Forging new frontiers

New dean of SMU’s School of Accountancy Cheng Qiang shares his latest research on CEO pay, independent directors and corporate site visits

SINGAPORISHANGHAI, China - As the new dean of Singapore Management University’s (SMU) School of Accountancy, Cheng Qiang may be tackling a conundrum - accounting - which may make some eyes glaze over. However, he is conducting cutting-edge research that will make most people sit up.

Cheng’s research, which explores issues such as the role of independent directors, how to measure financial reporting quality, and if corporate site visits are useful to analysts, is proof of that.

“His current research is looking at the role of independent directors in providing accountability to shareholders. He has also examined how to measure financial reporting quality and the usefulness of corporate site visits for analysts,” says Dr. Victor Leung, head of the Accounting Department at SMU.

Cheng, who studied at Tsinghua University in Beijing and obtained his PhD in Accounting from the University of Wisconsin-Madison in the US, is working on changing the current five-year SMU programme, which follows an American model of education, to attract top students to the programme.

SMU takes in about 300 undergraduate accountancy students per cohort.

“Other than improving the quality of the undergraduate education, another priority is to change the size of the School of Accountancy’s postgraduate programmes while maintaining quality,” Prof Cheng says.

He hopes to expand the Master of Professional Accounting programme, which currently takes 30 students per intake. This will be done through collaborative teaching with other universities, notably from China. The programme can be completed in one year for full-time students or two years for part-time students.

Meanwhile, despite his experience analyzing financial statements, Prof Cheng prefers to invest in low-cost index funds, saying he does not have time to follow stocks.

“I have some shares that benefited from the recent boom in the Chinese stock market - which he told me Singapore families are wealthier and starting to send their kids overseas. We are now competing with international universities,” says Prof Cheng, who studied at Tongji University in Beijing and obtained his PhD in Accounting from the University of Wisconsin-Madison in the US.

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Prof Cheng also found that site visits are more allowed, and this is strictly enforced everywhere,” he says.

Moreover, independent directors need to be well aware that such contractual protections can expand managers’ horizons and address the problem of managerial short-termism.

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The problem is if the CEO has something he does not want outsiders to know, he won’t share it with independent directors when he said in his research. Prof Cheng found that board independence alone is not enough to ensure financial reporting quality.

rather, the independent directors need to be told about issues - that is, they must be able to easily acquire information about the company.”

Such an ideal information environment might be found in companies whose listed stocks are highly liquid, possess a low bid-ask spread, have high analysts’ coverage and little forecast error.

Prof Cheng found that if these companies, facing a majority of directors who are independent, will lead to less earnings manipulation.

Prof Cheng says his research is under consideration for publication in the International Journal of Accounting.

One finding from the paper, which is under consideration for publication in the International Journal of Accounting, is that independent directors are more important than ever to prevent CEO entrenchment.

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Singapore Management University (SMU) is the best private university in Singapore, and the only private university in Asia to receive a five-star global rank in the Research Excellence Framework 2014. SMU has established itself as one of Asia’s leading institutions for the cultivation of innovative research and world-class research talent. Its departments are consistently ranked among the top in the region. SMU’s School of Accountancy is ranked in the top 100 globally by the Academic Ranking of World Universities (ARWU) in 2014.

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Looking ahead, as the new dean of SMU’s Accounting school, Prof Cheng says one challenge is to make SMU relevant and attractive as a place to study accounting.

This is a monthly series brought to you by the Singapore Management University. Next month’s feature will discuss ways to harness technology to develop urban solutions for a Smart Nation.