INTERNAL CORPORATE GOVERNANCE MECHANISM,
FAMILY INVOLVEMENT IN MANAGEMENT AND EXECUTIVE
COMPENSATION OF SINGAPORE MANUFACTURING FIRMS

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DEDICATION

I wish to dedicate this study to my supervisors, parents and siblings.

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ABSTRACT

Corporate governance mechanism is strongly related to the financial department of the corporation to facilitate resources allocation and budget management. Governance mechanism produces a strong linkage between firm performance and return on investment. This makes governance mechanism stands as a top prioritized area to avoid unnecessary breakout in the firm. There are still a lot of unresolved issues in the corporate governance mechanism that happening around the world. In general, the core areas in the governance system are the board setting and executive compensation. Recently, scholars refer to socioemotional wealth (SEW) theory to describe the implementation by the owner of a family firm that impose the policy solely for their personal objective, such as utilizing the company resource without taking into consideration the view from majority shareholders. Due to internal governance mechanism which mainly managed by the firm owners, shareholders were usually concern about the rationale of the investment and handling of corporate policy. Based on principal-principal (PP) conflict theory, it depicts that firm owners expropriate the benefit of the minority shareholder due to the reason on conflict of interest between the related parties. The problem gets worse when the firm owner holds the top management position at the same time. Furthermore, executive compensation remains as a sensitive matter that being questioned until today. The primary research objective has been drafted to tackle the aforementioned issues. Selected manufacturing companies in Singapore were chosen in this research to provide better research output. Sample size of 96 manufacturing companies had been used as the primary data source for the entire work of data analysis. The research period has been set between years 2013 to 2016. Such respective setting has been formulated to strengthen the entire research. All the significant financial data has been extracted from the Datastream database and corporate annual reports. Panel regression analysis was used to analyse and eliminate the issues of autocorrelation and heteroscedasticity. Research instruments of SPSS and Stata has been used in this research to conduct the analysis by producing the statistical output. The respective financial data has been filtered accordingly based on the prescribed requirement. Particular data was utilised in the entire research for the subsequent regression analysis to generate the statistical output. The finding shows direct family involvement is able to provide the antagonistic effect towards the negative relationship between control contestability by the non-dominant shareholders, towards the setting of executive compensation in family firms. Finally, the research output provides a decent theoretical contribution and industrial application in the area of financial management, specifically in the area of governance mechanism. Significant theoretical implications can be accessed via the impact that exerted by the protocol in the family firm that implemented by the family owners. Moreover, this research also aims to provide insights to the independent consultant regarding the compensation setting where they can leverage the research finding to apply in their routine advisory task.

ABSTRAK

Mekanisme tadbir urus korporat adalah berkait rapat dengan bahagian kewangan bagi memudahkan pengagihan sumber dan pengurusan dana. Mekanisme tadbir urus menghasilkan kaitan yang rapat antara prestasi korporat dan hasil pulangan pelaburan. Ini menjadikan mekanisme tadbir urus adalah satu bidang yang diutamakan untuk mengelakkan perpecahan yang tidak diingini dalam firma. Terdapat banyak permasalahan yang berkaitan dengan mekanisme tadbir urus korporat di seluruh dunia masih tidak dapat diselesaikan. Secara umumnya, bidang teras dalam sistem tadbir urus adalah perlantikan pengarah dan kompensasi eksekutif. Kebelakangan ini, para penyelidik merujuk kepada teori kekayaan sosioemosi untuk menerangkan dasar korporat firma keluarga yang mengutamakan kepentingan peribadi dengan melaksanakan polisi tanpa mengambil kira pandangan majoriti daripada pelabur lain. Oleh sebab mekanisme tadbir urus dalaman lazimnya diurus oleh pemilik syarikat, isu utama yang selalunya dikhuatiri oleh pelabur lain adalah berkenaan objektif pelaburan yang rasional dan penyelarasan polisi korporat. Berdasarkan teori konflik antara pemegang-pemegang saham, ini menunjukkan bahawa pemilik firma sering mengetepikan kepentingan pelabur minoriti kerana konflik kepentingan antara kedua-dua pihak. Permasalahan bertambah buruk apabila pemilik syarikat juga memegang jawatan tinggi dalam pengurusan syarikat pada masa yang sama. Di samping itu, kompensasi eksekutif masih tergolong sebagai isu yang sensitif dan dibincangkan sehingga kini. Objektif utama penyelidikan telah disenaraikan untuk menyelesaikan masalah yang berkenaan. Syarikat pembuatan di Singapura yang terpilih telah disenaraikan sebagai sumber data dalam penyelidikan ini untuk hasil kajian yang lebih tepat. Sebanyak 96 syarikat pembuatan telah dirujuk sebagai sumber primer untuk kerja analisis data secara keseluruhan. Tempoh kajian telah ditetapkan antara tahun 2013 hingga 2016. Penyelarasan yang berkenaan telah dirangkakan untuk mengukuhkan penyelidikan secara keseluruhan. Maklumat kewangan telah dicapai daripada pangkalan Datastream dan laporan kewangan tahunan. Kaedah panel regresi telah digunakan kerana dapat mengetepikan permasalahan autokorelasi dan varians yang berbeza. Instrumen penyelidikan daripada SPSS dan Stata telah dipakai untuk mengendalikan hasil kajian yang berkenaan. Data kewangan telah ditapis untuk pemilihan data yang signifikan berdasarkan syarat yang ditetapkan. Maklumat kewangan yang berkenaan telah dipakai untuk analisis regresi yang seterusnya dapat menjana hasil statistik. Hasil kajian menunjukkan penglibatan keluarga secara terus dapat menyebabkan kesan antagonistic terhadap hubungan negatif antara kawalan kontestabiliti daripada pelabur minority terhadap penyelarasan kompensasi dalam firma keluarga. Akhirnya, hasil kajian ini dapat memberi sumbangan teori dan aplikasi industri dalam bidang pengurusan kewangan, terutamanya dalam bidang mekanisme tadbir urus. Implikasi teori yang ketara dapat dinilai melalui impak yang dihasilkan daripada dasar dalaman firma keluarga yang dikendalikan oleh pemiliknya. Di samping itu, kajian ini juga dapat menyalurkan pandangan kepada perunding bebas berkenaan penetapan kompensasi di mana mereka boleh mengaplikasikan temuan kajian tersebut dalam kerja rundingan harian.

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LIST OF ABBREVIATIONS

BINDPDC	-	Board Independence
CEODLTY	-	CEO Duality
CCTSBLTY	-	Control Contestability
EC	-	Executive Compensation
FAGE	-	Firm Age
FE	-	Fixed Effect
FINVLMNT	-	Family Involvement
FLVRG	-	Firm Leverage
FOWNRSP	-	Family Ownership
FSIZE	-	Firm Size
GRWOPPO	-	Growth Opportunity
INOWNSP	-	Institutional Ownership

LIST OF SYMBOLS

R-Square	-	Coefficient of determination
N	-	Sample size
Max	-	Maximum
Min	-	Minimum
Std. Dev	-	Standard deviation
VIF	-	Variance inflation factor

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CHAPTER 1

INTRODUCTION

1.1 Overview

Corporate governance is a fundamental tool for resolving internal management issues (Williamson, 1988). By default, the governance mechanism is strongly related to the financial department of the corporation to facilitate resource allocation and budget management. In an established firm, industry practitioners and legal experts are fully in charge of governance matters for systematic management. Internal governance is divided into board matters and compensation issues. These are vital areas of the corporation due to their linkage with a firm performance which is the measure of return on investment. This makes governance mechanisms a top priority to avoid unnecessary problems in the firm. Since family firms are the most common form of corporation globally, the unresolved issues associated with family firms have been discussed by numerous scholars for decades (Djankov et al., 2008). The problem is centred on the appointment of the top management, the nomination of board member with the objectives to achieve excellent firm performance and optimum levels of executive compensation. In general, ownership is either concentrated or dispersed. Typically, most family firms exhibit concentrated ownership patterns (Carney et al., 2011). As a competitive country in the region, Singapore is labelled as a country that has high executive compensation. Overall, this research examines the relationship between the internal governance mechanism and the setting of executive compensation in family firms.

1.2 Background of Study

Executive compensation is a critical component in the study of corporate governance, as investors seek to ensure the top management makes proper use of corporate resources for project development (Goh and Gupta, 2016). The governance mechanism is a fundamental tool to manage daily tasks in the corporation (Porta et al., 1999). With the primary objective to maximise the wealth of the company, management concentrates on the policy to improve the management of the company by prioritising the internal governance mechanism. Constructing and setting the compensation package always remains as the biggest challenge in the corporation, due to the different perspectives that exhibited within the corporate members. Therefore, this study aims to provide the comprehensive study regarding the setting of the compensation package in the family firms.

Executive compensation is the total compensated value including the allowance and bonus. The total compensation value is a key challenge in the corporation as the executives will typically expect higher compensation for their services. Meanwhile, the internal corporate governance mechanism is discussed regularly due to its effectiveness and functionality. Over the past decades, numerous scholars have focused on the variables of executive compensation and corporate governance mechanisms (Tosi and Greckhamer, 2004). Better governance will improve executive compensation, where an independent professional body functions to justify the compensation value. The relationship between the variables gets more complicated by considering the different types of shareholders. When the shareholders hold the larger share portion, the contestability strength of the related shareholders will grow significantly.

The unresolved issues of family firms have resulted in long-term debates in the management of the firm. Some firm owners hold the dual top management positions in the corporation to facilitate the decision-making process (Westby, 2014). Family firms are among the most dominant firms in the world and contribute significantly to the nation's gross domestic product (GDP) (SingaporeBusinessReview, 2017). Since the owners of family firms prefer to safeguard their benefit in the corporation, there is a conflict of interest between the shareholders associated with the entrenchment effect. Shareholders are concerned about the corporate philanthropy that should align with their target objectives (Song et al., 2016). The annual general meeting aims to solve the issue that needs to gather the consent from all the parties. The shareholder is anxious regarding the return on investment in the long-term for family firms. They also question the transparency of the management.

The board committee is another key component in the public firm that provides an advisory role to the firm for critical decisions (Ozdemir and Upneja, 2012). To date, the functionality and the practicability of the members of the board are debated. The kinship status of the board members with the firm owners can create a negative impression for outsiders (Puchniak and Lan, 2017). This concern has led to a debate of the composition of the dependent board members versus independent board members (Foo and Zain, 2010).

In recent years, numerous studies have explored the role played by the minority shareholders (Bennedsen and Wolfenzon, 2000). Currently, the power of the minority shareholders is growing, and coalitions of minority shareholders are being formed (Sauerwald and Peng, 2013). They understand the importance of protecting their rights to obtain the maximum benefit for the corporation.

Nevertheless, there is limited research on the significance of the minority shareholders in determining executive compensation. In the past, this respective group will act as the nominal group rather than play an active role in the management of the corporation (Cheng *et al.*, 2015). In recent years, technological advancement and accessibility of financial data have stimulated the group to play a more aggressive role in the corporation by applying their rights in the corporate voting session (Hugo Wang, 2016). The minority shareholders are taking a more active role in voting that will influence changes in the compensation value of the executives.

The capital injection by institutional investors is another significant influence on the governance mechanisms in the firm. The typical perspective of the investors is to ensure the capital will be generating a substantial return. This is best achieved by participating in the management of the company (Almazan et al., 2005). The business direction of the company has to be aligned with the interest of the institutional investors (Bruton et al., 2002). Despite that, the firm owner prefers that the institutional investors not to interfere in the operations of the firm. One of the most critical components that are strictly concerned by the institutional investors will be executive compensation. The investors prefer the firm owners set a satisfactory compensation value in order to allocate more financial resource in the development of the company.

As Singapore actively seeking a capital injection from international investors, the firm's governance mechanism must be robust (Tang and Yeo, 1995). Multinational corporations will only invest in nations with a positive trading environment. Hence, Singapore reviews its corporate law periodically to ensure the governance is up to date and able to provide maximised protection to all the related parties. The governance mechanism of top concern is board composition and compensation setting. The Monetary Authority of Singapore (MAS) is the body responsible for monitoring the overall practice of Singaporean firms. The periodical review of the corporate governance code is done to ensure the law remains updated.

1.3 Problem Statements

Given the rapid development of the global economy in recent decades, there have been significant transformations in the governance structure (Rajablu, 2016). Family firms are still the dominant ownership structure despite the involvement of various types of investors (La Porta et al., 2000). In order to ensure the profit growth of the corporation, the board committee provides services to avoid the power abuse by the top management executives (Chau and Gray, 2010; Chen and Nowland, 2010). In recent years, the significant growth of capital by institutional and retail investors has created multiple large shareholders within the corporation (Novaes, 1999). The complicated relationship between these parties is addressed in this research.

By studying the ownership structure in Singapore, Nguyen et al. (2015) find ownership concentration significantly influences governance policy formulation. Meanwhile, Mazur and Wu (2016) found a significant negative relationship between family involvement and CEO compensation. Based on agency theory, the agency cost is controlled to reduce the impact of the agency problem on the corporation. By focusing on family ownership, Cheung et al. (2005) investigated the relationship between the family firm and executive compensation within firms in Hong Kong. The low level of ownership concentration will limit the compensation by the management executive. As the biggest player in the public exchange, the family firms will receive more attention compared to other forms of the corporation. Specifically, manufacturing sector is the main driving force of the nation development that depicted by the value of gross domestic product (GDP). At the current, there has been limited study of corporate governance of family firms in the manufacturing sector. Therefore, this research investigates this sector in the Singapore Exchange.

Executive compensation of the top management personnel in Singapore is widely recognized with the high amount comparing to the rest of the nations. By having the tight rule control and strict enforcement, Singapore keeps a close eye on the surrounding issue to prevent any fraud case that related to the capital stake and monetary transaction in the corporation. Strong legislation provides the confidence to the institutional investors to cultivate the strong interest to inject the capital into the nation. In spite of that, In the family firms, the constitution of the prominent figures in the family firms and board composition mainly origin from the similar family background. Hence, the core role of the family members are extremely visible and vital. As the sole figure in the bureaucracy, the management personnel able to withdraw high salary without really commensurating the academic background and working experience (Sun *et al.*, 2010). By studying the case of Singapore, we can clearly diagnose the happening governance issues and subsequently applying the right formula to tackle the respective problem (Yeo *et al.*, 1999).

In recent years, the development of the global economy stimulates significant capital injection by retail traders. The investors seek protection for their investment via corporate controls. By studying the principal-principal conflict in the corporation, Shen et al. (2016) found that the external governance mechanism is enhanced to provide the related protection towards the minority shareholders in China. Meanwhile, Su et al. (2008) examined the impact of ownership concentration on the governance mechanism in Chinese public corporations. The principal-principal conflict will increase the agency cost and have a negative impact on the corporation. Attig et al. (2009) focused on the control contestability by the largest shareholders in East Asian economies. They found a significant link between the multiple large shareholders and the valuation. Since there is limited study related to control contestability, this research investigates the relationship of control contestability with executive compensation in the context of Singaporean firms.

Tsui-Auch and Yoshikawa (2015) examine the incorporation of independent directors in Singapore banks. Due to the culture penetration by the Anglo-American capital market, the appointment of the independent directors become more significant to safeguard the interest of the related parties. As a global financial hub, the importance of the independent directors becomes more apparent. Meanwhile, Foo and Zain (2010) focused on the relationship between board independence and liquidity in Malaysia. When the board is more independent, the liquidity value increases. They concluded that the liquidity value is important for the growth of young markets and their subsequent development. Sufficient liquidity is essential to ensure the normal cash flow in the corporation as well as the compensation package. On the other hand, Amran and Manaf (2014) investigated the relationship between board independence and account conservatism in Malaysia. Despite finding a non-aligned relationship between the two variables, the percentage of board independence still varies according to the country and leaving the unclear effect on the governance system. Therefore, this research explores the relationship between the board independence and executive compensation.

CEO duality is also common among family firms in order to safeguard their interest via the decision-making process. Since the firm is established by the owners, they prefer to retain their authority instead of handing control to the external parties. Based on a sample of Malaysian corporations, Ya'acob (2016) examined the relationship between the CEO duality and the CEO compensation that displaying the positive relationship between the two variables. Chahine and Tohmé (2009) examined the effectiveness of the CEO duality during the process of the initial public offering of companies in 12 Arab countries. From the research, underpricing issue is rarely recorded with the corporations practising CEO duality. Sheikh *et al.* (2018) investigated the relationship between the corporate governance and firm performance that reacting to the CEO compensation in the emerging market. Board Independence does not contribute any significance to the CEO compensation. Besides that, it is worth to note that CEO pay is highly persistent and does not have the drastic change. The influence effect can be aligned via the two types which are the interest alignment effect and entrenchment effect. By using the sample data of non-financial firms from Karachi stock exchange, it was shown with the ownership concentration delivers the positive effect on the CEO compensation. While the blockholding is the norm sign in the large firms, high compensation value and the associated firm performance became the utmost concern from all the investors. Therefore, the proposed research aims to investigate the related governance effect by using sample case in Singapore.

In recent years, investments by institutional investors have supported the rapid industrialisation around the world. As the institutional fund is commonly in the sovereign form, effective management and results are the key considerations. For instance, investors expect the firm to seek profits and ensure effective management. Song et al. (2016) focused on the relationship between the institutional investors and the corporate philanthropy. In order to achieve the designated investment target, institutional investors can shape the managerial philosophy that aligns with their interest. Zhou et al. (2016) studied the value of the institutional shareholders by focusing on listed Chinese firms. The findings indicate that the institutional investors try to enhance governance mechanisms regardless of the institutional setting of the firms. From a global perspective, Gillan and Starks (2003) studied the role of the institutional investors in a firm's governance setting. Due to the large capital injection, the power control of the institutional investors becomes stronger and enables them to monitor the corporation better. Despite the rise of institutional investors in the global market, there is limited research regarding their impact on firm governance. Therefore, this research explores the impact of institutional investors on the compensation setting in Singapore public corporations.

Many scholars investigated the influence of family involvement in family firms. The high concentration of family firms allows firm owners to involve themselves in the firm directly or indirectly. By obtaining the data from Chinese listed firms, Liang et al. (2014) found that there was an inverted U-shape relationship between family involvement and the likelihood of internationalisation. Firm owners set the constraint of the company resource that is detrimental to the globalisation process. Meanwhile, Gu et al. (2016) investigated the effect of family involvement in the decision-making regarding new market penetration for a sample of Taiwanese family firms. Based on the Socioemotional Wealth theory, the researchers concluded that there was a positive influence between the family involvement with the likelihood to enter the new industry. Kuo and Hung (2012) researched family control and cash flow sensitivity for Taiwanese corporations on the Taiwan Stock Exchange. The cash flow sensitivity is higher in the family firm control with the excess control rights prescribed by the principal-principal conflict theory. The numerous forms of family involvement have uncertain impacts on governance and setting the compensation. Therefore, this research examines the impact of family firms on the compensation value in Singapore family firms.

In summary, this research explores the impact of family involvement on internal governance mechanisms and setting executive compensation.

Table 1.1 Summary of problems

Area	Problem Statement
Family Ownership	Family ownership has received much greater attention from the public investors as directly affects their interests (Cheung et al., 2005; Nguyen et al., 2015; Su et al., 2010).
Control Contestability	The rapid development of the global economy and the transformation of the ownership concentration encourage the minority shareholders to play a more active role in corporate matters in order to alleviate information asymmetry as well as fighting for self-interest (Attig et al., 2009; Shen et al., 2016; Su et al., 2008).
Board Independence	The effectiveness and the functionality of the board are being challenged with the mechanism to provide sufficient monitoring of governance structure in the firm (Amran and Manaf, 2014; Foo and Zain, 2010; Tsui-Auch and Yoshikawa, 2015).
CEO Duality	The holding power of the CEO is significantly strong in the decision-making process of the compensation scheme within the corporation (Chahine and Tohmé, 2009; Jaggi et al., 2009; Ya'acob, 2016).
Institutional Ownership	The role of the institutional shareholders becomes more significant as the new monitoring regime shapes the governance protocol (Gillan and Starks, 2003; Song et al., 2016; Zhou et al., 2016).
Family Involvement	The risk preference perceived by the firm owner varies accordingly and could contradict with the rest of the shareholders (Gu et al., 2016; Kuo and Hung, 2012; Liang et al., 2014).

1.4 Research Questions

Corresponding to the problems mentioned above, four research questions have been drafted as follows:

1. To what extent does family involvement in management and the practice of CEO duality influence the setting of executive compensation in family firms as well as the related moderating effect of the family involvement?

2. To what extent does control contestability by non-dominant shareholders influence the family firm concerning the setting of executive compensation?

3. To what extent does the influence of board independence of directorship influence setting the executive compensation in the family firm?

4. To what extent does the institutional investor influence the executive compensation in the family firm?

1.5 Research Objectives

In order to respond to the drafted research questions, the research objectives have been created to be achieved throughout the entire research.

1. To investigate the impact of family involvement and CEO duality in the family firms on the setting of executive compensation in family firms as well as the moderating effect that possessed by family idnvolvement.

2. To examine the effect of control contestability that exerted by the non-dominant shareholders towards the setting of executive compensation in family firms.

3. To examine the influence level of board independence towards the setting of executive compensation in family firms.

4. To investigate how the influence of institutional investors influence the setting of executive compensation in the family firms.

1.6 Justification for choosing Singapore

Singapore’s government acknowledges that a friendly and harmonious environment is extremely important for the growth of the country in the long-term. Singapore is a modern and developed nation which can be the global natural standard for other nations. According to the Asian Corporate Governance Association (ACGA), governance in Singapore is robust with a high corporate governance index and good market ranking (Allen, 2014). In recent years, the Singapore government has introduced many incentive schemes to boost all the high potential industries in the nation. By cross-checking with the economic indicator of the GDP, Singapore is considered one of the most stable developed countries in the world (Nguyen et al., 2015).

Corporate governance in Singapore is an interesting topic of research as its legislative framework is controlled by the Monetary Authority of Singapore (MAS) and is accompanied by the strong monitoring of the Institute of Singapore Chartered Accountant (ISCA). Besides that, Singapore Exchanges (SGX) will be the main operating arm that manages the listing of the public corporations and monitoring the daily trading activity of the stocks. To handle the cyber-crime, MAS has linked up with the Commercial Affairs Department (CAD) to monitor illegal trading activities (Quah, 2016).

Since 2012, the ACGA ranked the corporate governance in Singapore in the same par with Hong Kong. With the new appointment of CEO in 2016, SGX split the regulatory arm from the main unit to maintain the independent function of the body (Allen, 2014). From 2016, it is compulsory for all the public listed corporations to nominate half of the independent directors onto the board to enhance the board independence and the level of transparency. Regarding the executive compensation, MAS also set strict rules for the public corporation to establish the remuneration and compensation committee (RC) to monitor and evaluate the appropriate value of the executive compensation (MonetaryAuthoritySingapore, 2012).

1.7 Significance of the Study

By focusing on executive compensation as the dependent variable, the research provides the related knowledge regarding the practice of family firms in setting the governance mechanisms (Globerman et al., 2011). Since the governance mechanism influences the interest of all the related stakeholders, it is vital to understand, in-depth, the factors that affect it.

Executive compensation is the variable that will be used as the dependent variable throughout the whole research. Overall, the amount of the executive compensation that received by all the top management in the corporation includes the basic amount of wages, bonus package, commission scheme, allowance package and etc. In family firms, the top management mostly consists of the family members since they are usually the largest shareholder in the corporation. In the general scenario, family members keens to engage with their own member to hold the top managerial position for the better control of the family firms via the entrenchment perspective. The appointment is usually be linked up with the tunnelling action that associated with high spending in term of compensation package (Hitt and Haynes, 2018).

In recent decades, several studies have focused on financial management and corporate governance, but little has been done based on the theory of Socioemotional Wealth (SEW) (Berrone et al., 2012a). Hence, the main significance of this research will be utilising SEW theory to examine executive compensation. SEW theory provides a working basis for the reasoning of the family owners in setting executive compensation regardless of the interference of the external financial factors (Fei Goh et al., 2015). By holding the status as one of the most competitive nation around the globe, Singapore is widely recognized with the high value of compensation package. Hence, the high value triggers the concern of the rest shareholders regarding their target investment return. In order to manage the corporations in the systematic approach, Singapore imposes the tight rule control and strict enforcement (Phan and Yoshikawa, 2004). Thus, institutional investors able to cultivate strong interest towards the investment in the Republic of Singapore as well as setting up operation base in order to expand the local market.

The second theoretical contribution will be the study of the control contestability and the corporate voting rights exercised by the non-dominant shareholders (Attig et al., 2009; Gutiérrez and Pombo, 2009). Besides the family owners, the role of the minority shareholders is essential. This research details the function of the non-dominant shareholders in the family firms either in solo voting or coalition within the shareholder group (Hugo Wang, 2016).

The third contribution of this research will be the analysis of board independence in public firms (Ozerturk, 2005). The research emphasises the importance of nominating independent directors on the board of directors to maintain a decent level of transparency (Ozdemir and Upneja, 2012). The monitoring role of the independent board members will be assessed to study the causal relationship between board independence and executive compensation.

The fourth theoretical contribution will be the investigation of the role played by the institutional investor with the capital injection in the company. The impact of investors will be studied thoroughly since the institutional investor is active in the corporate investment. The researcher will focus on the impact of institutional investors on compensation value in family firms (Hartzell and Starks, 2003; Khan et al., 2005; Song et al., 2016).

This research also emphasises the effect of the family influence and the family control on the family firm (Jaggi et al., 2009; Villalonga and Amit, 2006). It is significant in the area of financial management as family firms are the largest type of corporate pattern globally. The research investigates the effect of the policies implemented by the family owner on the rest of the stakeholders with the objective to ensure the high quality of the financial reporting with the sufficient degree of board independence.

Furthermore, this research offers a significant theoretical contribution by integrating the SEW theory (Gómez-Mejía et al., 2007) and principal-principal conflict (Peng and Sauerwald, 2013) to investigate the corporate governance issue. Integration of the theories enables the research to analyse the various theoretical perspectives to have a better capture of the related problems pertaining to executive compensation (Ben Hassen, 2014).

The seventh contribution will be the study of corporate governance in Singapore via the setting of executive compensation for the manufacturing industry. It offers a relatively new paradigm regarding the governance practice of the family firms in Singapore (Gillan and Starks, 2003).

Table 1.2 Practical Contribution

No.	Area	Description
1.	Family firm industry	The main contribution of the research is for the industry to set excellent practice in the daily management protocol for long-term sustainability (Gómez-Mejía et al., 2007).
2.	Contestability by the minority shareholders	The study will provide practical insights to determine the significance of the minority shareholders that playing the roles that standing against the family involvement in the family firms in corresponding to the executive compensation. (de Silanes et al., 2000).
3.	Investment by Institutional Investors	This study aims to provide the finding to the fund management industry regarding the

		involvement in the governance matter, particularly in the board and compensation matters (Young et al., 2008).

Regarding the practical contribution, the research aims to provide industry practitioners with practical approaches to manage governance issues, specifically the compensation matter. The complicated relationship between the owners, managers and shareholders needs to be handled systematically to ensure smooth corporate progress (Ruiz-Mallorqui and Santana-Martin, 2011). This research promises to deliver the necessary input to the family firm owners and investors regarding the appropriate governance mechanism for family firms.

1.8 Scope of Study

This research uses empirical analysis to analyse the effects of internal corporate governance mechanisms on setting executive compensation (Ozdemir and Upneja, 2012). Meanwhile, content analysis is chosen to investigate the appropriate context. The research will be carried out on Singaporean family manufacturing firms. The period of study are four years spanning from 2013 to 2016. The manufacturing sector is selected as it is the largest contributor to the exchange market as well as the GDP. Panel data regression analysis will be used for surveying the conditional and individual effects surrounding the variables.

1.9 Delimitation

This research has several delimitations that need to be taken into consideration. One of the major delimitations is the focus on a single industry. The manufacturing industry is selected due to a large number of players within the sector. Nonetheless, the researcher targets the single country of Singapore in this research based on the strong factors mentioned above (MTI, 2012). The selection of the single area will suit the research criteria. The research is focused on the governance mechanism related to the setting of the high executive compensation as well as the expropriation benefit of the non-dominant shareholders by the controlling shareholders (Djankov et al., 2008).

By default, family firms are the specified group that owns a significant share in the respective company. There are some exceptional cases when the transfer of the company’s shares takes place via a merger and acquisition (M&A). The owners will rather trade the business for good bids form the potential buyers. In this research, the researcher sets the 10% share ownership to be the base figure for the consideration of a family business as the eligibility of the voting rights is a minimum of 10% according to Porta et al. (1999) and Morck and Yeung (2004).

Finally, the concepts of family control and family influence are not well defined. Most scholars agree that family involvement will lead family members to have a significant percentage of share in the corporation in order to qualify themselves in the voting session (Pindado et al., 2014). Some scholars describe that the family control will be the exertion of power to elect the desired board members (Jaggi et al., 2009). Meanwhile, family influence will be the dominant share ownership held by the family owners that enables them to exercise their role in the decision-making of the company (Morck and Yeung, 2004; Revilla et al., 2016). The corporate decisions will decide the long-term performance of the company in term of the company revenue and the projected profit.

1.10 Definition of Important Terms

1. Corporate Governance: The overall system mechanism that practised and operated by the corporation in order to manage the corporation in a single unit for maximizing the financial return (Klapper and Love, 2004; Shleifer and Vishny, 1997).

2. Executive Compensation: The total annual wages that received by the executives who render the service to their host companies where the wages can be either fixed salary or stock options (Fong, 2004; Khan et al., 2005) .

3. Board Independence: The ratio of the independent directors that correspond to the total number of board members in the board committee (Ozerturk, 2005).

4. CEO Duality: CEO of the company who also holds the position of the president in the company (Chahine and Tohmé, 2009; Ya'acob, 2016).

5. Institutional Investors: Venture capital by the private equity industry that focuses on the investment of mature firm with the leverage of short-term debt or the stock offering in the board (Bruton et al., 2002; Gillan and Starks, 2003)

6. Control rights: The voting that owned by the particular shareholder for exercising their rights in order to fix the company policy (Peng et al., 2008).

7. Controlling Shareholder: The shareholder who has the significant decision making and significant influence towards the daily operation in the company (Peng et al., 2008).

8. Minority Shareholder: The small shareholder who has the substantially limited ownership stakes in the particular corporation (Shleifer and Vishny, 1997).

9. Dominant shareholders: The shareholder of the corporation who holds the largest voting rights of the company and the full control in the respective company (Goh, 2014).

10. Control Contestability: The voting rights that owned by the second largest shareholder to fifth shareholders for exercising their rights in order to decide the corporate policy matter (Attig et al., 2009; Gutiérrez and Pombo, 2009).

11. Family Business: The business that operated by the management with the blood tie relationship where the family member hold the significant managerial position in the particular company (Jaggi et al., 2009).

12. Family Control: The family member who holds the minimal of 10% company shareholding in the respective company that is awarded the voting rights

(Pindado et al., 2014; Porta et al., 1999; Sciascia and Mazzola, 2008).

1.11 Organization of the Thesis

The remaining of the thesis is arranged in such the way that Chapter 2 is the literature review with the related supporting theories that included with the hypothesis development. The research framework is drafted to illustrate the general idea of the research, as well as linking up with all the dependent and independent variables in the research. Besides that, the moderator of the family involvement is included in the research for observing the designated impact to the governance mechanism. Chapter3 is the research methodology which describes the technique which likes to be used by the researcher, to run the analysis after the data collection. Chapter 4 will be the results and the finding after the data analysis. Chapter 5 delivers the discussion and conclusion of the research, which will be the final part of the thesis.

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LIST OF PUBLICATIONS

Indexed Journal

1. See Toh Seong Kuan, J., Fei Goh, C., Tan, K., & Mohd Salleh, N. (2017). Principal-Principal Conflicts and Socioemotional Wealth in Family Firms. *International Journal of Economics and Finance, 9*, 128. doi: 10.5539/ijef.v9n10p128. **(Indexed by ERA)**

Non-Indexed Conference Paper

1. See Toh Seong Kuan, J., Fei Goh, C. (2016, December). *Agency Theory in Asia: A Review*. Paper presented at International Conference on Humanities 2016, Penang, Malaysia.