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Partial privatization, corporate governance, and the role of state-owned holding companies

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Abstract

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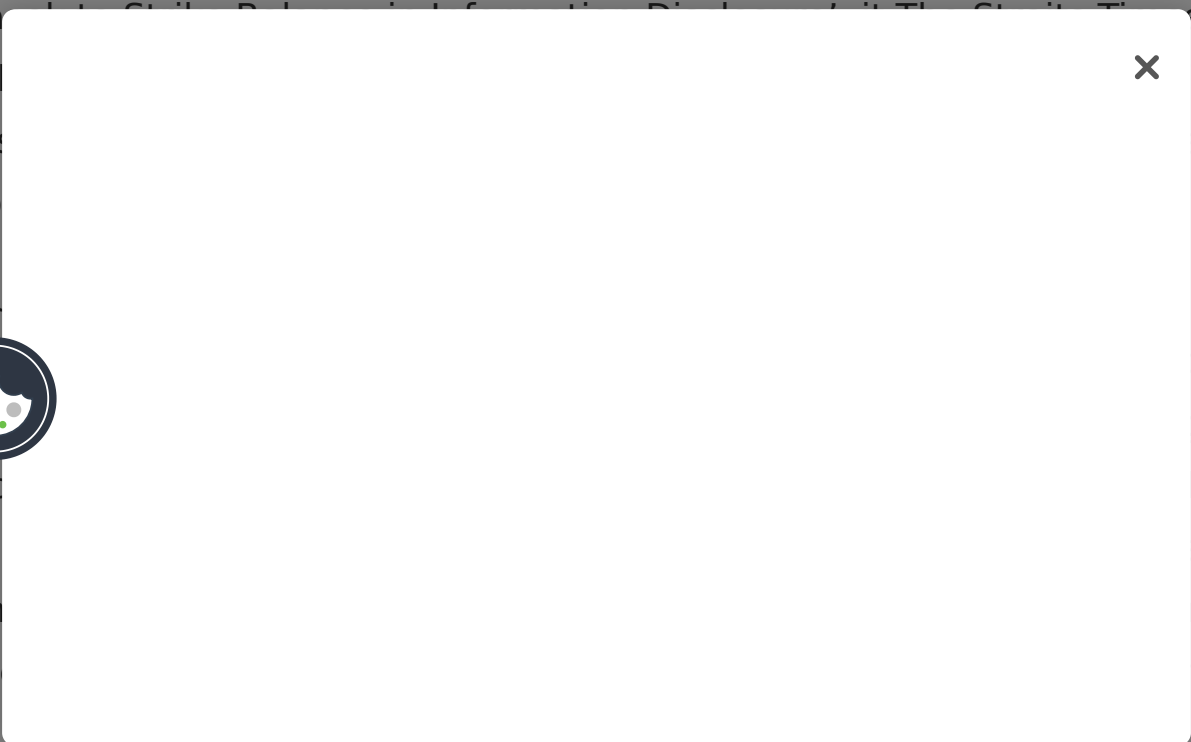
Notes

1. In this paper, GLCs refer to local firms wholly or partially owned by the government. Hence, they can be subject to further privatisation. The term does not include government investments in overseas firms, which may be liable to regulations and requirements that are less easy to control by the SOH. Our definition of the GLCs, in this sense, is narrower. This distinction, however, should not be a matter of concern in the context of the present paper, which focuses on corporate governance of the SOH.

2. By corporate governance, we mean the effectiveness of mechanisms to mitigate the agency problem, involving the privatized firms as agents and the SOH as a shareholder representative of the government.

3. 'Temas... 30 March... concerns... higher p... Singapore, the for even

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5. Chan, Fiona, 2005, Set up single governance body: SIAS, The Straits Times, October 13, 2005.
6. [Singh and Siah \(1998\)](#) and [Ang and Ding \(2006\)](#) have argued along a similar line. Ang and Ding ([2006](#), p. 72) review that the THL has a team that looks after stewardship matters of companies in which it has at least a 20% share ownership. The THL 'does not seek waivers from disclosures, is open to GLCs being acquired, and limits the tenure of board members to a maximum of 6 years'. Following the success of the THL, other SOHs like Mainland China's SASAC have expressed interest to learn a thing or two from the THL.
7. See [Ho \(2004\)](#). Since inception, the THL has provided its shareholder (the Minister for Finance) with an average annual cash dividend yield of more than 7% (over the last three years, cash dividends amounted to an average of S\$1.3 billion a year).
8. The debate on divesting the GLCs intensified after several failed acquisitions from the GLCs. Singapore Telecommunication's unsuccessful acquisition of Cable and Wireless (Hong Kong) in March 2002 and Malaysia's Time Engineering in May 2002 and the Singapore Airlines' failure to take a controlling share of New Zealand's Air New Zealand were some examples. These incidents subsequently led to greater calls for divestments. The government conceded and reduced its stake from 78% to 65% and gave up its golden share to create the arm's-length distance by the time Singapore Telecommunication acquired Optus (Australia) and Telekomninasia Selular (Indonesia) in 2001 (as at end March 2005, THL stakes in Singapore Telecommunication fell marginally to 63%). THL has the intention to reduce the share of investments in Singapore Telecommunication to 60% by the end of 2005. This move is necessary to ensure that the government's shareholding in Singapore Telecommunication corresponds to its stake in the company.
9. MacAvoy, 2004, The Separation of Ownership and Control: A Study of the Performance of Publicly Listed Companies. The study found that the performance of publicly listed companies is significantly higher than that of privately held companies. The study also found that the performance of publicly listed companies is significantly higher than that of privately held companies. The study also found that the performance of publicly listed companies is significantly higher than that of privately held companies.
10. EVA, 2004, The Separation of Ownership and Control: A Study of the Performance of Publicly Listed Companies. The study found that the performance of publicly listed companies is significantly higher than that of privately held companies. The study also found that the performance of publicly listed companies is significantly higher than that of privately held companies. The study also found that the performance of publicly listed companies is significantly higher than that of privately held companies.
11. 'Singapore's Economic Performance: A Study of the Separation of Ownership and Control', <http://www.eva.com.sg>. The study found that the performance of publicly listed companies is significantly higher than that of privately held companies. The study also found that the performance of publicly listed companies is significantly higher than that of privately held companies. The study also found that the performance of publicly listed companies is significantly higher than that of privately held companies.



12. Using the case of Singapore Technologies Engineering (which is partially owned by the THL), [Conyon \(2006\)](#) estimated that stock option compensation accounted for only about 10% of the total compensation, which was smaller than that of the UK (12%) ([Conyon and Murphy 2000](#)) and the US (where a typical CEO at the S&P 500 list received about 50% of his/her pay in terms of stock options) ([Murphy 1999](#)).

13. [Singh and Siah \(1998\)](#) also show considerable interlocking directorship among GLCs (see [Singh and Siah 1998](#), p. 43, Table 9). Judging from the performance of the GLCs, the authors conclude that the Singapore experience has been positive. However, [Phan and Mak \(1998\)](#) warn that a high percentage of interlocks between competitors in the same industry may lead to 'moderation of competitive intensity'.

14. Refer to Temasek Review 2005.

15. The model has worked generally well, at least in the Singapore case. But it is not free from criticisms. [United States, State Department \(2001\)](#) expresses concerns that (1) government influence over the management of GLCs may constitute an unfair advantage over non-GLCs in contract bidding and access to loans, and (2) former civil servants holding senior positions at the THL and GLCs may be less inclined to take significant risks. In addition, critics have raised questions on a number of appointments at the THL and GLCs. THL CEO Ho Ching, for example, is the wife of Prime Minister Lee Hsien Loong and daughter-in-law of Lee Kuan Yew. Lee Hsien Yang, brother of PM Lee is currently heading Singapore Telecommunications, a GLC. When asked about the perception that the only way to shake up the GLCs is to bring in a member of the Lee family, former PM Goh Chok Tong agreed but said, 'But what do you do? Because of the perception that the only way to shake up the GLCs is to bring in a member of the Lee family, former PM Goh Chok Tong agreed but said, 'But what do you do? Because of the number of appointments at the THL and GLCs, there is a perception of a problem politically. Business Week, 2001. The time. The (see




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