAS** is measured by dividing liquid assets (total current assets minus stocks-in-trade) by the ordinary shares outstanding. **GM** is a percentage measured by dividing gross profit over sales. Gross profit is measured by sales less cost of goods sold.

Hypothesis

The literature and theoretical arguments are that the prescribed leadership structure in separating the positions of the chairman and the CEO is not receptive to the Chinese entrepreneurs, who may adopt the same in form but not in substance. The adoption of the prescribed leadership structure is, therefore, unlikely to have an impact on the financial performance of Chinese controlled public listed companies in Malaysia. Hence, the hypothesis is that separation of chairman and CEO positions is not likely to improve the financial performance of Chinese controlled public listed companies in Malaysia.

Determinants of Chinese controlled public listed companies

There are a few indicators whether a public listed company in Malaysia is controlled by Chinese. The shareholdings are the clearest indicators. Chinese control is manifested when they are the single biggest shareholder or major shareholder in the company. In line with the New Economic Policy in Malaysia that was introduced in 1971, the bumiputra (indigenous people of Malaysia) usually holds 30 percent equity in public listed companies (Backman, 2001). However, their shareholdings are usually diluted over time through disposal and various exercises (Haniffa & Cooke 2002; Yeung 1999). The Chinese entrepreneurs effectively need only 15 percent equity to reach the critical level of control in a public listed company (Yeh, Lee & Woidtke, 2001). They are also able to control the company through the management as the CEO or Managing Director. At the board level, the Chinese entrepreneurs usually control the company by occupying the executive chair, or by letting a bumiputra occupy the non-executive chair. In Malaysia corporate scene, it is not unusual for a bumiputra to hold the non-executive chair. The purpose is to add value to the company, and in compliance with the spirit of New Economic Policy. In the selection criteria for Chinese controlled public listed companies, these companies possess all the three determinants.

Sample selection criteria

Public companies in Malaysia are listed variously on the main board, the second board and MESDAQ. In order to ensure that the sample size in terms of paid up capital is fairly consistent, only companies listed on the main board of Kuala Lumpur Stock Exchange are considered. There are public listed companies that are classified as PN4 (Practice Note No. 4) companies. These PN4 companies seek protection of the court from creditors while going through the corporate restructure. The financial performance of PN4 companies will be subject to many extraneous factors while undergoing the restructure, and will not accurately establish a leadership structure/financial performance relationship. These PN4 companies are, therefore, excluded for the purpose of this research. Financial and insurance companies are excluded because they are separately regulated.

The Code of Best Practices in Corporate Governance were issued on 22 January 2001. In testing the leadership structure/financial performance relationship, it will be meaningful to assess the impact of leadership structure prescription on financial performance ***after*** the introduction of the Code. The effectiveness of the Code recommendations on leadership structure should be discernable using the three years' data. The time span represents almost three full years from 2001 to 2003, during which public listed companies have the opportunity to comply with the Code. Most companies would have or should have complied with the Code by then. Moreover, these years are considered relatively stable after the Asian financial crisis, so that distortion of data is minimised.

The sample taken is, therefore, in respect of those companies that have complete financial data for the years 2001, 2002 and 2003. The research focuses on matured companies to ensure that financial data is stable. Arbitrarily, public listed companies that are established at least five years before 2001 are considered mature. That means companies which are listed on and before 1996 will be included in the sample.

After going through the sample selection criteria, and the application of the determinants of Chinese controlled public listed companies, the sample consists of 218 Chinese controlled public companies listed on the main board of Kuala Lumpur Stock Exchange for the three years 2001, 2002 and 2003. These sample companies cover all sectors of the industry, except the financial and insurance companies which are separately regulated.

Descriptive statistics

Table 1 shows the descriptive statistics that is used to gain an understanding of the characteristics of the sample for the three years 2001, 2002 and 2003. The incidence of duality (Chairman and CEO combined posts) was not high in 2001 with only 11 percent of the Chinese controlled public listed companies having the same person holding the posts of chairman and CEO. It shows that these companies have adopted the separate-titles leadership structure prescribed in the Code. There is clear evidence of a move away from duality, with only less than 10 percent of the companies exhibiting combined titles in the years 2002 and 2003. Overall, the financial measures indicate that the Chinese controlled public listed companies that configure their leadership structure in accordance to the Code appear to perform better financially.

Table 1 Descriptive statistics

	2001			2002			2003		
	Minimum	Maximum	Mean	Minimum	Maximum	Mean	Minimum	Maximum	Mean
Duality	0	1	0.11	0	1	0.09	0	1	0.09
ROE (%)	-447.36	65.74	-6.4581	-487.42	42.19	-2.3041	-544.16	319.99	2.5120
EPS	-272.00	238.00	2.9903	-273.00	566.00	9.3406	-47.20	782.00	16.1450
DPS	0	101.00	5.3101	0	171.00	5.2555	0	115.00	5.5000
LAS	0	44.56	0.7178	0	49.89	0.7646	0	55.52	0.8087
GM (%)	-75.55	100.00	28.3051	-18.49	100.00	29.2276	-114.72	100.00	29.5435

Board characteristics

Table 2 shows the frequency of occurrence of the board characteristics. Since the introduction of the Listing Requirements in January 2001, there is a steady decrease in duality leadership structure to only 9 percent in 2003. The adoption of separate-titles leadership structure has increased to 90.83 percent by 2003.

Table 2 Board characteristics - frequency table

Board characteristics	2001 n (%)	2002 n (%)	2003 n (%)
Duality	23 (10.55)	20 (9.17)	20 (9.17)
Separate titles	195 (89.45)	198 (90.83)	198 (90.83)

t-test

Table 3 shows the results of the t-test. Throughout the three years 2001 to 2003, there is no significant difference in the association between the separation of chairman/CEO posts and the five financial measures (ROE, EPS, DPS, LAS and GM) in Chinese controlled public listed companies in Malaysia. Therefore, the hypothesis is supported when using all the five financial measures for the three years 2001 to 2003.

Table 3 Results from t-test

	Mean differences			t-values		
Test variable	2001	2002	2003	2001	2002	2003
Separate titles						
ROE (%)	9.07433	-3.18451	-5.32561	0.704	-0.334	-0.479
EPS	-0.34906	-6.57670	-11.28530	-0.036	-0.505	-0.753
DPS	-1.31880	-1.75116	-0.48444	-0.496	-0.512	-0.918
LAS	-0.28500	-0.33485	-0.50175	-0.405	-0.400	-0.539
GM (%)	0.26278	0.11794	-0.53452	0.061	-0.026	-0.103

Mann Whitney test

Table 4 shows the results of the Mann Whitney test. Throughout the three years 2001 to 2003, there is no significant difference in the association between the separation of chairman/CEO posts and the five financial measures (ROE, EPS, DPS, LAS and GM) in Chinese controlled public listed companies in Malaysia. Therefore, the hypothesis is further supported when using all the five financial measures for the three years 2001 to 2003.

Table 4 Results from Mann Whitney test

Comparison of ROE and board characteristics for years 2001 to 2003

	2001	ROE	Z value	2002	ROE	Z value	2003	ROE	Z value
Duality	N = 22	106.39		n = 19	102.39		n = 20	86.43	
Separate titles	N = 190	106.51	-0.009	n = 193	106.90	-0.306	n = 198	111.83	-1.717

Comparison of EPS and board characteristics for years 2001 to 2003

	2001	EPS	Z value	2002	EPS	Z value	2003	EPS	Z value
Duality	N = 23	112.48		n = 20	102.48		n = 20	90.43	
Separate titles	N = 194	108.59	-0.281	n = 197	109.66	-0.488	n = 198	111.43	-1.419

Comparison of DPS and board characteristics for years 2001 to 2003

	2001	DPS	Z value	2002	DPS	Z value	2003	DPS	Z value
Duality	N = 23	108.85		n = 20	108.28		n = 20	92.18	
Separate titles	N = 195	109.58	-0.053	n = 198	109.62	-0.093	n = 198	111.25	-1.314

Comparison of LAS and board characteristics for years 2001 to 2003

	2001	LAS	Z value	2002	LAS	Z value	2003	LAS	Z value
Duality	N = 23	109.76		n = 20	111.60		n = 20	104.30	
Separate titles	N = 194	108.91	-0.061	n = 198	109.29	-0.156	n = 198	110.03	-0.387

Comparison of GM and board characteristics for years 2001 to 2003

	2001	GM	Z value	2002	GM	Z value	2003	GM	Z value
Duality	N = 23	119.37		n = 19	115.97		n = 19	111.92	
Separate titles	N = 194	107.77	-0.838	n = 198	108.33	-0.507	n = 198	108.72	-0.212

Summary of Results

The results show that there has been widespread adoption of the leadership structure recommended under the Code of Best Practices in Corporate Governance by Chinese controlled public listed companies. Most of these companies have adopted the separate-titles leadership structure prescribed in the Code. Malaysia has indeed improved in the governance practice of moving away from duality.

The relationship between this recommended leadership structure and financial performance was then analysed to assess whether or not the adoption of this leadership structure was associated with improved financial performance of the sample companies. The results of the study find no association between separate-titles leadership structure and financial performance of Chinese controlled public listed companies in Malaysia. The findings are not unexpected. Empirical studies have found that generally separation of board chair and CEO has no significant impact on financial performance of companies (Daily et al., 2002; Fan, Lau & Wu, 2002; Elloumi & Gueyie, 2001; Weir & Laing, 2001; Daily & Dalton, 1997).

In line with the Chinese business culture, the Chinese entrepreneurs of these companies will run the companies in their own distinctive monopolistic nature. These Chinese businessmen started off by holding the combined posts of board chairman and CEO to ensure business efficacy. When the Listing Requirements were introduced in 2001, the study finds that most of these companies began separating the positions of chairman and CEO. The Chinese entrepreneurs themselves tend to hold the board chair. The CEO positions are delegated to their trusted people. The Chinese business culture of operating on a 'need to know' basis continues to persist, and the CEO knows well enough not to step out of line. The CEO carries out his tasks with the tacit blessing of the chairman. The unwritten rule is that the CEO will act within his confines, and will not act in ways that may invite the wrath of the chairman. Hence, the type of leadership structure, whether separate or combined titles, has no significant effect on how the Chinese controlled public listed companies perform financially.

The Code highlights two aspects of corporate governance - accountability and business prosperity. From the findings, the prescribed leadership structure in the Code is likely to play a significant role in the accountability aspect of corporate governance, rather than the business prosperity aspect. Can better accountability in the company, then, lead to wealth creation? In improving accountability, the directors will examine risk management and control. In enhancing business prosperity, the directors will need to focus on direction and strategy. Perhaps the more appropriate link is that improved accountability in the company will prevent wealth reduction through abuses by management.

Limitations

The study has some limitations. The study encompasses data of Chinese controlled public listed companies in Malaysia only. The results of the study should not be generalised across nationalboundaries, because of demographic and environmental differences (Soederberg, 2003). Good governance is an adaptive process that caters to the specific circumstances of each country (Lu & Batten, 2001), and cannot fit into established templates (Letza, Sun & Kirkbride, 2004). Moreover, the effectiveness of boards of directors cannot be determined solely by leadership structure (Roberts, 2002). Generally, empirical research appears to examine governance variables in a univariate context. When the leadership structure is studied in an isolated context for causal effect, the findings have a confounding effect, and are usually not generalisable (Coles, McWilliams & Sen, 2001).

Interviews or case studies are not deployed to examine in depth a few companies to obtain an insight into decision making process in the choice of leadership structure. The research can perhaps be more meaningful by complementing it with an ethnographic study on the directors. However, there will be the inevitable problem of access and whether board members are willing to cooperate. Chinese controlled public listed companies in Malaysia do not readily welcome interviews or studies into the boardroom affairs. It is surmised that the effectiveness of boards cannot be determined by mere board configuration, and the results of any quantitative study are bound to be equivocal.

The perennial question is whether there is indeed a link between corporate governance and financial performance of companies. Corporate governance is founded on accountability. Local and foreign fund managers are willing to pay at least 10 percent premiums on Malaysia public listed companies that have excellent corporate governance practices (KLSE-PricewaterhouseCoopers, 2002). It is, therefore, assumed that a company that practises corporate governance standards will enjoy improved financial performance. Is the assumption correct? Is it possible that a company with high corporate governance standards may, nevertheless, not perform well financially because of market forces? A pharmaceutical company with admirable corporate governance practices may not do well financially because there is no world epidemic. A rubber manufacturing company with hardly any corporate governance practices may do extremely well financially because of the sudden surge in demand for plastic containers due to Lal Nina floods.

The link between corporate governance and financial performance of companies is built on a broad base of assumptions. If the assumptions are unfounded, the link collapses. The search for the link can be like the search for the '***Holy Grail***' (Bradley, 2004, p. 8). Can the search be in the wrong place? The general understanding is that adherence to the Code of Best Practices in Corporate Governance will improve accountability in the company. Hence, the direct causal effect to Code compliance should be the matter of accountability, not the matter of financial performance. Accountable governance ensures public confidence in the company, and this enhances the value of the company. If financial performance of the company improves as a result of adoption of the Code, that should be incidental. The probable causal link is shown in Figure 3.

Figure 3 The link between corporate governance and financial performance of companies

Malaysia Listing Requirements, or the UK Cadbury Report, are probably not asserting a bold statement that adoption of their recommendations will improve financial performance of companies. Some researchers have indeed questioned whether there is any correlation between board governance and financial performance of companies (Kakabadse, Kakabadse & Kouzmin 2001).

Further Research

This paper presents opportunities for integrative research into areas of Chinese business culture, and corporate governance. The challenge is to take the current framework and operationalise the variables. An issue is whether the observed outcome in this study is applicable generally to Malaysian business culture, and not necessarily limited to Chinese business culture only as advanced in this study. It is entirely possible that the lack of relationship between the Code on leadership structure and financial performance established in this study may not be unique only to Chinese controlled public listed companies in Malaysia. Such lack of relationship may be common among other ethnic (Malay, Indian) controlled public listed companies in Malaysia as well. The absence of such relationship may even be prevalent among government linked or foreign owned public listed companies in Malaysia. If that were the case, then the extension of this study will be that the Malaysian business culture in general is not receptive to the recommended leadership structure prescribed under the Code, and that compliance with the Code does not contribute to the financial performance of the companies.

In emerging markets like Malaysia, the founders of most public listed companies are aging. Their siblings trained in western values are taking over (Backman & Butler, 2003). As the second generation of Chinese business leaders is equipped with western values, a transformation is taking place (Li, Khatri & Lam, 1999). ***Xinyong*** (trust) is losing ground, and replaced by systems trust whereby one's word is no longer good enough, and the negotiating party needs to examine the paid up capital of the company (Tong & Yong, 1998). This new generation of Chinese leaders of listed companies in Malaysia is driven by shareholders' value creation and high accountability to the stakeholders within the companies. These western values could co-exist with the traditional value of family wealth creation of the second generation of Chinese business leaders who are also the major shareholders. The Malaysian Code of Corporate Governance could, thus, be more receptive to this new generation of corporate players.

Conclusion

The Code of Best Practices in Corporate Governance prescribes a leadership structure that favours the separation of chairman/CEO posts. The results of the empirical study are that the prescribed leadership structure under the Code has no significant impact on the financial performance of Chinese controlled public listed companies in Malaysia. Even though there has been widespread adoption of the leadership structure recommended under the Code by Chinese controlled public listed companies as shown in the study, it suggests a mere symbolic move in governance compliance by these companies, rather than a substantive move to improve financial performance.

It is acknowledged that good corporate governance practices are essential to protect shareholders, and to instil investors' confidence. However, from the results of the empirical study in this paper, the Code on leadership structure is not likely to be successfully assimilated into the Chinese business culture. Most Chinese controlled public listed companies in Malaysia are not characterised by widely dispersed ownership under the agency theory framework, but by family control. These companies evolve from traditional family owned enterprises, and they do not see the need to embrace more openness in business practices. Khan (1998, 2003) argues that ***family-based corporate governance system*** is in itself a distinctive type of corporate governance.

However, the route to corporate governance is, perhaps, inevitable. Following the Asian crisis, CalPERS draws up a set of global governance principles to ensure that the funds it commits to Asia are not invested in companies that lack corporate governance. CalPERS requests that its profile of invested companies be composed of predominantly Independent Non-Executive Directors, and it publicly names companies that exhibit poor corporate governance practices. CalPERS, in fact, pulled out investments in Malaysia, Indonesia, Thailand, and Philippines in February 2002, citing concerns over corporate governance.

Malaysia has moved in the direction of improving corporate governance by introducing the Listing Requirements in 2001. The subsequent 10-year Malaysia Capital Market Master Plan is placing heavy emphasis on corporate governance reforms. The Master Plan is a blueprint for action in the Malaysian capital market. In the light of recent failure to protect the interest of minority shareholders in troubled companies such as Malaysia Airlines and Renong, there is doubt whether governance practices will be effectively implemented in Malaysia. Should governance practices be intensified? Datuk Dr Shafie Mohd Salleh (2004), Deputy Finance Minister of Malaysia, feels that a market that is too governed is inherently better than a market that lacks corporate governance. Failure in corporate governance will weaken a company's defences to scandals, suspension in trading, and a possible collapse of the company. The Malaysian government recognises the challenge on governance enforcement and announced on 15 May 2004, the creation of a new Corporate Governance Committee (headed by the chairman of the Securities Commission) that reports directly to the Prime Minister.

As long as the managers are in charge of public funds, there is the need for corporate governance to mitigate manager-shareholder conflict. However, there is no universal prescription applicable to all economies. It is one thing to blame the Asian crisis on lack of good governance, and quite another to impose the western model of corporate governance that runs against the Chinese business culture. Asian values are still important as they stress the importance of harmony, while the western values place heavy emphasis on freedom and individualism. What Asia needs is perhaps a hybrid: the best of East and West.

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