BOARD ROLES AMONG MALAYSIAN LISTED FIRMS: IS AGENCY THEORY RELEVANT?

ZUAINI ISHAK
NOR AZIAH ABDUL MANAF
SHAMSUL NAHAR ABDULLAH

UNIVERSITI UTARA MALAYSIA

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Ketua Penyelidik:

____

Nama: PM. Dr. Zuaini Ishak

Ahli:

____

Nama: PM Dr Nor Aziah Abd. Manaf

____

Nama: Prof. Dr. Shamsul Nahar Abdullah

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ABSTRACT

This exploratory study examines the experiences of board members regarding their roles, board meeting, influence of board on appointment of new director, influence of "major" shareholders on board decision, and protection of interest of minority shareholders. Based on theories of board roles that underlie the study, semi-structured interviews were carried out amongst directors of Malaysian Public Listed Companies to collect relevant data on control and service roles. Results indicate that agency theory alone is insufficient to explain complex issues of board roles. Rather, better understanding can be achieved with the integration of agency theory and wider theoretical perspectives (i.e. stewardship and resource dependency). Although there is a constrain in accessing the board, this should not hamper future studies on examining other issues that could affect board roles such as effectiveness of chairman, non-executive directors and board sub-committees. Studies on this nature are important as the board has important influence on decision making process.

Keywords: board roles, board process, theories of board, Malaysia

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CHAPTER 1

INTRODUCTION

1.0 Introduction

Issues of corporate governance, especially the role of board of directors, have received a lot of public attention with the collapse of large corporations in the US and the 1997 Asian financial crisis. Corporate governance is a crucial issue in organizations because it serves as an important mechanism to ensure managers work in the interest of shareholders (Shleifer & Vishny, 1997). Corporate governance mechanisms could be internally and externally derived. As part of internal mechanisms, the board of directors is regarded as one of the important elements of corporate governance. Jensen (1993) contends that the board is at the apex of a firm's corporate governance structure. Similar view on the position of the board of directors is also held in Malaysia, as reflected in the Malaysian Code of Corporate Governance (Malaysian Code on Corporate Governance, 2007). But issues with regard to board of directors are expected to be different across firms. For example with respect to maintenance of a board, in a small and closely held firm, agency costs to maintain a board may be smaller because the conflict between owner-manager is lesser. Hence, agency problem may not be a significant issue compared to firms that are large with widely dispersed shares.

From the legal viewpoint, having a board is part of the legal requirements in incorporating a company. The main purpose of having a board is to protect the company's shareholders from management moral hazards. The directors' fiduciary duty requires directors to be honest and act in good faith for the interest of the company

(Ishak, Abdul Manaf, & Chan, 2011). Directors are expected to actively involve in setting the direction of the company, making strategic decisions and monitoring management to ensure that management behaviours are consistent with shareholders' value maximization goals. But the directors are also agents for the shareholders. Thus, the personal objectives of the directors may not be congruent with the objectives of the shareholders. Hence, criticisms have been directed to directors for not always fulfilling their responsibilities and for failing in their duty to protect shareholders. Specifically, the roles of the board have been criticized because of managerial domination, asymmetry of information, ineffective board meetings, and lack of checks and balances systems. Can these problems be solved by having highly effective outside and inside directors? What are the roles should the directors play to increase their effectiveness?

Many researchers have attempted to identify board structure (size, proportion of outsiders in the board, and leadership structure) that could lead to improved company performance to meet shareholders' expectations (Abdullah, 2004; Baysinger & Butler, 1985; Brickley, Coles & Jarrell 1997; Conyon & Peck, 1998; Ponnu & Karthigeyan, 2010; Zainal Abidin, Mustaffa Kamal & Jusoff, 2009). Yet the results of these studies remain inconclusive. Finkelstein and Mooney (2003) give examples of five companies that were involved in financial scandal although they had sound board composition and leadership structure in the year before the scandal hit the companies. As shown in Table 1.1, Enron, one of the companies involved in a scandal, had 86% outsiders in the board and the company did not practice CEO duality. Here, it seems like board structure did not provide strong evidence as an indicator of good or bad corporate governance of the company. Thus, in this research, we explored the role of directors using a different indicator i.e. board process (e.g. board roles and board involvement in decision making) which we expect to reveal the effectiveness of the board.

Table 1.1

Board of Five Companies in the Year Before the Scandal Hit Each Company

Company	**% Outsiders**	**% Dir with shareholdings**	**Board size**	**CEO duality**
Enron	86%	100%	14	No
WorldCom	75%	100%	12	No
Global Crossing	73%	91%	11	No
Qwest Communications	64%	92%	14	No
Tyco International	73%	100%	11	Yes

(Source: Finkelstein & Mooney, 2003)

In relation to the issues of board process, research on corporate governance focusing on the roles of the board is gaining attention and prominence (Johnson, Daily, & Ellstrand, 1996; McCabe & Nowak, 2008; Muth & Donaldson, 1998; Nowak & McCabe, 2003; Roberts, McNulty, & Stile, 2005; Stiles, 2001; Useem & Zelleke, 2006; Zahra & Pearce, 1989). Several theories have been used to explain the issue of board roles, namely agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976), resources dependency theory (Pfeffer, 1972) and stewardship theory (Donaldson & Devis, 1994). Of all these theories, agency theory is dominant in governance research (Dalton, Daily, Certo, & Roengpitya, 2003; Daily, Dalton, & Cannella, 2003; Shleifer & Vishny, 1997). The popularity of agency theory in explaining the board of directors is primarily due to the fact that the board functions as the monitor of management (the agent) on behalf of the shareholders (the principal). Given the conflicting findings thus far on the issue of board roles, the application of agency theory alone has cast doubt. The lack of consensus among the theories may indicate that the board roles are perceived to be executed differently (Johnson, Daily, & Ellstrand, 1996). Daily, Dalton and Cannella (2003) argue that other theories, besides agency theory, can be used to complement and not replace agency theory. This is because the board is not only shouldered with oversight role, but it is also expected to lead the company to increase the shareholders' value. Thus, the latter role demands different theories such as stewardship and resource dependency to explain the functioning of the board.

1.1 Malaysian environment

Malaysian companies have different governance characteristics from their US and the UK counterparts, where most of the studies on board roles have been conducted. The board is expected to be a sound governance mechanism since market control in Malaysia is evidently weak as compared to developed countries where shareholder activism and hostile takeovers are very common following a company's poor performance. In Malaysia, shareholder activism is also considered weak and news about hostile takeovers have never been heard of. Thus, the responsibility to ensure good governance lies with the board of directors. However, in Malaysia, as in other East Asian countries, the effectiveness of the boards may be limited since they are probably controlled by large owners (controlling owners) due to ownership concentration in Malaysian companies. In fact, it has been found that two-thirds of East Asian companies are controlled by a single largest shareholder (Claessens, Djankov, & Lang, 2000). Claessens, Djankov, and Lang also documented that more than two-thirds of Malaysian listed companies are in family hands. Further, they showed that 35% of the top 20 Malaysian listed companies are controlled by families and it goes to 84% for the smallest 50 companies. In an earlier survey, Claessens, Djankov, Fan and Lang (1999) found that one-fourth of Malaysian corporate sectors are controlled by 10 families. This pattern of ownership may mitigate agency problem as these large shareholders have greater incentives to monitor managers more closely (Shleifer & Vishny, 1997). However, it is also recognized that these large shareholders may ignore the interest of other minority shareholders with regards to matters like transferring out of funds to finance new ventures, paying off personal debts or accumulating funds in foreign banks (Johnson, Boone, Breach, & Friedman, 2000). The interest of the large shareholders is predicted to be well protected because, by virtue of their voting rights, they should be able to decide who should be on the board of directors. Thus, the direction of the company, which is decided by the board, may not reflect the interest of other minority shareholders. In other words, the boards are dominated by certain owners or in this case controlling owners at the expense of other minority shareholders. Hence, given the concentration of ownership, the conflict of interests among Malaysian companies are not only between owners and managers, but also between large shareholders and minority shareholders.

1.2 Research objectives

Realizing the above issues, this study explored the main role performed by the board of directors. In this regard, this study attempted to disclose the directors' personal experiences working as directors in listed companies. The role of outside directors in comparison to executive directors is also discussed. In addition, we also examined issues that are commonly raised in board meetings. In short, our findings could provide evidence on the extent of board performance in assuming control and service roles. With such evidence, we would unveil the theories that explain the roles of board in Malaysia. This study also investigated the manner in which a new director is appointed to the board and the extent of involvement of nomination committee in this. By doing so, the study would shed some insight into the degree of independence in the appointment of new directors to the board. It is generally argued that outside directors are appointed to the board based upon CEO's or existing directors' recommendation, resulting in "the old boys" network. Finally, this study also attempted to find out whether the board decisions are influenced by controlling/major shareholders and if this is the case, what steps are taken to protect the minority shareholders' interests.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

Two main roles of directors have been identified in previous literature, namely control role and service role (Johnson, Daily, & Ellstrand, 1996; Zahra & Pearce, 1989). The control role refers to the legal duties (fiduciaries) of the board as a whole to monitor the management on behalf of the shareholders. This role includes hiring and firing the CEO and other top management, determining executive pay, and monitoring management to avoid the occurrence of expropriation of minority interests. Service role is to provide advice and counsel to CEO and other top management. The service role, if effectively delivered, will provide guidance to the management on specific areas. Fulfilling this role implies the need for board diversity so that it can serve as a window to the outside world by bringing various experts into the board. Diversity in the board should strengthen the board especially in guiding management, for instance, in formulating the company's strategic plans. Additional critical roles of the board are strategy role (Zahra & Pearce, 1989) and resource dependency role (Johnson, Daily, & Ellstrand, 1996). Johnson, Daily and Ellstrand include board participation in the formulation of strategy (strategy role) as part of service role of the board. On the other hand, Zahra and Pearce (1989) consider enhancing company reputation and establishing external contact (resource dependency role) as part of the service role of the board.

In a highly concentrated ownership environment where the number of corporate owners is small, the owners or their representative on board are likely to be actively involved in both control and service roles to ensure the effectiveness of their companies (Zahra & Pearce, 1989). Concentration of ownership is a common phenomenon in most countries outside the USA and the UK (Claessens, Djankov & Lang, 2000; Denis & McConnnell, 2003; La Porta, Lopez-De-Silanes, & Shleifer, 1998, 1999; Shleifer & Vishny, 1997), including Malaysia (Claessens, Djankov & Lang, 2000; La Porta, Lopez-De-Silanes, & Shleifer, 1998). The owners of sizeable blocks of shares (blockholders) have a greater incentive to monitor management to ensure better performance. However, the structure of a company's ownership may give rise to different effects on the company. When the proportion of shares that are controlled by blockholders exceeds a certain level, these individuals and groups may use their control over the company or their influence on the board to generate their own private benefits (Amihud & Lev, 1981; Morck, Shleifer & Vishny, 1988; Shleifer & Vishny, 1997). Blockholders may become a controlling owner who can influence or even direct the decision-making processes and strategies of the company through their representatives on the board. Thus, while blockholders enjoy their private benefits, the other shareholders may suffer from corporate decisions and performance that may not be beneficial to them. The board is considered redundant if a blockholder is an active shareholder as the board is used to pursue the blockholder's interest which may not be congruent with those of the minority shareholders Therefore, the effects of blockholder ownership depend on the tradeoffs between the governance benefits of having blockholders and the cost of private benefits extracted by blockholders (Denis & McConnell, 2003).

Board has an important role to play in decision making. Decisions on strategy and other matters (Zahra & Pearce, 1989) are made formally in a board meeting. The company is expected to make better decisions when the board has more involvement in and gives more attention to corporate affairs (Vafeas, 1999). Wan and Ong (2005) found that board process, which is defined as decision making activities, plays a more important role than board structure. However, prior research has not focused on board process of decision making or board meetings.

2.1 Theoretical Perspectives

The roles of boards are perceived differently from different perspectives. Agency theory is the most recognised perspective in explaining the contribution of the board (Zahra & Pearce, 1983). However, empirical evidence is mixed. Thus, several alternative theories (i.e. legalistic, resources dependence, class hegemony, and stewardship) are proposed in addressing issues of the board. The board roles from different perspectives such as agency theory, stewardship legalistic, resources dependence, class hegemony/managerial hegemony, are shown in Table 2.1.

Table 2.1

Theoretical Perspectives of Boards of Directors

Items	**Perspectives**			
	Agency theory	**Stewardship**	**Resource dependence**	**Class hegemony / managerial hegemony**
Board role	The primary role of boards is to monitor the actions of agents (executives) to	Ensure the stewardship of corporate assets.	Boards are a co-optative mechanism for extracting resources vital to	Boards perpetuate the power and control of the ruling capitalist elite over

	ensure their efficiency and to protect principals' (owners) interests.		company performance. Boards serve a boundary-spanning role. Boards enhance organizational legitimacy.	social and economic institutions. Board "a legal fiction".
Theoretical origin	Economics and Finance	Organizational Theory	Organizational Theory and Sociology	Marxist Sociology/ Organization theory

(Source: Stiles, 1997; Zahra & Pearce, 1989)

2.1.1 Agency theory

Agency theory holds that the board plays a pivotal role in ensuring that managers act in the best interests of shareholders (Fama & Jensen, 1983). Although most of the management decisions are delegated to managers, the board of directors retains ultimate control by ratifying and monitoring major managerial decisions (Fama & Jensen, 1983). Thus, the board of directors is viewed as an essential mechanism in corporate governance for the representation of shareholders (Hart, 1995). The board is seen as a tool to reduce agency costs which incur due to conflicts in monitoring a company (Dallas, 1996). Agency theory, which is widely accepted in economics and finance, is different from the legal perspective with regard to the source of directors' power. Legally, the source of directors' power is state law, whereas agency theory considers that directors' power is delegated by shareholders (Johnson, Daily, & Ellstrand, 1996). Thus, agency theory emphasizes decision process in relation to how the board monitors managers in order to mitigate conflicts between managers and shareholders. Control is an important role of the board, followed by service role. To enhance the board's incentive to monitor management, agency theory suggests ownership by manager to align the interest of manager and shareholders, higher proportion of outside directors on the board, and non-dual leadership to increase independence of the board (Muth & Donaldson, 1998).

2.1.2 Resources dependency

Resources dependency perspective considers that the board has the ability to span the company's boundaries (Zahra & Pearce, 1989). In a company, the board is viewed as a vehicle to interact with the external environment and thus acts as a co-optation mechanism for seeking access to external resources for corporate performance enhancement (Johnson, Daily, & Ellstrand, 1996; Pfeffer, 1972). The resources dependency perspective suggests that the role of the board should be to get involved in corporate strategy (Zahra & Pearce, 1989), and in this manner the board is viewed as a facilitator for strategy formulation/implementation (Baysinger & Butler, 1985). The theory views that directors who have link with outsiders are likely to have access to external resources (Muth & Donaldson, 1998). However, this view of the directors' roles is still debatable since they have the power to utilize corporate resources for their own interests. Nevertheless, this theory is well accepted in organizational theory and sociology.

2.1.3 Stewardship theory

Stewardship theory describes the board as a good steward of the company. They work for corporate high returns. The theory views that strategic role contributes to the stewardship of the board (Stile, 2001). Having an executive director dominating the board and a CEO chairing could provide an additional motivation to the board to lead to higher performance (Donaldson & Devis, 1994; Muth & Donaldson, 1998). The appointment of outsiders to the board is merely seen as a cultural habit to make the company look "more business-like" (Turnbull, 1997). This is another theory of the board in organizational theory.

2.1.4 Class hegemony/managerial hegemony

The class hegemony views the board as a means of perpetuating the powers of the ruling capitalist elite. Elite groups are those who influence the decisions and policies of the companies because of their positions, such as owners of large shares or incumbent top managers (Useem, 1980). The term managerial hegemony is used when the management is considered to specifically dominate the board. Control or governance function of the board in reducing agency conflict between shareholders and manager is arguable (Kosnik, 1987). The board is no more than a legal fiction (Mace, 1971; Kosnik, 1987). The board is passive in strategy roles or directing the company. In fact, they do not control the company because they themselves are dominated by the management. A company is run and dominated by the management team rather than by the board (Stiles, 1997). Thus, the board role is limited and merely to “rubber stamp" the management decisions. To overcome the problems, contra-managerial hegemony theory is suggested to diminish managerial influences over board (Dallas, 1996).

Among the theories on the contribution of boards, Zahra and Pearce (1989) conclude that class hegemony is the most controversial one because of its political underpinnings. In contrast, agency theory is the most widely recognized because of its recognition of the imperfection of corporate governance due to potential conflicts between agents and principals.

2.2 Board structure, roles and theories

Board roles might be influenced by the degree of their independence and monitoring intensity which are normally indicated by their structure i.e. board size, board composition and leadership structure (Jensen, 1993). Table 3 shows suggestions of board structure according to related theories in encouraging value-increasing performance (Muth & Donaldson, 1998). Agency theory focuses on monitoring and control mechanism to align the interest of owners and managers (Fama & Jensen, 1983). Consequently, it recommends the board to have more outsiders and non-duality leadership structure (separation of chairman and CEO) (Kiel & Nicholson, 2003). In contrast, stewardship theory believes managers are good stewards of corporations and they understand the business better than outsiders. Thus, stewardship theory recommends board to have more insiders to ensure effectiveness in governing the company (Kiel & Nicholson, 2003). Since resource dependency theory views board as an important boundary spanner that has the ability to bring outside resources to the company, more outsiders are expected to be in the company (Daily, Dalton, & Cannella, 2003).

Table 2.2

Recommended Board Structure by Different Theoretical Perspectives

Agency	Stewardship	Resource Dependency
Non-dual leadership	Dual leadership	Boards with higher level of external organisation links
Higher proportion of outside directors in the board	Higher proportion of executive directors in the board	Boards with a higher number of links among directors
Larger board size	Smaller board size	
There is a closer alignment of interests of board members and the interests of shareholders	A greater alignment of the interests of board members and the interests of management	
Board with higher average age	Board with lower average age	
Board with lower average tenure	Board with higher average tenure	
Board members are more independent of management	Boards with a lower level of board independent	

(Source: Muth & Donaldson, 1998)

However, existing empirical evidence are unclear with respect to whether the structure of the board (measured by board size, board composition and leadership structure) is significant in providing effective corporate governance (Finkelstein & Mooney, 2003). Thus, recently board process (board meeting and selection) has been used to indicate board effectiveness (Finkelstein & Mooney, 2003).

As mentioned earlier, board main roles are control and service roles (Johnson, Daily & Ellstrand, 1996; Zahra & Pearce, 1989). Some add strategy and resource dependency as critical roles of directors (Okpara, 2011; Ong & Wan, 2008). Based on theories of board (agency, stewardship and resource dependency), Ong and Wan (2008) link the roles of board (control, service, strategy, and resource dependency) with the board structure (board independence and board size). Structurally for agency perspective, Ong and Wan suggest that board should be independent (more outsiders) and small in size for effective monitoring or controlling roles. Outside directors and larger board may also provide service roles by giving valuable advice to management. In addition, outsiders with industry experiences can give better strategy suggestions in performing their strategy roles. However, small size of board is perceived to make better decisions. According to Brennan (2006), to perform effective oversight roles as suggested by agency proponents, roles of directors include monitoring/control, strategy and service roles.

For stewardship theory, Ong and Wan (2008) argue that insider directors are valued for their operational experience and have more time to spend before making decisions. A larger size of board is more beneficial due to the different skills, backgrounds, experiences and expertise in advising management in performing their service roles. In resources dependency theory, outsiders offer advantages to the board as they may link the company with the external environment for strategic information and bring in external resources. With regard to board size, larger board could give a wider link for strategic information. Thus, resources dependency theory covers both strategy and resource dependency roles. More recent papers seem to regard theoretical integration in explaining the roles of directors (Daily, Dalton & Cannella, 2003; Roberts, McNulty, & Stile, 2005).

CHAPTER 3

Research Methodology

3.0 Introduction

Extensive quantitative research has been carried out to examine the effectiveness of board governance with regard to the relationship between board structure and value-increasing performance, but yet there is no indication of what the best governance practices are. More recent research has started to investigate the effectiveness of board by conducting personal interviews with board members (Kakabadse & Kakabadse, 2007; Kakabadse, Kakabadse & Barratt, 2006; Kakabadse, Yang & Sanders, 2010; Maharaj, 2009; Mailtlis, 2004; McCabe & Nowark, 2008; McNulty & Pettigrew, 1999; Nowak & McCabe,2003; Okpara, 2011; Roberts, McNulty & Stile, 2005; Useem & Zelleke, 2006; Vinnicombe & Singh, 2003).

3.1 Method and Sampling

In line with the current methodological development, the methodology used in this study is qualitative in nature in an attempt to understand the roles of board of directors. We employed semi-structured interviews with board members of Malaysian listed companies. Board member was expected to answer candidly about their experience working in the company. The respondents were chosen from the list of members of the Malaysian Institute of Directors (MID), who have experience in public listed companies (PLCs). A letter was sent to the company secretary to invite the directors to participate in this research. Then telephone calls were made as a follow up to encourage as many participants as possible and to make an appointment for the interview. Accessing the board was challenging due to trust and confidential issues. The fact that directors of PLCs have a hectic schedule also posed another challenge for this study. Despite all these odds, we finally managed to get access to and arrange interviews with 10 directors of PLCs. The directors are between 45 and 75 years with experiences in at least three different PLCs.

3.2 Interview Questions

The key questions asked are as follows:

1. Based on your experience, how would you describe the board's main role?
2. What do the companies expect most from the outside director /non-executive director to contribute?
3. What are the issues normally discussed in board meetings?
4. What would you say about how your board operates as a group of directors in board meeting?
5. What are sources of information that your board rely on for making decision?
6. To what extent do you feel the board can influence the appointment of CEO? How about the selection of a new director?
7. Do you agree that in Malaysia, as in other East Asian countries, the effectiveness of the boards may be limited since they are probably controlled by controlling owners (due to the ownership concentration)? To what extent your board is involved in protecting minority shareholders' interests?

The individual semi-structured interviews were held at the directors' office for an average of 50 minutes. All interviews were tape-recorded.

CHAPTER 4

FINDINGS

4.0 Introduction

The findings are explained using descriptive analysis in relation to control and service roles as well as to theories of board roles. In explaining the findings, we followed Useem and Zelleke's (2006) recommendation of determining the frequency of answers. They suggested that the term "most respondents" is used when more than two-thirds follow a practice, "many respondents" when there are one-thirds to two-thirds of those who follow the practice, and "some respondents" when there are less than one-thirds. The four areas we focused are board roles, board meeting, influence of board on appointment of a new director, and influence of "major" shareholders on board decision and protection of the interest of minority shareholders.

4.1 Board roles

Controlling/monitoring, service, strategy and resources roles of board have been discussed in previous studies (Johnson, Daily, & Ellstrand, 1996; Okpara, 2011; Ong & Wan, 2008; Zahra & Pearce, 1989). In the discussion concerning their roles, most of the interviewed directors perceived that they are involved in controlling/monitoring. This is evident from the following comments on their main role,

> *"Look after shareholders' interests…"*
>
> *"Make sure objective of the company is achieved…."*

“Ensure shareholders’ intentions are achieved….”

“Provide oversight, check and balance views…”

“Control management performance…”

“Monitor company’s performance….”

These comments are in line with agency theory where board monitors the performance of the management to align the interests of shareholders and management (Fama & Jensen, 1983). Out of being motivated by their own interests, many of them also indicated that they honestly concerned about the well being of the company. As mentioned by one of the respondents,

> *“What is the point of you sitting on the board, but every year the company loses money while you are making money as a director…”*

Another interviewee put it this way,

> “*…the primary role of the board is to ensure that whatever purpose a company is set up for, the board ultimately makes sure the objective is achieved; boards are basically policy makers. They are involved in the macro management and have overview of things”*

Apart from control/monitoring role, many of the interviewed directors also added service and strategy roles, when asked about their roles. Some illustrations of service and strategy roles played are,

> *"Give advice to management…"*
>
> *"Keep abreast with business…*
>
> *"Enhance company's reputation…."*
>
> "*Make business plans…."*
>
> *"Decide on direction of the company…"*
>
> *"Search for new business opportunity…"*

Hence, roles played by the directors apparently provide support for stewardship theory where the directors also facilitate management in performing duties of the latter (Donaldson & Davis, 1994).

As far as non-executive directors are concern, in agency theory the role of non-executive directors are important to provide check and balanced views (Fama, 1980; Fama & Jensen, 1983; Jensen, 1993). However, by and large, non-executive directors only get information in the form of board papers to enable them to evaluate and help the company make decisions in board meeting. Non-executive directors have minimal information because they do not get involved in day-to-day affairs. For that reason, most of the respondents agreed that the company cannot waste its resources by having somebody who is incapable to sit on the board as a non-executive director. Instead, non-executives must have sound professional experience and basic fundamental qualification to perform their role in monitoring management. As pointed out by one respondent,

> "*Non-executives are there to make sure that everything is done properly: by asking questions, looking at profit and loss of the company… When they join the company, they are not young, they might be retired civil servant, retired accountant, and they have a lot of experience"*

Having outsiders or non-executive directors could bring benefits to the company. One of participating directors noted that,

> *"The benefit of having them is only if he is a good professional, he understands the business, he is a person of knowledge. Most important thing is his reputations that he brings into the company"*

Another director acknowledged the existing non-executive director,

> *"...Whenever proposals are given, he can see something very obviously or seriously wrong. He is basically a watch dog during the company meetings ... besides he can give advice on how to go on with the ... (strategy)"*

But there are several issues that limit the capability of non-executive directors. Some of the respondents felt that the payment made to non-executive directors is too low in comparison with the number of paperwork that has to be completed and the high cost of living presently. Some of them felt that the non-executive directors have limited time to provide them with sound advice and a balanced view on business and compliance matters. So, non-executive directors should have the relevant qualification, experience and also commitment to understand all board papers so that they could provide strong oversight views to the board to the make right decisions.

Having reviewed the views of the respondents, it appears that the presence of nonexecutive directors is very important to provide an independent voice in the boardroom. However, agency theory is not the only theory that could the role of board. Other theories such as stewardship and resources dependency are also anticipated as complimentary to agency theory (Daily, Dalton, & Cannella, 2003). However, class hegemony or management hegemony theory obviously mentioned during the interview sessions. But the roles of outsiders particularly of strategy and resource dependency are apparently acknowledged by all respondents. Thus, the views of respondents are in line with previous studies (e.g. Roberts, McNulty, & Stile, 2005; Useem & Zelleke, 2006) that combine other theories to respond to the limitations of agency theory in explaining the roles of the board.

4.2 Board meeting

Board meeting frequency seems to carry significant implication to corporate governance (Vafeas, 1999). Hence, we cannot ignore board roles in board meetings when examining the issues of board governance since most of the decisions are done in there. Most of the respondents regard that the process of decision making is essential to the company. In making decision, one of directors emphasized,

> "*We have to do what we should do, and sometimes we need to reject the management proposal"*

Basically, in the board meeting, two types of papers are discussed: information papers and approval papers. In normal practice, the board papers are prepared and distributed to the board before the meeting. However, one of the directors also highlighted cases where the management would suddenly bring up papers on the day of meting without prior notice because they were deemed urgent. When asked whether the board rely on the information provided by the management in the board papers, none of the respondents agreed. For them, one of the important roles of being directors is to ask questions for clarification from the management.

Even though the information papers do not require approval from the board members, the directors would still ask the "why" question for more clarification on the information presented. More questions would be asked when it comes to approval papers before a decision is reached. In most of the companies, the directors start asking questions even before the meetings starts. Because the management do not primarily assume that board members know everything, they normally attend the meeting prepared. One of the directors explained,

" ... If the paper is critical, board members don't just approve it at one go. We go step-by-step to check on the feasibility (technically and financially); if needed we will get a consultant to assist us in making decision."

All respondents indicated that they normally delegate to sub-committees in helping them make decision. Most of the papers or proposals are reviewed by relevant committees such as investment, risk or audit committee before the board arrives at a decision. Since most of the issues are delegated to the sub-committee, the number of issues discussed in a board meeting is reduced. However, coordination needs to be carried out between the sub-committee and the board as a whole to reach ultimate decisions. Questions are mostly raised by outside directors as executive directors are already aware about the proposals. In this case, the experiences of outside directors do matter significantly and their roles are important. However, one of directors noted that,

"S*ome outside directors are too extreme when rejecting proposals, some just sit on the fence, some take it seriously and make the point very clear"*.

In reference to the participation in the board meeting, all respondents agreed that majority of the members contribute in the discussion. Members have high regard for each other's views and they are allowed for constructive dissent. Most of the respondents perceived that there are no big arguments in the meeting because the board members are mostly matured. However, sometimes the board may ask the management to review again the proposal to make it better. Occasionally, the paper would be suspended for more information gathering and fact finding, when the chairman felt that the discussion would run out of control due to heated debates. According to one of the interviewed directors, the situation in the meeting depends much on how capable the chairman is in handling the meeting. While some chairmen may actively encourage every board member to speak up, or may proactively trigger some discussions, others may simply give instructions to the management on what needs to be done. Another interviewee put in this way,

> *"It will be easier if you are in the board with a full blessing of the chairman instead of with the blessing of the board but not the chairman".*

Another point highlighted by another interviewed director,

> *"Level of debate depends much on the individual and the culture. As we know, Malaysians don't really go for debating or arguing ....sometime non-executive directors don't keep arguing or rejecting proposal to keep themselves longer in the company"*

4.3 Influence of board on appointment of new director

Company directors interviewed in this study were of the opinion that a proper way for selecting a new director is by referring it to the nomination committee. The committee is given the task to nominate a new director, who is normally and ultimately accepted by the board members. One respondent director noted that networking may be possibly used to get new directors. However, he believes that networking is fine if nobody misuses it because the company may be able to locate and get a suitable director easier through such networking. One of the respondents mentioned that if the nomination committee plays its role properly, without bias or being guided, the man chosen is supposed to be the best man for the company. One of the respondents, who is currently holding an executive post, gave his view,

> "*For higher executive position, head hunter will be more appropriate. If we advertise, no one will respond because he may not want other people to have a wrong idea as to why he left the previous institution and come to a new place. So we look around and call them. Well! Very few quality people are around"*

On the other hand, with regard to the appointment of an independent director, one director said that the term independent director is a misnomer and a contradiction with the notion of the selection process. This is because, he added, it is impossible for non-executive directors to be independent from those who appoint them, regardless of whether they were nominated by the nomination committee or by the major shareholders who vote for them for re-election.

Another aspect highlighted by some of respondents is the behaviour of the directors. The directors are expected to act both individually and collectively in performing effective role. The discussion of director behaviour is much related to the board process (Kula & Tatoglu, 2006; Roberts, McNulty, & Stile, 2005).

4.4 Influence of "major shareholder on board decision and protection on interest of minority shareholder

In a highly concentrated ownership company, minority shareholders become powerless unless they have specific legal protection (La Porta, Lopez-De-Silanes, & Shleifer, 1998, 1999). But the major shareholders become more powerful and enjoy more control than the amount of shares they own, given the presence of minority shareholders (Shleifer & Vishny, 1997). The major shareholders are in a better position to expropriate minority interests using their dominant voting rights (Ishak & Napier, 2006). One respondent agreed that the board is always in conflict between having to serve a major shareholder and protect minority shareholders simultaneously. However, many respondents that we interviewed viewed that the major shareholder is not a big issue in their companies. They claimed that,

> *"I never face a situation where a major shareholder influences management".*
>
> *"The founder and major shareholder of my company is a very nice guy and he listens to the board".*
>
> *"Major shareholder never imposes on board what he wants"*

When asked about protection of minority shareholders, a typical comment given by the respondents is that the basic rights of all shareholders are protected, as illustrated below,

> *"Shareholders are shareholders whether they are a majority or minority"*
>
> *"Good board protects all, not only certain groups"*

Overall, it appears that there are similarities in the responses to the interview questions on the board roles in protecting minority shareholders.

Protection of minority shareholders' rights has been highlighted as a problem in East Asian. The interests of minority shareholders hardly escape probability of expropriation by management or controlling owners. There is always an issue about protection of minority shareholders and people always see there is a conflict between the need of the majority and the minority. However, one respondent contended that,

> "*People do not see the benefits of these two groups of shareholders in relation to total company*'.

He added:

> "*If you think it is good for the minority it should be good to the majority, and in fact if it is vice versa, it even carries more weight. If you are going to destroy the company, surely the majority will be destroyed more because they put in more money"*

One of the respondents pointed out that, "*Major shareholder might influence the decision but not every time because there are minority shareholders' interests that the board must take care. So the board has to consider minority interests. If they don't protect them, they will be questioned in the AGM (Annual General Meeting). Minority Watch Dog Group is very active".*

This is supported by another respondent,

"Some minority shareholders are very vocal in AGM".

CHAPTER 5

CONCLUSION

This exploratory study has examined the perceptions of PLC directors based on their experiences as directors. Theoretically, many previous studies have used agency theory solely to explain the board roles. We noted that monitoring role, which is a central element of agency theory, is the key role highlighted by the respondents. However, after reviewing the responses given, we found that the result of this study is line with that reported by Daily, Dalton and Cannella (2003) in that a multi-theoretical approach is essential in explaining the roles of board. Indeed, corporate governance research in developed countries has started to move forward in combining different theories (McNulty & Stile, 2005; Minichilli, Zattoni & Zona, 2009; Roberts, Zattoni & Cuomo, 2010; Useem & Zelleke, 2006).

Previous studies have reported inconclusive findings on board effectiveness based on the relationship between board structure and company performance. Extensive studies use the performance of the company as measurement of board performance. However, there are other factors that influence the company's performance that may distort the findings. In addition, company performance might be a short-term focal point for the director compared to the long-term survival of the company.

> *"The board may see its role as primarily protecting (not generating) the shareholders' investment by ensuring the survival of the company. Directors may have to make tradeoffs between the amount of risk management should take in*

generating shareholder value versus the stability and survival of the company (Brennan, 2006, p. 591)

Similarly, one respondent viewed that board should focus on the survival of the company,

> *"The board must be very clear; their sole objective is to work for the institution not for the people. If institution survives, everybody will benefit … whether you are an investor, creditor, employee, supplier or customer. The moment the board thinks, for example, 'I'm here to make sure I have good life and good living or I must make my boss very happy, or I want to make out as much as possible so that my shareholders are happy, employees happy' the board is actually showing off. The best way is institutional approach … "*

Thus, researchers should not solely focus on monitoring roles of board, but they also must take into consideration the service, strategy and resource dependency roles in corporate governance research. In general, there is limited investigation on board effectiveness through board process such as decision making and selection of new directors. Previous studies with archival data have failed to venture into board process in the real business. There are many important issues and parties involved that have a direct effect on board roles, as mentioned in this study, are yet to be resolved. Hence, further in-depth studies are needed to examine the roles of chairman of the meeting, board sub-committees especially nomination committee and also non-executive directors.

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