Corporate Governance and Board Performance

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Empirical Evidence from Pacific Island Countries

By

Morris O. Namoga

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ABBREVIATIONS

ABV	Australian Business Volunteers
ADB	Asian Development Bank
AusAID	Australian Agency for International Development
CAAF	Civil Aviation Authority of Fiji
CATPCA	Categorical Principal Component Analysis
CBSI	Central Bank of Solomon Islands
CMDA	Capital Markets Development Authority
CEO	Chief Executive Officer
DBSI	Development Bank of Solomon Islands
DPO	Development Partner Organisations
DPE	Department of Public Enterprises
EIRP	Employment and Industrial Relations Plan
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
FBLC	Fiji Broadcasting Limited Corporation
FDB	Fiji Development Bank
FEA	Fiji Electricity Authority
FHCL	Fiji Hardwood Corporation Limited
FHL	Fijian Holdings Limited
FICAC	Fiji Independent Commission Against Corruption
FNPF	Fiji National Provident Fund
FOC	Free of Charge
FPA	Fiji Ports Authority
GCC	Great Council of Chiefs
GDP	Gross Domestic Product
ICSI	Investment Corporation of Solomon Islands
IMF	International Monetary Fund
MPE	Ministry of Public Enterprises
NBF	National Bank of Fiji
NDP	National Directors Program
NLTB	Native Lands Trust Board
NZAid	New Zealand Agency for International Development
OECD	Organisation for Economic Cooperation and Development

PFL	Post Fiji Limited
PICs	Pacific Islands Countries
PIF	Pacific Islands Forum
PIFS	Pacific Islands Forum Secretariat
PNG	Papua New Guinea
RBF	Reserve Bank of Fiji
RRL	Rewa Rice Limited
SCI	Statement of Corporate Intent
SIEA	Solomon Islands Electricity Authority
SINPF	Solomon Islands National Provident Fund
SIPA	Solomon Islands Ports Authority
SIWA	Solomon Islands Water Authority
SoE	State-owned Enterprise
SPL	Solomon Post Limited
SPSE	South Pacific Stock Exchange
STL	Solomon Telekom Limited
TFL	Telekom Fiji Limited
TIF	Transparency International Fiji
USP	University of the South Pacific
UTOF	Unit Trust of Fiji

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ABSTRACT

Achieving adequate economic growth is crucially important for the improvement of standards of living and the livelihoods of people in the Pacific island countries (PICs). A successful business sector is an important prerequisite for economic growth in the Pacific islands. However, the inability to attract investment capital, inefficiency, poor performance and even corporate failures, have been common phenomena in the PICs. Poor performance of the business sector has weakened its role as the engine of economic growth in the PICs. It has been widely held that the lack of good corporate governance practice in the business sector is largely responsible for such poor performance. Consequently, boards of directors have come under heavy criticism and scrutiny in the PICs, often accused for being ineffective, corrupt and lacking the ability to drive success in business enterprises. As such, an in-depth understanding of how boards of directors operate is of utter importance not only for academic inquiries but also for government and industry policy developments in the PICs. This study examines the role of boards of directors and the factors that affect the board's ability to perform their roles in the PICs, by focussing on two countries, Fiji and Solomon Islands.

The board is seen as a vital governance mechanism that plays an important function in business. How boards are structured, the processes in which they are involved and the role they play vary across different types of firms as well as countries, which often have important implications on how effective boards perform their roles. In the PICs, board size, composition, diversity and multiple directorships are often driven by political and socio-cultural motives (particularly in SoEs), not by economic or sound managerial motives. How such board attributes would promote effectiveness in boards is questionable. This study investigates if (1) board attributes have a direct effect on board performance; (2) the causal effect of board attributes on board performance occurs through the influence of board processes; and (3) there exist causal effects between different board processes which affect board performance.

A mediation model was developed for the investigation. Survey data were obtained from boards of businesses in Fiji and Solomon Islands. The factor/ordinal structure of board process and performance indicators were analysed and examined using CATPCA (categorical principal component

analysis). The bootstrap technique was also used to test the mediation model.

The study found that (1) the board attributes of *size*, *composition*, *diversity* and *multiple directorships* affect board performance through the effects of board processes such as *effort norms*, *cognitive conflicts*, *board cohesiveness*, and the *use of knowledge and skills*, and (2) the board processes of *CEO/board relationships*, *board motivation*, *affective conflict* and *board information flow* also affect board performance through the processes of *effort norms*, *cognitive conflicts*, *board cohesiveness* and the *use of knowledge and skills*.

This study makes the following important contributions to the corporate governance literature: (1) board attributes do not necessarily directly affect board performance, but through the influence of board processes; (2) different board process elements also influence each other which in turn affect board performance; (3) the bootstrap technique is a useful tool in overcoming limited data problems associated with corporate governance research, especially in developing economies; and (4) it adds to the understanding of governance issues and challenges in developing economies in general, and in the PICs in particular.

In terms of government and industry policy development in the PICs, the contributions of this study include: (1) the establishment of policy guidelines on board appointments; (2) the improvement of decision-making regarding the structural design of boards; and (3) the formulation of corporate governance codes.

The key implication emanating from the findings of this study is that to improve board performance in the PICs, policy and decisions regarding the size, composition, diversity and multiple directorships should be based on a sound understanding of (1) how board attributes influence board processes, and (2) how different board process elements influence each other. Future board appointments must be made by judging a member's capability to enhance the board's performance, but not by political and socio-cultural motives. Only by doing so, can the boards of directors be expected to better contribute to the business sector's growth and hence the overall economic growth in the PICs.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The role of the board of directors as a corporate governance mechanism has attracted much attention in developed countries, but it is only recently that the subject has begun to receive awareness in the Pacific island countries (PICs). This book examines the role of the board and the structural and process attributes that influence its ability to direct and control its activities; hence its contribution to firm performance in PICs.

There is little doubt that a robust and vibrant business sector is the key to the long-term economic growth of PICs. Unfortunately, economic growth in PICs is generally weak or poor as countries struggle to sustain overall positive growth. The poor economy in PICs in general is echoed in a wide range of economic indicators, one of which is a weak business sector which is unable to drive economic growth. Often, reports highlight that the business environment in PICs is not conducive to doing business (Asian Development Bank, 2005; AusAID, 2009; The World Bank, 2010), and therefore, firms are unable to attract the required investment capital that will allow them to drive the economic growth required to generate employment opportunities for the region's high unemployed population and the subsequent improvement of livelihood for its people. In response, governments in PICs with the backing of industry sectors and development partner organisations (DPOs) have focussed on improving their business environments by promoting efficiency and reducing the cost of doing business in the hope of creating an environment conducive to business investment.

While these actions are significant to the promotion of economic growth, they fail to recognise the importance of strengthening the internal governance systems in public and private enterprises in PICs, and importantly, how these systems impact on the performance of individual enterprises, the business sector and hence economic growth. In fact, evidence suggests that corporate governance systems play a central role in economic performance because they provide mechanisms that affect firm performance and subsequently the returns on investment by suppliers of external finance (Garay & Gonzalez, 2008). Indeed, the importance of corporate governance has increased dramatically following strings of business scandals, mostly in developed countries, which highlight serious governance weaknesses in corporate organisations (Brown & Caylor, 2004; Kiel & Nicholson, 2003). Specifically, the collapse of once thought unsinkable or beyond reproach companies like Enron and WorldCom in the US, and Ansett, OneTel and HIH in Australia, have compelled investors and other stakeholders to demand better governance by those responsible for corporate bodies (Kang, Cheng & Gray, 2007). This is because corporate governance is widely regarded as the way to keep businesses on course by preventing abuse and scandals (Panasian, 2003), based on increasing evidence that associates corporate governance with firm performance (Brown & Caylor, 2004; Harris & Raviv, 2006).

In PICs, corporate governance has attracted attention for very similar reasons. The lack of good corporate governance has led to the inability and failure of state-owned enterprises (SoEs) to generate profit, which has continuously put governments under huge budgetary pressure just to keep them afloat in line with national interest. Some countries have encountered more painful losses following the bankruptcy of important economic institutions. Two prominent cases in point were the collapses of National Bank of Fiji (NBF) in 1995 and the Development Bank of Solomon Islands (DBSI) in 2004. These failures have significantly affected the livelihoods of a large number of employees, customers, shareholders, vendors and other key stakeholders in the two countries (Boyd, 2003). Furthermore, compelling evidence in PICs suggests that enterprises continue to face difficulties in accessing capital to finance even viable projects (Asian Development Bank, 2009; The World Bank, 2010). Significantly related to this, is the lack of investor confidence in the governance mechanisms that supposedly exist to protect the interests of capital providers to enterprises (Pacific Islands Forum Secretariat, 2005). In this sense, corporate governance is seen as an important pre-requisite for the success of the corporate sector, and hence, economic growth in the PICs.

While corporate governance comprises a broader spectrum of mechanisms, one of the important components of an enterprise's governance system is the board of directors. Specifically, the effectiveness with which the board of directors governs the affairs of the enterprise affects its ability to meet its objectives.

Tang (2007:3) summed up the significance of the board of directors to the success of an enterprise by stating that,

> "*…..sound governance is critical for firms to perform well and to ensure effective performance by corporate boards. Hence, resolving issues prevalent in board governance should help ensure that firms meet their objectives, funds are well managed, and the interests of shareholders are reflected in strategic decisions*".

Without doubt, the role of the board of directors in corporate governance will inevitably become a significant area of focus in the economic development policy priorities in PICs. This book, being one of the first of its kind on the Pacific, contributes to the examination of the role of boards of directors in PICs. Specifically, given the author's experience and the practical limitations in undertaking a larger PICs study, this book focuses on Fiji and Solomon Islands as case examples.

1.2 Motivations for this study

First, there is limited literature and hence knowledge on corporate governance systems in developing economies such as the PICs. This is because corporate governance research has mainly focussed on the experience of developed economies like the US, the UK, other European nations, and recently, countries such as Australia and New Zealand. Thus, research on corporate governance systems and practices in developing economies is scarce. Although some recent studies help us to understand the differences between corporate governance systems and practices in developed countries such as the US and emerging countries such as China, Korea and India (Charkham, 1994; Demb & Neubauer, 1992; Sheridan & Kendall, 1992), knowledge on the governance systems in developing economies such as PICs is still limited or even non-existent. One possible explanation is the lack of interest from corporate governance researchers in the governance issues in developing economies (Maassen, 1999). However, the main factors could well be the unavailability of data and resources, researcher's lack of familiarity and insights into the corporate governance systems in developing economies, and more so, the lack of capability by academic researchers in PICs. As a result, our knowledge of corporate governance systems is overwhelmed by what Maassen (1999) described as "the domination of Anglo-Saxon perspectives of corporate governance".

Second, the nature of business ownerships in PICs presents a unique setting to study issues of board governance in developing economies. In PICs, the predominant form of business ownership is the family-owned business, which is managed and closely controlled by the family. In a family-owned business, normally there is little or no separation of ownership and control as members of the owning family manage and control the affairs of the business themselves. In cases where a board of directors exists, the board is mostly dominated by family members and sometimes by professional individuals close to the family. Otherwise, outside directorship of family-owned businesses is rare. Often, a senior member of the family would concurrently assume the chairmanship position on the board and the top management position in the business. In essence, this ownership system serves as a corporate governance system in itself, through which, the interests of the owner-family are assumed to be adequately protected. Indeed, due to lack of research, there is a gap in the knowledge of the role of boards in family-owned businesses in developing economies like the PICs, an issue which is further discussed in Chapter 2.

Third, the governments in PICs continue to actively participate in the economy through its involvement in SoEs. Usually, the government or a specific holding company established by it, holds all, if not the largest share of the equity in SoEs. Accordingly, the state's ownership interests in SoEs are managed through this institution. In effect, with SoEs the ownership is often separated from management, hence, the government as the owner (through the holding company or a responsible body) appoints the board to oversee its interest in SoEs. However, the unfortunate reality is that board appointments are often subjected to socio-political manipulations, which implies that boards do not necessarily provide the skills required by SoEs. Additionally, while the state is expected to act as a passive investor by allowing the board and management to run SoEs, often ministers and politicians intervene in the operations of the enterprise. As a result, SoEs have often become a central focus of corruption allegations and poor governance in the PICs. These issues are addressed in Chapter 2.

Lastly, anecdotal evidence suggests that individuals who own big businesses often present themselves as enthusiastic political rent-seekers, and therefore, they have the ability to influence the government in PICs. Many of these individuals sit on important positions in SoE boards; thus, board appointments at times are hard to explain other than through the rent-seeking influence of big business people. Unfortunately, too often, the award of SoE service contracts is influenced by the presence of these individuals in decision-making bodies such as boards. Consequently, this affects the efficiency of SoEs and it makes good corporate governance practices very difficult to implement in SoEs.

No doubt, these factors highlight the urgent need to develop a sound understanding of the specific issues affecting the ability of boards of directors to contribute to enterprise performance in PICs. Simultaneously, our knowledge and understanding is limited by the lack of empirical research on board governance in PICs. In response, this study examines how the structural attributes of the board and the processes that boards involve, influence the ability of boards of directors to carry out their roles in public and private enterprises in PICs.

1.3 Research Questions and Research Objectives

1.3.1 Research Questions

This study examines the causal relationship between board attributes, board process and board performance in public and private enterprises in Fiji and the Solomon Islands. Accordingly, the leading research question investigated in this book is:

Do board attributes affect board performance through the influence of board process in public and private enterprises in Fiji and the Solomon Islands?

In addition to the above leading question, the study also investigates the following specific research questions in the context of Fiji and the Solomon Islands:

- *Is the relationship between board size and board performance influenced by board process?*
- *Does board composition indirectly affect board performance through its effect on board process?*
- *Is the relationship between board diversity and board performance indirectly influenced by the effect of board process?*
- *Do multiple directorships affect board performance through the effect of board process?*
- *Are there causal inter-relationships between different board processes that affect board performance?*

1.3.2 Research Objectives

In answering the above research questions, this study seeks to verify the potential causal effects of board attributes and board processes on board performance and to promote the need to apply such knowledge to board design and to appointment policy decisions in PICs. Thus, the specific objectives of this study are to examine:

- the effect of board size on board performance and to determine if this effect is indirectly mediated by board process.

- the effect of board composition on board performance and to examine if this relationship is mediated by board process.
- the effect of board diversity on board performance and to find out if this effect is indirectly influenced by board process.
- the effect of multiple directorships on board performance and to determine if this relationship is indirectly mediated by board process.
- if interrelationships exist between different board process variables and to investigate if these relationships affect board performance.

1.4 Research methodology

To provide answers to the above research questions, the research strategy in this study involves a combination of the quantitative and qualitative research approaches. This approach and the methods used in the research are briefly highlighted below.

1.4.1 Secondary Data

The secondary data required in the study include data on board size, board composition, board diversity, multiple directorships, firm size, firm type, industry sector, and other industry descriptive statistics. These data were mostly collected through individual company annual reports, financial reports, quarterly reports, handbooks, proxy statements and specific industry and government department database. Other important industry and country publications were also used to supplement these sources.

1.4.2 Primary data

The primary data for this research were mainly sourced through survey questionnaires and personal interviews. The survey questionnaire was administered with the very people involved in boardroom activities such as CEOs, chairpersons, directors, board secretaries, and board observers to obtain data on board processes and board performance. Additionally, personal interviews were conducted with board personnel to supplement the data obtained through the survey questionnaires. Indeed, the interviews have proved extremely useful in gaining insightful information into the internal operations of boards of directors. A detailed description of the procedures involved in the administration of the survey questionnaires and the personal interviews is given in Chapter 4.

1.4.3 Research sample

The sampling procedure applied in this study involves both probability sampling and the non-probability sampling technique of snowballing. Initially, 150 firms in Fiji and 100 firms in the Solomon Islands were selected using probability sampling based on the records obtained from the Registrar of Titles/Companies in the two countries. Overall, the response rate for Fiji and the Solomon Islands was 25 per cent and 22 per cent, respectively, based on the probability sample. The snowball technique was further applied to improve the observed sample which generated another 12 firms from Fiji and 14 firms from the Solomon Islands. In total, 50 firms responded for Fiji and 36 firms responded for the Solomon Islands, resulting in a total final sample of 86 firms covered in the study. A detailed description of the sampling process is provided in Chapter 4.

1.4.4 Data verification

Various techniques, such as data coding, data capture, data editing, dealing with invalid or missing data, creating derived variables where necessary, non-respondent follow-ups, data output spot-check are used to verify the data in order to minimise any non-sampling errors that could have been introduced during various stages of the survey. Statistical quality control tools such as descriptive statistics in the form of the mean, standard deviation, range, and other measures of distribution of the data were also used. The details of these processes are presented in Chapters 4 and 5.

1.4.5 Statistical Analysis Techniques

A number of statistical techniques were applied to process and analyse the data gathered for this study. First, Categorical Principle Component Analysis (CATPCA) was applied in the processing and analysis of ordinal data on the board process variables and board performance variables considered in the research. Second, Pearson correlation was applied as a form of preliminary analysis to determine bi-variate correlations between board attributes, board process, and board performance variables. Third, the hypotheses tests were conducted using the mediation analysis technique of bootstrapping, which estimates the effect of an independent variable on a dependent variable through changes in a mediator variable. These techniques are discussed in detail in Chapter 4.

1.5 Contributions and Significance

This book contributes to the corporate governance literature through the advancement of knowledge on corporate governance problems and challenges in developing economies such as the PICs.

Firstly, corporate governance and board research have mainly focussed on developed and emerging economies. Governance knowledge in the context of developing economies like PICs is limited. In this regard, this book will make an important contribution to the literature by examining the structural and process attributes that influence board performance based on the experience of Fiji and the Solomon Islands.

Secondly, board research has mainly linked specific attributes of the board to firm performance without any direct evidence of the processes or mechanisms which presumably link these board inputs to performance outputs. However, input variables such as board structural attributes are just as important as the process through which boards are involved in performing their duties. Hence, simply having a structure is not sufficient because the right process must be in place to transform board inputs into the desired performance outputs. Thus, board performance is as much a function of board structure as it is of board process. Therefore, this study will contribute to the literature by empirically examining the causal relationships between board attributes, board process and board performance to create a better understanding of what boards actually do, how they work, and derivatively, to what extent they influence firm performance.

Thirdly, board research naturally faces difficulty with getting access to data given the confidential nature of board activities. As a result, board research often encounters the challenge of obtaining a sufficient sample size required for popular econometric analysis such as regression models. Thus, alternative techniques appropriate for small sample analysis need to be explored to overcome sample size limitations in board research. This study will contribute to the literature by demonstrating the usefulness of the bootstrap technique as an alternative statistical tool to deal with the limitations imposed by small data samples which is common in board research.

Additionally, the findings of this research are expected to be of great relevance to a number of players in PICs who are interested in improving corporate governance in their countries, such as public and private enterprises, government departments and their holding companies, and development partner organisations.

- Public and private enterprises. Since this research explores the causal relationship between attributes, process and performance, the results will assist firms in their internal effort to address problematic areas so as to make significant improvements in their performance. This is a significant step as it involves highlighting the differences between successful and failed boards.
- Governments and their holding companies. At the national level, the results of this research will help policy makers improve their understanding of corporate governance issues. In particular, the results will enable them to assist government investment arms such as holding companies as to what can be done to improve the contribution of boards to SoE performance in PICs.
- Development partner organisations (DPOs). The findings of this research will inform DPOs that, unless the internal governance systems in enterprises in PICs are strengthened, their ability to attract domestic and foreign capital will be affected, and therefore, their performance and capacity to drive economic growth in PICs will remain weak.

1.6 Organisation of the Book

Following this introductory chapter, the next chapter (Chapter 2) is devoted to providing background information that helps the understanding of issues concerning corporate governance and board performance in PICs. In Chapter 3, relevant literature is reviewed.

Building on the discussions in Chapters 2 and 3, Chapter 4 presents the conceptual framework which highlights the key relationships to be examined in this study, and summarises the key propositions to be tested. The chapter then goes on to explain and justify the research design and describes how the design is to be implemented to generate answers to the research questions set out for this study.

Chapters 5, 6 and 7 report the research findings. In Chapter 5, the preliminary descriptive results of the study are presented. Chapter 6 reports the results related to the causal relationship between board attributes, board process and board performance. This is followed by the results concerning the inter-relationships between board processes and the impact of these effects on board performance in Chapter 7.

Finally, Chapter 8 summarises the findings, draws conclusions, considers the limitations of the study, and offers recommendations for policy formulation and for future research.

CHAPTER TWO

CORPORATE GOVERNANCE IN PACIFIC ISLAND COUNTRIES: STATUS AND CURRENT ISSUES

2.1 Introduction

Given the dominance of corporate governance research in developed countries, little is known about corporate governance systems, practices and related challenges that continue to hinder economic growth in developing countries like the PICs. Hence, this chapter is devoted to providing background information about current issues and developments concerning corporate governance and the roles of boards of directors in public and private enterprises in the PICs.

In PICs, discussions on corporate governance have been linked to the lack of adequate economic growth and the perceived failure of economic and social development in the region (Asian Development Bank, 2005). At least, this occurs at three levels. First, at the regional level through the Pacific Islands Forum (PIF), governments have acknowledged the importance of good governance to the development and economic growth in PICs. The Pacific Plan initiated by PIF leaders in 2007 was testimony to this, in which leaders reaffirmed the importance of achieving good governance as a fundamental regional priority (Pacific Islands Forum Secretariat, 2007). Secondly, at a national level, individual governments have begun to translate some of the promises made in regional forums toward improving governance into their national policy frameworks. However, most of these efforts lack political enthusiasm and therefore progress is negligibly slow. Finally, at the business or industry sector level, corporate governance is a new concept but one that has increasingly engaged the minds of shareholders, investors, corporate regulators, government and stock markets, including boards of directors and business executives who are involved in the management and control of public and private enterprises.

Research shows that enterprises in developing countries face difficulties in accessing finance to fund viable projects (Shleifer & Vishny, 1997). In PICs specifically, a number of factors contribute to this problem. First, the financial capital markets are relatively underdeveloped, hence there is inadequate support available to the business sector to promote growth. Second, the law and legal system in PICs is generally weak, and therefore, regulatory enforcement mechanisms are poor with little protection to providers of capital and potential investors. Third, socio-cultural issues such as communal land ownership, the primacy of the community, and social network relationships are seen as significant barriers to private entrepreneurship, investor confidence, and hence, the growth of the business sector in PICs. In addition, evidence suggests little confidence in the ability of enterprise managers, boards of directors and people who are charged with managing and governing the affairs of enterprises to protect the interests of capital providers and investors (McKee, 2007; McMaster, 2005). No doubt, these factors are critical to the inability of the business sector to access capital in PICs. The more difficult they become, the more doubtful investors will be about the chances of getting a return on their investment funds (Shleifer & Vishny, 1997). This is referred to as the “expropriation risk” which is the essence of corporate governance (Garay & Gonzalez, 2008; Shleifer & Vishny, 1997). Anecdotal evidence suggests that expropriation risks are more pronounced in developing economies, therefore corporate governance becomes essentially crucial for economic growth in PICs.

This chapter focuses on current corporate governance issues in PICs by linking poor economic growth and the weak performance of the business sector to corporate governance mechanisms, in particular, the role of boards of directors. In doing so, the chapter intends to show that a host of political, socio-cultural, and internal structure and process factors influences the contribution of boards to the performance of enterprises, and therefore, economic growth in PICs. In the next section (Section 2.2) background information on PICs is given. Following this, the main corporate governance systems in PICs were highlighted in Section 2.3. Section 2.4 deals with the state’s involvement in economic activities with specific focus on the governance and performance of SoEs. In Section 2.5, key issues affecting board performance in PICs are discussed, followed by the measures taken to promote board effectiveness in Section 2.6. Finally, Section 2.7 concludes the chapter.

2.2 Background and Characteristics of the PICs

The PICs vary widely in terms of size, topography, geographic isolation, resource endowments, economic and physical vulnerability, population, and culture and they are scattered over an area that makes up one third of the globe. As shown in Figure 2.1, Papua New Guinea (PNG) is by far the largest with a population of five million people, and on the other extreme, there are smaller countries like Nauru and Tuvalu with a population of approximately only 12,000 people. In terms of resources, the few larger countries have substantial mineral resources, some have pelagic resources while others have virtually no resources at all apart from what the ocean offers (Holden, Bale & Holden, 2004; Mellor & Jabes, 2004).

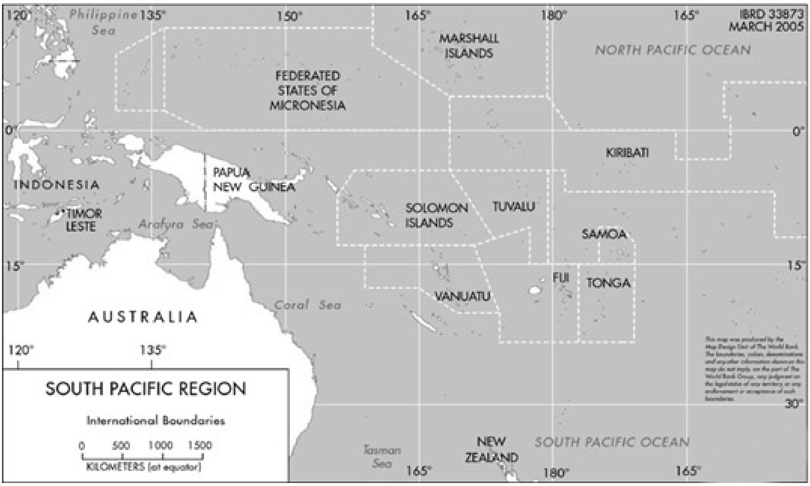

Figure 2.1 Map of the Pacific island countries (PICs)
Source: http://go.worldbank.org/PJYI41PVW0

In livelihood terms, most people live in rural villages within a communal arrangement that has a very strong affiliation with the land and are involved in a high degree of sharing. There are three distinct ethnic groups in PICs – Melanesians (PNG, Fiji, Solomon Islands, Vanuatu), Micronesians (Palau, Federated States of Micronesia, Kiribati, Nauru), and Polynesians (Samoa, Cook Islands, Tonga, Tuvalu) – with unique cultures and characteristics as well as wide differences within each group.

The institutional settings in PICs also differ a great deal from those in developed countries. These differences can be found in the economic conditions, capital markets, internal control systems, political systems, legal and regulatory systems, and socio-cultural systems, which have important implications for corporate governance practices in PICs (Bonn, Yoshikawa & Phan, 2004; Jensen, 1993). An understanding of these