

# Board Composition and Companies' Performance: Does Political Affiliation Moderate the Relationship?

Mike Siew Wei Leong<sup>1</sup>, Anand Paramasivam<sup>2</sup>, Sheela Sundarasan<sup>2</sup> & Usha Rajagopalan<sup>2</sup>

<sup>1</sup> Taylor's Business School, Taylor's University, Malaysia

<sup>2</sup> Graduate School of Management, Multimedia University, Malaysia

Correspondence: Mike Siew Wei Leong, Taylor's Business School, Taylor's University, Malaysia. E-mail: mike.Siew@taylors.edu.my

Received: August 14, 2015

Accepted: August 25, 2015

Online Published: September 18, 2015

doi:10.5539/ijbm.v10n10p216

URL: <http://dx.doi.org/10.5539/ijbm.v10n10p216>

## Abstract

Board composition is one of the distinct characteristics of Governance that is believed to contribute significantly to firm value. This study examines the impact of board composition, presence of nomination, audit and remuneration committees on companies' performance. Additionally, the moderating effects of political affiliation on the relationship between board composition and companies' performance is also tested. A sample size of 2280 companies from Bursa Malaysia for the period 2010 to 2012 is used. Hypotheses are tested using multiple linear regressions. The results indicate a positive relationship between board size and companies' performance but a negative relationship is noted between independent directors and performance. No significance is noted for non-executive directors whilst the presence of committees indicates mixed results. As for political affiliation, it negatively moderates the relationship between independent directors and companies' performance. These empirical evidences are in line with the Agency Theory, suggesting that board composition, presence of committees and politically affiliated members in the board do have an impact on companies' performance.

**Keywords:** governance, performance, political affiliation, regression analysis

## 1. Background of Study

Corporate Governance Guidelines (e.g. the Cadbury Code, Hampel and Higgs Reports in the UK, the Bosch Report in Australia and the Business Roundtable in the US) were established due to economic catastrophe in the developed countries over the past two decades. The Asian Economic Crisis was also largely due to the presence of fragile governance structure (Kim, 1998; and Khas, 2002). In Malaysia, the Malaysian Code of Corporate Governance (henceforth, MCCG) was formalized in March 2000 and is heavily influenced by the Cadbury Report (1992) and the Hampel Report (1998) in the UK (FCCG, 2000). The Securities Commission (SC) issued the Malaysian Code on Corporate Governance 2012 (MCCG 2012), which supersedes MCCG 2007. MCCG 2012 documents wide-ranging doctrines and explicit endorsements on measures and procedures which corporations should implement.

Most Malaysian companies are family owned; sole major shareholder or the top five shareholders of companies are 31% and 62% respectively. This cast doubt on the extent of protection available for minority shareholders. The Asian financial crisis uncovered various weak corporate governance practices in Malaysia. Although not unique to Malaysia, during the Asian financial crisis, companies suffered from over-leveraging (Fraser et al., 2006); absence of transparency, financial revelation and answerability (Mitton, 2002); weak legal defense of minority shareholders to counter expropriation by corporate insiders (Claessens et al., 1999) and allegations of cronyism (Johnson & Mitton, 2003). Weak governance principles in both private and state-owned companies were accused to some extent for the East Asian Financial crisis. In Asia, organizations are inclined to trail the "insider" model, by way of the central control held by the initial proprietors and major stockholders (Sycip, 1998; Yamazawa, 1998). The drop in investors' confidence was recognized as one of the foremost reasons that aggravated the financial crisis in Malaysia and other Asian countries. Noordin (1999) argued that the drop in investors' confidence in Malaysia is because of the country's fragile corporate governance principles and the non-appearance of transparency in the financial system. Therefore, the governance structure examined in this study is; board composition, presence of remuneration, audit and nomination committees (as mandated by the governance code 2012) and the presence of politically affiliated board members. The moderation effects of

politically affiliated board members on the association between board composition and companies' performance will be examined. In Malaysia, politically affiliated firms are not necessarily owned by the state, but they are identified as favoured firms by the government (Gul, 2006).

Against this backdrop, we are motivated to determine the extent to which board composition and presence of committees affect company performance. Three main research objectives drive this study. First, to identify the relationship between board composition and company performance. Second, to identify the relationship between the presence of committees (i.e. audit, nomination and remuneration committee) and company performance. Thirdly, to determine if politically affiliated board members moderate the relationship between independent directors and non-executive directors against companies' performance.

The remainder of the paper is structured as follows. Section 2 discusses on hypotheses development. Section 3 presents the data and discusses the measures for all variables tested. Section 4 presents the empirical results and discussion. Section 5 concludes.

## 2. Hypotheses Development

Corporate governance arrangements are needed to ease the 'agency' problem that exists due to the segregation between ownership and control in organizations. Jensen and Meckling (1976) outline the agency association as an agreement whereby, one party (the principal) appoints a different party (the agent) to accomplish services. As agents, administrators who are more concern of their personal self-regard may not maximise yields to shareholders (the principals) unless proper governance structures are executed to protect the benefits of the shareholders (Jensen & Meckling, 1976). Extant literature has documented the association among corporate governance structures and company performance but the outcomes have been inconsistent. Some studies find no relationship amongst the factors (Baliga et al., 1996; Bhagat & Black, 1999, 2002; Hermalin & Weisbach, 1988, 1991; Klein, 1998; Linden & Matolsy, 2004; Pham et al., 2008), whilst other studies find a direct or adverse relationship between good governance and company performance (Beiner, Drobetz, Schmid, & Zimmermann 2006; Bonn, 2004; Pi & Timme, 1993; Rechner & Dalton, 1991). A more detailed finding from the extant literature is discussed in the following sections.

### 2.1 Board Size

Past studies have placed board size as one of the characteristics that influences the governance of an organisation. Board of directors is a component of governance structure (Fama & Jensen 1983; Williamson, 1983) and plays a pivotal role in advising managers on an organisation's business strategy and ensures alignment with its vision and mission (Fama & Jensen, 1983). The board also monitors the performance of managers and ensures protection to shareholders (Fama, 1983). Prior studies document that size of a board in an organisation matters (Monks & Minow, 1995) as it influences the level of observation, governing and decision-making in an organisation. However, there are two distinctive schools of thought on the association between board size and firms' performance. Lipton and Lorsch, (1992); Jensen (1993) and Yermack (1996) argue that firm's with smaller board size are more successful, whilst another argument is that larger boards would improve a firm's governance and performance (Pfeffer, 1972; Klein, 1998; Coles et al., 2008). Similarly, Chiang (2005) and Haniffa and Hudaib (2006) finds a positive correlation between the number of directors and performance, whilst Anderson, Mansi and Reeb (2004); Williams, Fadil and Armstrong (2005) finds a positive correlation between board size and monitoring capacity of the Board.

Extant literature also argues that a firm chooses the board size to balance their advisory needs and the cost of decision-making (Adams & Mehran, 2012). It should be noted that the size of the board largely depends on the size of the firm as well. Big organisations that have extensive external relationship, dealing with varied lines of products or services and operating in various geographical locations need extra monitoring, thus have more members on their boards (Booth & Deli, 1996; Coles et al., 2008, Andreas et al., 2012). Gilley et al. (1996) argues that smaller firms rely on experts, i.e., the board of directors since the managers may only have limited knowledge or experience. As such, the guidance of the board of directors may contribute towards the success of smaller organisations. Researchers argue that large boards are more prominent as compared to the smaller ones as they have more competencies, funds and wider network (Williams et al., 2005). Moreover, when an organization is large and high in complexity, a bigger board may prove to be constructive. They would be able to fulfill the need for a diverse range of skills and experiences and would also be able to assist organizations in resources and mitigate the uncertainties within their operating environment (Pfeffer, 1987; Pearce II & Zahra, 1992; Goodstein et al., 1994). Klein (1998) documents that bigger board sizes would have greater insights due to their cumulative experiences in problem solving and strategizing.

Conversely, the benefits of having a large board may be counterweighed by communication that are not efficient

and effective, poor coordination and decision making and with a high possibility of being controlled by the Chief Executive Officer (CEO) (Jensen, 1993; Florackis & Ozkan, 2004; Lipton & Lorsch, 1992). The presence of a large board could definitely result in meaningless discussions as expressing opinions would be a time consuming and difficult affair. It could also result in the absence of communication within the board as a whole (Lipton & Lorch, 1992). Additionally, there is the issue of harmonization that prevails over the benefits of having more directors (Jensen, 1993). Sometimes, the board develops, to an extent where it is no longer serving its purpose; the board becomes something symbolic rather than satisfying its intended purpose of being part of the management (Hermalin & Weisbach, 2003).

Large boards definitely fuel the argument that bigger boards are less effective than smaller sized board (Hermalin & Weisbach, 2003). A board that has too many members also has increased agency problems as some directors are just in the board as free-riders. Lipton and Lorch (1992) propose restricting the number of directors to seven or eight, in an effort to ensure effectiveness of the board. This is probably the reason why some studies tend to argue that organizations with smaller board size perform better. The directors from a smaller board are extra competent in honoring their accountabilities (Beasley, 1996; Lipton & Lorsch, 1992). Yermack (1996), Eisenberg, Sundgren and Wells (1998) and Barnhart and Rosenstein (1998) empirically tested the relationship between board size and performance of firms and reported a negative trend.

Firms that have small boards (minimum 5 board members) are more informed about the financial performance and demonstrate better monitoring capabilities (Vafeas, 2000). This sentiment was further advanced in the study by Mak and Yuanto (2003), where listed companies in Malaysia and Singapore seem to have the highest value when they have the smallest number of directors. In Wu (2000) research, it was noted that on average, the board sizes in Forbes 500 companies decreased; reflecting that monitoring should be performed by smaller boards. Limited literature on the effects of board size over firm's performance in the Malaysian context further warrants a more narrowed investigation on the board size of Malaysian companies. Malaysian companies are comparatively insignificant in size in comparison to the U.S. and thus this study could shed some light on the effects of board size on firm's performance in Malaysia or Asia in general.

In conclusion, extant literature seems to have mixed relationship between board size and performance. Since Malaysian companies are relatively small compared to those in the U.S, the following hypothesis will be tested:

H<sub>1a</sub>: There is a positive association between board size and ROA.

H<sub>1b</sub>: There is a positive association between board size and Tobin's-Q.

## 2.2 Board Composition

Listed companies empower a team of managers to run the day to day administration of a business, though the owner-controlled public limited companies act otherwise (Mintzberg, 1984). Nevertheless, companies grow in magnitude and direct proprietor participation is no longer appropriate. This creates a management team due to the upsurge and dispersal of ownership and the termination of unswerving participation in an organization's administration (Berle & Means, 1932). Subsequently, the ownership control of the organization devolves in the hands of a so-called administrative team (Mintzberg, 1984). The agency issue arises due to this as interests of both shareholders and the management/administrative team is not aligned in most cases. In order to alleviate this agency problem, Rose (2005) claims that board of directors play a pivotal part in overseeing the management and ensuring that their interest are aligned to those of the shareholders. The board is recognized as a principal internal governance mechanism (Brennan, 2006), as it keeps tab and oversees management, providing them with strategic plans, guidance and support on an on-going basis. The board also reviews and ratifies, if necessary, any proposals submitted by management (Jonsson, 2005). Furthermore, with the presence of the board, a firm's performance is inevitably enhanced with the enactment of legally binding accountabilities and fiduciary obligations (Zahra & Pearce II, 1989). Problems and troubles that a firm may be exposed to could be detected with the assistance of the Board's expertise (Salmon, 1993).

From the perspectives of agency theory, it is noted that board's capability to act as an effective monitoring mechanism is highly reliant on its impartiality from management (Beasley, 1996; Dechow et al., 1996). Evidence from studies by Kaplan and Reishus (1990), Byrd and Hickman (1992), Brickley et al. (1994), and Beasley (1996) find a positive effect when external autonomous directors are assigned to the board. It is revealed that these boards which are largely dominated by non-executive directors (NEDs), help to lessen the agency issues by strictly observing and governing the unscrupulous conduct of management (Berle & Means, 1932; Williamson, 1985; Jensen & Meckling, 1976). Additionally, non-executive directors (NED) also ensure that administrators are not the only assessors of their own performance (Baysinger & Hoskisson, 1990). These boards also assist in decreasing the managements' expropriation of incentives (Brickley & James, 1987) and eliminating

non-performing Chief Executive Officers (CEOs) and other board personnel (Weisbach, 1988; Pettigrew & McNulty, 1995). Pearce and Zahra (1992) highlights that boards with higher number of non-executive directors (NEDs) may impact on the eminence of directors' decisions-making and offer tactical bearing and enhancement in performance. Non-executive directors (NEDs) also deliver added value due to their knowledge, status and connections (Tricker, 1984; Kesner & Johnson, 1990; Grace et al., 1995). Fernandes (2005) acknowledged that the organizations with non-executive directors have fewer agency issues and have an improved orientation of shareholders and managers' wellbeing.

Denis and Sarin (1999) found that the distinctions in ownership and board structures are interrelated. Distinctions in ownership and board structures are intensely linked to top executive turnover, preceding share price performance and corporate control coercions. Dehaene et al. (2001) found a positive association between the number of external directors and return on equity, which concurs to the idea that outside directors offer greater assistances to the firm as a consequence of their individuality from firm management. This is supported by Dahya and McConnell (2003), who indicate that investors perceive external CEOs as good news. Additionally, Lee et al. (1999) establish that the employment of an external director to the board of a state-owned corporation is linked to positive abnormal returns amongst the moderate sized companies. These companies possibly have inadequate contact to financial markets and less financial know-how, thus have considerable advantage from these engagements. Chen and Jaggi (2000) discovered a significant positive association between the proportion of independent non-executive directors and financial disclosures. This suggests that the inclusion of such directors on boards increases the firm's amenability with disclosure, thus improving the completeness. In short, independent non-executive directors are pivotal for checking board actions and enlightening the transparency of corporate boards.

In contrary, Agrawal and Knoeber (1996) find a significant negative relationship between external board members and firm performance. This is reinforced by the findings of Bhagat and Black (1999), who argues that firms with a majority of external directors are worse off than other firms. These studies indicate that independent non-executive directors do not automatically possess positive influence on firm performance, suggesting that these independent non-executive directors may not be executing their roles effectively. Furthermore, a high percentage of non-executive directors (NEDs) can be damaging to companies as they may suppress strategic activities (Goodstein et al., 1994), generate circumstances of extreme monitoring (Baysinger & Butler, 1985), prove to be unproductive due to the absence the business familiarity (Patton & Baker, 1987), and may be of lack real independence (Demb & Neubauer, 1992). Dahya et al. (1996), Stewart (1991) and Rechner and Dalton (1991) recommend that by emphasizing accountability and power to executive managers effective performance may be attained.

However, studies by Baysinger and Butler (1985), Chaganti et al. (1985), Rechner and Dalton (1986), Zahra and Stanton (1988), Fosberg (1989), Hermalin and Weisbach (1991), Barnhart et al. (1994), Grace et al. (1995), Barnhart and Rosenstein (1998), Dalton et al. (1998), Dalton and Daily (1999), Davidson III and Rowe (2004), Fernandes (2005), and Cho and Kim (2007) were unable to determine any association between board composition and company performance. Baysinger and Butler (1985) contends that these dissimilarities in discoveries is due to numerous influences such as corporate law, managerial aptitude, capital markets and the internal capital structure of the companies. Additionally, Zahra and Pearce II (1989) noted several explanations for such contradictions, as stated by Finkelstein and Hambrick (1996). They cited numerous anecdotal elements; life cycle, corporate strategy and effective collaboration among board members in decision making. Finkelstein and Hambrick (1996) also argue that despite such discrepancies, a board may indirectly impact the firm's performance by superiority of observing.

The following hypotheses will be tested to determine the relationship between board composition and firm's performance.

H<sub>2a</sub>: There is a positive association between independent directors and ROA.

H<sub>2b</sub>: There is a positive association between independent e directors and Tobin's-Q.

H<sub>3a</sub>: There is a positive association between non-executive directors and ROA.

H<sub>3b</sub>: There is a positive association between non-executive directors and Tobin's-Q.

### 2.3 Presence of Committees

Codes of corporate governance universally emphasize the importance of board committees as an essential aspect of corporate governance mechanism (Blue Ribbon Committee, 1999; Cadbury Committee, 1992; Higgs, 2002; Financial Reporting Council, 2003). There is a recommendation from New Zealand Securities Commission

(NZSC, 2004), stating that companies should have an audit, remuneration and nomination committee to provide oversight of the audit and reporting of the financial statements, and create a platform that is more transparent for appointing the directors of the board and approving their remuneration. Audit, remuneration and nomination committees act in a supervisory capacity. Their role is to assist and advice the management in decision making process.

In order to ensure that these committees are independent, it should purely consist of independent directors (Anderson & Bizjak, 2000; Menon & Williams, 1994). An audit committee that is independent reduces the occurrence of manipulation of financial disclosure and thus increases the level of financial transparency (Klein, 2002; Klein, 1998; Koh, Laplante, & Tong, 2007). An independent remuneration committee on the other hand increases the level of transparency and also drives a more performance-sensitive remuneration package (Anderson & Bizjak, 2000; Menon & Williams, 1994). Finally, a nomination committee that is independent increases the level of independence to the process of nomination and re-election (Ruigrok, Peck, Tacheva, Greve & Hu, 2006).

One of the key concerns for corporate governance is agency related issues due to non-alignment (Jensen & Meckling, 1976). Thus, the presence of these committees should have a favorable impact to companies as they play the role of a watchdog and ensures proper execution of tasks. In that context, the following hypotheses will be tested:

H<sub>4a</sub>: There is a positive association between the presence of audit committee and ROA.

H<sub>4b</sub>: There is a positive association between the presence of audit committee and Tobin's-Q.

H<sub>5a</sub>: There is a positive association between the presences of nomination committee and ROA.

H<sub>5b</sub>: There is a positive association between the presences of nomination committee and Tobin's-Q.

H<sub>6a</sub>: There is a positive association between the presences of remuneration committee and ROA.

H<sub>6b</sub>: There is a positive association between the presences of remuneration committee and Tobin's-Q.

#### *2.4 Political Affiliation*

A politically linked company can be defined as large shareholders who control at least 10 percent of voting shares, and are associated by means of a politician, party, minister, or Parliament member (Faccio, 2006). There are several studies that have demonstrated a positive correlation between firms that are politically connected and its performance. Literature documents that a firm's business conditions improve with the support of politically connected high-ranking officials, by means of removing barricades (Baum et al., 2008). These companies get special dealings from government, which is usually in terms of cheaper sources of funding, advantageous tax treatment and right to use restricted licenses (Mohamad et al., 2006; Niessen & Ruenzi, 2010). In the Malaysian context, since the implementation of New Economic Policy in 1970, the non-indigenous entrepreneurs have actively besought and established connections with politicians or other special interest groups to impact the distribution of financing (Johnson & Mitton, 2003) and to extract rents from government (Olson, 1982).

The literature reveals several reasons why the relationship between political affiliation and profits may be positive or negative. Firms that are politically connected have better access to public procurement contracts (Goldman et al., 2009), can obtain a favorable regulatory treatment (Stratmann, 2005), and have better access to or obtain any other form of preferential treatments and private rents. This is to the detriment of the society. On the contrary, there are negative effects on a firm's performance that may come out from political affiliations due to agency problems. This is mainly because private rents may be attained by managers (and shared with politicians) rather than shareholders when corporate governance does not provide a strong control by shareholders of the management of the firm. This may happen for instance, in cases where managers may conspire with politicians to guard themselves from threats of takeover. In countries and industries where there is substantial activity in the market for corporate control, this may be significantly relevant.

Most studies reveal a positive and statistically important effect of political influence on the financial value of firms. A study by Fisman (2001), for example showed that companies allied to the Suharto family had experienced a significant decline in shareholders' value when negative news of the Dictator's health were published. Jayachandran (2006) reveals that the sudden political event where Senator Jim Jeffords left the Republican Party and tipped control of the U.S. Senate to the Democrats in 2001 had similar effects. An extensive study by Faccio (2006) with a database of over 20,000 publicly-traded firms in 47 countries recorded a significant increase in the firm's value when those involved in politics were in the business sector. Furthermore, Ferguson and Voth (2008) evidences firms that were connected to the Nazi party experiencing positive abnormal

returns due to the rise of Hitler's party to the German government. Similarly, Goldman et al. (2009) found a positive abnormal stock returns in 500 firms after news of a politically connected individual being nominated to the board. These evidences further emphasize our notion that politically connected firms may have a strong influence in the firms' value. In the context of this study, we will test on the moderating effects of political affiliation on the relationship between independent directors non-executive directors.

H<sub>7a</sub>: Political affiliation moderates the relationship between independent directors and ROA.

H<sub>7b</sub>: Political affiliation moderates the relationship between independent directors and Tobin's-Q.

H<sub>8a</sub>: Political affiliation moderates the relationship between non-executive directors and ROA.

H<sub>8b</sub>: Political affiliation moderates the relationship between non-executive directors and Tobin's-Q.

### 3. Data and Methodology

This research uses a total of two thousand and five hundred and eighty listed companies from Bursa Malaysia, for the period 2010 to 2012. The study period 2010 to 2012 is identified so as to abate the effects of Global Financial Crisis. To make certain consistency in the database, companies with omitted data are excluded. The parameters used in this study are as shown in Table 1.

Table 1. Details of independent and dependent variables

<b>Independent Variables</b>			
Board Size	Independent Directors	Non-executive Directors	Audit Committee
Remuneration Committee	Nomination Committee		
<b>Dependent Variable</b>			
Return on Assets (ROA)	Tobin's-Q		
<b>Control Variables</b>			
Firm Age	Firm Size	Shareholder Concentration	

The dependent variables used as proxies for financial performance are Return on Assets (ROA) and Tobin's-Q, whilst the independent variables are; board size, board composition (represented by non-executive directors and independent directors) and presence of committees (represented by nomination committee, remuneration committee and audit committee). The control variables are firm size, firm age and shareholder concentration.

Information on ROA and Tobin's-Q are obtained from DataStream. Board size is represented by the number of directors on the board, whilst the board composition comprises of non-executive directors and independent directors. Board compositions are calculated as a percentage of total directors in the board. As for the committees, a binary variable is used, whereby companies that have the said committees are regarded as 1 and 0 otherwise. Lastly, the control variables are firm size, firm age and shareholder concentration. Firm size refers to market capitalization, i.e., the number of shares multiplied by the market price of the shares, whilst firm age is obtained as the difference between the year of analysis and year of incorporation. Shareholder concentration refers to the ownership retention, which refers to the percentage of shares retained by the original shareholders. It refers to the retention rate by the original owners of the companies, i.e., the total number of shares retained by original owners / total number of shares issued to public. This information is obtained from Bloomberg database. This study has adopted the measure used by Downes and Heinkel, 1986 (DH) in determining ownership retention. It refers to the percentage of ownership retained by the original owner.

Most of the above information are obtained from the database OSIRIS, Bloomberg and DataStream. Companies where the data are not available from the said databases, it is hand-collected.

The following regressions are tested:

$$ROA_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 Control\ Variables_{it} + \varepsilon_{it} \quad (1)$$

$$Tobin's-Q_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 Control\ Variables_{it} + \varepsilon_{it} \quad (2)$$

$$ROA_{it} = \beta_0 + \beta_1 NED_{it} + \beta_2 ID_{it} + \beta_3 Control\ Variables_{it} + \varepsilon_{it} \quad (3)$$

$$Tobin's-Q_{it} = \beta_0 + \beta_1 NED_{it} + \beta_2 ID_{it} + \beta_3 Control\ Variables_{it} + \varepsilon_{it} \quad (4)$$

$$ROA_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 NC_{it} + \beta_3 RC_{it} + \beta_4 Control\ Variables_{it} + \varepsilon_{it} \quad (5)$$

$$Tobin's-Q_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 NC_{it} + \beta_3 RC_{it} + \beta_4 Control\ Variables_{it} + \varepsilon_{it} \quad (6)$$

$$ROA_{it} = \beta_0 + \beta_1 NED_{it} + \beta_2 (PA \times NED) + \beta_3 ID_{it} + \beta_4 (PA \times ID) + \beta_5 Control\ Variables_{it} + \varepsilon_{it} \quad (7)$$

$$Tobin's-Q_{it} = \beta_0 + \beta_1 NED_{it} + \beta_2 (PA \times NED) + \beta_3 ID_{it} + \beta_4 (PA \times ID) + \beta_5 Control\ Variables_{it} + \varepsilon_{it} \quad (8)$$

Where:

$ROA_{it}$  = Return on Assets of company  $i$  at year  $t$

$BS_{it}$  = Board size of company  $i$  at year  $t$

$NED_{it}$  = Non-executive directors of company  $i$  at year  $t$

$ID_{it}$  = Independent directors of company  $i$  at year  $t$

$AC_{it}$  = Audit Committee of company  $i$  at year  $t$

$NC_{it}$  = Nomination Committee of company  $i$  at year  $t$

$RC_{it}$  = Remuneration committee of company  $i$  at year  $t$

$PI$  = Politically Affiliated

$Control\ Variables_{it}$  = firm size, firm age and market condition

#### 4. Data Analysis and Discussion

##### 4.1 Relationship between Board Size and Company Performance from 2010-2012

Table 2. Board Size and company performance of Bursa Malaysia companies from 2010-2012

	ROA		Tobin's-Q	
	Coefficient	t-value	Coefficient	t-value
Board Size	0.73***	(2.83)	0.09**	(2.16)
Firm Age	-0.02**	(-2.04)	-0.02***	(-3.39)
Firm Size	-0.25***	(-3.50)	-0.02***	(-3.34)
Shareholder Concentration	-2.21**	(-2.05)	-2.22**	(-2.44)

Note. Standard errors are adjusted for heteroskedasticity, using the White's test.

\* significant at the 10% level \*\* significant at the 5% level \*\*\*significant at the 1% level.

Based on the empirical evidence on Table 4.1, the coefficients for the board size (measured by number of board members) are significantly positive at 0.73 and 0.09 respectively, thus giving support for hypothesis 1(a) and 1(b). It can be inferred that large boards are linked with better performance when measured by both ROA and Tobin's-Q. Large boards with a wider spectrum of expertise have more room to effectively monitor the performance of a company. This is in line with studies by Chiang (2005) and Haniffa and Hudaib (2006) who finds a positive relationship between the number of directors and performance of companies and board monitoring (Anderson, Mansi and Reeb 2004; Williams, Fadil and Armstrong 2005). Large boards are greater to small ones because the increased number of directors are more competent and have wider external networking relationships (Williams et al., 2005). Additionally, bigger boards may be beneficial as they offer assortment that would assist companies to obtain resources and reduce uncertainties (Pfeffer, 1987; Pearce & Zahra, 1992; Goodstein et al., 1994). Large groups could enrich problem resolving abilities, deliver more clarification approaches and critical judgment to rectify mistakes (Haleblian & Finkelstein, 1993).

#### 4.2 Relationship between Board Composition and Company Performance from 2010-2012

Table 3. Board Composition and company performance of Bursa Malaysia companies from 2010-2012

	ROA		Tobin's-Q	
	Coefficient	t-value	Coefficient	t-value
Non-executive Directors	9.88	(0.10)	0.006	(0.17)
Independent Directors	-0.19***	(-14.77)	-0.99***	(-18.25)
Firm Age	-7.70	(-0.02)	0.11***	(10.20)
Firm Size	0.006	(0.17)	-0.0002	(-0.75)
Shareholder Concentration	0.10***	(10.82)	0.05**	(2.36)

Note. Standard errors are adjusted for heteroskedasticity, using the White's test.

\* significant at the 10% level; \*\* significant at the 5% level \*\*\*significant at the 1% level.

Empirical results on Table 4.2 indicate no significance for non-executive directors (for both the ROA and Tobin's-Q) but a negative relationship is denoted for independent directors. The coefficients are -0.19 and -0.99 respectively. Thus, the results do not provide support for hypothesis 2 which indicates a positive relationship between non-executive directors and ROA and Tobin's-Q. Hypothesis 3 is also not supported as higher level of independence indicates lower performance of companies. This is not in line with the agency theory which suggests that the ability of the board to act as an effective monitoring mechanism is dependent on its independence from management (Beasley, 1996; Dechow et al., 1996). In the Malaysian context, the MCCG commends that companies adopt good governance practices by having a well-adjusted board comprising of at least one-third non-executive directors (NEDs) to observe the management. However, boards dominated by non-executive directors (NEDs), who lack real independence and awareness of their responsibilities, and who do not have the suitable credentials and familiarity, may be damaging to companies. In the context of this study, level of independence and non-executive directors do not seem to improve performance of companies.

#### 4.3 Relationship between Presence of Committee and Company Performance from 2010-2012

Table 4. Presence of Committees and company performance of Bursa Malaysia companies from 2010-2012

	ROA		Tobin's-Q	
	Coefficient	t-value	Coefficient	t-value
Presence of Committees				
Audit Committee	0.55***	(11.09)	0.01***	(8.97)
Remuneration Committee	0.0009	(1.61)	-9.02	(-0.03)
Nomination Committee	-19.43***	(-3.51)	0.34***	(2.94)
Firm Age	-0.02	(1.95)	-0.02	(1.94)
Firm Size	9.12***	(10.22)	8.94***	(9.97)
Shareholder Concentration	1.94	(0.83)	1.97	(0.84)

Note. Standard errors are adjusted for heteroskedasticity, using the White's test

\* significant at the 10% level; \*\* significant at the 5% level; \*\*\*significant at the 1% level.

The empirical results from Table 4 show that the audit committee has a significantly positive relationship with both the ROA and Tobin's-Q, whilst the remuneration committee is not significant. As for the nomination committee, the results indicate a significantly negative relationship for both the ROA and Tobin's-Q. The coefficients for audit committee are 0.55 and 0.01 respectively. As for the nomination committee, the coefficients are -19.43 and 0.34 respectively. The empirical results support hypothesis 4a and 4b. As for hypothesis 5a and 5b, the hypotheses are not supported as there is no significance, whilst hypothesis 6(a) is rejected due to a negative relationship. Nevertheless, hypothesis 6(b) is accepted. The results indicate that practicing good governance via the presence of audit committees improves the performance of companies as auditors are expected to act as watchdogs to monitor the management of the company. This may minimize expropriation and execution of transactions by interested parties. An audit committee that is independent reduces the occurrence of manipulation

of financial disclosures and thus increases the level of financial transparency as stated by Klein (1998); Klein (2002) and Koh, Laplante and Tong, (2007). Though an independent remuneration committee is expected to increase the level of transparency and drive a performance based remuneration package (Anderson and Bizjak, 2000; Menon and Williams, 1994), the results of this study states otherwise. As for the nomination committee, the presence of independence to the process of nomination and re-election is expected to have a positive impact on the performance as independence minimizes practices in favor to personal interest (Ruigrok, Peck, Tacheva, Greve & Hu, 2006). The results of this study are mixed; a positive relationship is noted when regressed against Tobins-Q but a negative relationship is obtained for ROA.

#### 4.4 Moderating Effects of Political Affiliation on the Relationship between Board Composition and Companies' Performance

Table 5. Moderating effects of political affiliation on the relationship between Non-executive Directors and Independent Directors against company performance

	ROA		Tobin's-Q	
	Coefficient	t-value	Coefficient	t-value
Non-executive Directors	0.06	(1.58)	0.44*	(1.77)
Independent Directors	-2.76***	(-5.95)	-2.53***	(-4.08)
Non-executive Directors x Political Affiliation	0.095	(0.54)	0.004	(0.02)
Independent Directors x Political Affiliation	-2.80***	(-7.25)	-3.24***	(-5.92)
Firm Age	-0.03**	(2.07)	-0.04**	(2.29)
Firm Size	-0.02**	(1.94)	-0.02**	(1.82)
Shareholder Concentration	2.93	(1.19)	4.79	(1.76)

Note. Standard errors are adjusted for heteroskedasticity, using the White's test;

\* significant at the 10% level; \*\* significant at the 5% level; \*\*\*significant at the 1% level.

Based on Table 5, it is observed that the political affiliation does not have a moderation effect on the relationship between non-executive directors and company performance but a negative moderation effect is documented in the relationship between independent directors and performance of companies. The coefficients are, -2.80 and -3.24 respectively. Therefore, hypotheses 7a and 7b is accepted, whilst hypotheses 8a and 8b is rejected. The results can be interpreted as political affiliation moderates the relationship between independent directors and performance of companies. As suggested by Fisman, (2001), Johnson and Mitton, (2003) and Faccio, (2006), this relationship could be contingent to political leaders using their power to grant economic favors to connected firms. Political affiliations are personal affiliation between politicians and specific firms, either via cronyism or shareholding or managers, and it is often suggested that the diverted resources are inefficiently utilized, thus contributing to the negative effects, (Khwaja & Mian, 2005). When political leaders start their influential positions in the firms, it may have adverse impact on efficient use of resources, an increase in cost due to corruption, cronyism and practice of favoritism. All these may result in the decrease in the performance of a company.

In addition to that, the existence of agency problems may contribute towards the negative relationship. This is mainly because private rents may be attained by managers (and shared with politicians) rather than shareholders when corporate governance does not provide a strong control by firms' shareholders. This may happen in cases where managers may conspire with politicians to safeguard themselves from threats of takeover. As suggested by Mauro, (1995), when corruption and political influence are prevalent, it is usual to observe long-term negative growth and firm performance, especially by firms in the corrupt sectors and/or regions.

## 5. Conclusion and Recommendation

The prime aim of this study is to examine the impact of selected board governance (represented by board size and board composition) and the presence of committees on the performance of companies. Furtherance to that, the moderation effects of political affiliation on the relationship between board governance and company performance is also examined. A sample size of 2280 companies from Bursa Malaysia for the period 2010 to 2012 is studied. The study uses Multivariate Regression to test the hypotheses.

The results document a positive relationship between board size and companies' performance but a negative relationship is identified for independent directors and performance. No significance is noted for non-executive directors. As for the presence of committees, the results are mixed. In terms of the role of political affiliation in moderating the relationship between independent directors and non-executive directors against companies' performance, the empirical evidence suggest no significance for non-executive directors but a negative moderation effect is noted for independent directors. In most instances, these empirical evidences are in line with the Agency Theory, suggesting that board size, board composition and the presence of committees do have an impact on company performance. They act as watchdog and minimize any unwarranted transactions and decisions between managers and shareholders. As for political affiliation, the presence of a politically affiliated member in the board reduces the performance of companies.

The significance of this study is multifold. It gives indication to the shareholders on the importance of board size and directors' independence on the performance of companies. These board compositions are important and useful decisions that shareholders of companies need to consider in their selection of board members. It also indicates to the shareholders on the importance of having audit and remuneration committees who are independent as these parties play an important role in decision-making and also minimizes undesired activities undertaken for personal benefits. Managers for their personal future benefits may use their position to undertake transactions which may be detrimental to minority shareholders. Shareholders may also want to weigh the pros and cons of having politically affiliated members in their boards. It may be useful in some situations but otherwise for the rest. As for the regulators, the results may to a certain extent assist in identifying and matching the effectiveness of the existing Corporate Governance Code (2012) and identifying the needs for enhancements in terms of the roles played by directors in the performance of companies. It is hoped that this study can be extended to a larger sample size and many sub-categories, i.e., by industry, by firm sizes, different listing boards. It is also envisioned that the study can be analyzed from the perspectives of family and non-family businesses. A comparative study using samples from other countries should be useful.

## References

- Alchian, A. (1950). Uncertainty, evolution and economic theory. *Journal of Political Economy*, 58, 211-221. <http://dx.doi.org/10.1086/256940>
- Adams, R. B., & Hamid M. (2012). Bank board structure and performance: Evidence for large bank holding companies. *Journal of Financial Intermediation*, 21, 243-267. <http://dx.doi.org/10.1016/j.jfi.2011.09.002>
- Agrawal, A., & Charles, R. K. (1996). Firm Performance and Mechanisms to Control Agency Problems between Managers and Shareholders. *Journal of Financial and Quantitative Analysis*, 31, 377-397. <http://dx.doi.org/10.2307/2331397>
- Anderson, R. C., & Buzjak, J. M. (2000). *An empirical examination of the role of the CEO and the compensation committee in structuring executive pay*. Working Paper American University. [http://dx.doi.org/10.1016/S0378-4266\(02\)00259-5](http://dx.doi.org/10.1016/S0378-4266(02)00259-5)
- Anderson, R. C., Mansi, S. A., & Reeb, D. M. (2004). Board Characteristics, Accounting Report Integrity, and the Cost of Debt. *Journal of Accounting and Economics*, 37(3), 315-342. <http://dx.doi.org/10.1016/j.jacceco.2004.01.004>
- Baccar, A., Mohamed, E. B., & Bouri, A. (2013). Managerial Optimism, Overconfidence and Board Characteristics: Toward a New Role of Corporate Governance. *Australian Journal of Basic & Applied Sciences*.
- Bales, K. L., Nicole, M., & Katie, H. (2012). New directions in the neurobiology and physiology of paternal care. *Relationship Science Integrating Evolutionary Neuroscience and Sociocultural Approaches*. <http://dx.doi.org/10.1037/13489-005>
- Baliga, B. R., Moyer, R. C., & Rao, R. S. (1996). CEO duality and firm performance: What's the fuss? *Strategic Management Journal*, 17, 41-53. [http://dx.doi.org/10.1002/\(SICI\)1097-0266\(199601\)17:1%3C41::AID-SMJ784%3E3.0.CO;2-%23](http://dx.doi.org/10.1002/(SICI)1097-0266(199601)17:1%3C41::AID-SMJ784%3E3.0.CO;2-%23)
- Barnhart, S., & Rosenstein, S. (1998). Board Composition, Managerial Ownership, and Firm Performance: An Empirical Analysis. *The Financial Review*, 33(4), 1-16. <http://dx.doi.org/10.1111/j.1540-6288.1998.tb01393.x>
- Barnhart, S., Marr, M., & Rosenstein, S. (1994). Firm performance and board composition: Some new evidence. *Managerial and Decision Economics*, 15(4), 329-340. <http://dx.doi.org/10.1002/mde.4090150407>

- Baum, C. F., Caglayan, M., Schäfer, D., & Talavera, O. (2008). Political Patronage in Ukrainian Banking. *Economics of Transition*, 16, 537. <http://dx.doi.org/10.1111/j.1468-0351.2008.00331.x>
- Baysinger, B. D., & Butler, H. D. (1985). Corporate Governance and the Board of Directors: Performance Effects of Changes in Board Composition. *Journal of Law, Economics and Organization*, 1, 101-124.
- Baysinger, B., & Hoskisson, R. E. (1990). The Composition of Boards of Directors and Strategic Control: Effects on Corporate Strategy. *The Academic of Management Review*, 15(1), 72-87. <http://dx.doi.org/10.5465/AMR.1990.4308231>
- Beasley, M. S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. *The Accounting Review* (October), 443-466.
- Bebchuk, L., Cohen, A., & Ferrell, A. (2004). What Matters in Corporate Governance? *Discussion Paper No. 491, John M. Olin Center for Law Economics, and Business, Harvard Law School*. <http://dx.doi.org/10.2139/ssrn.593423>
- Beiner, S., Drobetz, W., Schmid, M., & Zimmermann, H. (2006). An Integrated Framework of Corporate Governance and Firm Valuation-Evidence from Switzerland. *European Financial Management*, 12(2), 249-283. <http://dx.doi.org/10.1111/j.1354-7798.2006.00318.x>
- Berle, A., & Means, G. (1932). *The modern Corporation and Private Property*. United States: Transaction Publishers. <http://dx.doi.org/10.1017/CBO9780511817410.006>
- Bhagat, S., & Bernard, B. (1999). The uncertain relationship between board composition and firm performance. *Business Lawyer*, 54, 921-963. <http://dx.doi.org/10.2139/ssrn.11417>
- Bhagat, S., & Bolton, B. (2008). Corporate Governance and Firm Performance. *Journal of Corporate Finance*, 14, 257-273. <http://dx.doi.org/10.1016/j.jcorpfin.2008.03.006>
- Bhagat, S., & Black, B. (2002). The non-correlation between board independence and long term firm performance. *Journal of Corporation Law*, 27, 231-274. <http://dx.doi.org/10.2139/ssrn.133808>
- Blue, R. C. (1999). *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*. New York Stock Exchange and the National Association of Securities Dealers.
- Bonn, I. (2004). Board structure and firm performance: Evidence from Australia. *Journal of the Australian and New Zealand Academy of Management*, 10(1), 14. <http://dx.doi.org/10.5172/jmo.2004.10.1.14>
- Booth, J. R., & Deli, D. N. (1996). Factors affecting the number of outside directors held by CEOs. *Journal of Financial Economics*, 40, 81-104. [http://dx.doi.org/10.1016/0304-405X\(95\)00838-6](http://dx.doi.org/10.1016/0304-405X(95)00838-6)
- Boubakri, N., Cosset, J. C., & Saffar, W. (2008). Political connections of newly privatized firms. *Journal of Corporate Finance*, 14(5), 654-673. <http://dx.doi.org/10.1016/j.jcorpfin.2008.08.003>
- Brennan, N. (2006). Boards of Directors and Firm Performance: Is There an Expectations Gap? *Corporate Governance: An International Review*, 14(6), 577-593. <http://dx.doi.org/10.1111/j.1467-8683.2006.00534.x>
- Brickley, J., & James, C. (1987). The Takeover Market, Corporate Board Composition, and Ownership Structure: The Case of Banking. *Journal of Law and Economics*, 30, 161-180.0. <http://dx.doi.org/10.1086/467134>
- Brickley, J. A., Coles, J. L., & Terry, R. L. (1994). Outside directors and the adoption of poison pills. *Journal of Financial Economics*, 35, 371-390. [http://dx.doi.org/10.1016/0304-405X\(94\)90038-8](http://dx.doi.org/10.1016/0304-405X(94)90038-8)
- Brown, L. D., & Caylor, M. L. (2009). Corporate Governance and Firm Operating Performance. *Review of Quantitative Finance and Accounting*, 32(2), 129-144. <http://dx.doi.org/10.1007/s11156-007-0082-3>
- Byrd, J., & Hickman, K. (1992). Do outside directors monitor managers? Evidence from tender offer bids. *Journal of Financial Economics*, 32, 195-221.
- Cadbury Committee. (1992). *Report of the Committee on Financial Aspects of Corporate Governance*. London, HMSO.
- Chaganti, R. S., Mahajan, V., & Sharma, S. (1985). Corporate board size, composition and corporate failures in retailing industry. *Journal of Management Studies*, 22(4), 400-417. <http://dx.doi.org/10.1111/j.1467-6486.1985.tb00005.x>
- Chan Kim, W., & Mauborgne, R. (1998). Procedural justice, strategic decision making, and the knowledge economy. *Strat. Mgmt. J.*, 19, 323-338.

- [http://dx.doi.org/10.1002/\(SICI\)1097-0266\(199804\)19:4%3C323::AID-SMJ976%3E3.0.CO;2-F](http://dx.doi.org/10.1002/(SICI)1097-0266(199804)19:4%3C323::AID-SMJ976%3E3.0.CO;2-F)
- Chen, C. J. P., & Jaggi, B. L. (2000). The Association between independent nonexecutive directors, family control and financial disclosures in Hong Kong. *Journal of Accounting and Public Policy*, 19(4-5), 285-310. [http://dx.doi.org/10.1016/S0278-4254\(00\)00015-6](http://dx.doi.org/10.1016/S0278-4254(00)00015-6)
- Chiang, H. T. (2005). An Empirical Study of Corporate Governance and Corporate Performance. *Journal of American Academy of Business*, 6(1), 95-101.
- Child, J. (1975). Managerial and Organizational Factors Associated with Company Performance-Part II. A Contingency Analysis. *Journal of Management Studies*, 12, 12-27. <http://dx.doi.org/10.1111/j.1467-6486.1975.tb00884.x>
- Cho, D., & Kim, J. (2007). Outside Directors, Ownership Structure and Firm Profitability in Korea. *Corporate Governance: An International Review*, 15(2), 239-250.
- Classens, S., Djankov, S., & Lang, L. (1998). *East Asian corporate: Growth, financing and risks over the last decade, October 27*. World Bank Policy Research Working Paper No. 2017. Washington DC: World Bank.
- Claessens, S., & Fan, J. P. H. (2002). Corporate governance in Asia: A survey. *International Review of Finance*, 3, 77-103. <http://dx.doi.org/10.1111/1468-2443.00034>
- Clarkson, P. M. (1992). The voluntary inclusion of earnings forecasts in IPO prospectuses. *Contemporary Accounting Research*. <http://dx.doi.org/10.1111/j.1911-3846.1992.tb00863.x>
- Coles, J. L., Daniel, N. D., & Naveen, L. (2008). Boards: Does one size fit all? *Journal of Financial Economics*, 87(2), 329-356. <http://dx.doi.org/10.1016/j.jfineco.2006.08.008>
- Collier, P. (1993). Factors Affecting the Formation of Audit Committees in Major UK Listed Companies. *Accounting and Business Research*. <http://dx.doi.org/10.1080/00014788.1993.9729909>
- Contessotto, C., & Robyn, M. (2013). The association between audit committee effectiveness and audit risk. *Accounting and Finance*. <http://dx.doi.org/10.1111/acfi.12010>
- Core, J., Guay, W., & Rusticus, T. (2006). Does weak governance cause weak stock returns? An examination of firm operating performance and investors' expectations. *Journal of Finance*, 61, 655-687. <http://dx.doi.org/10.1111/j.1540-6261.2006.00851.x>
- Cotter, J., & Silvester, M. (2003). Board and Monitoring Committee Independence. *Abacus*, 39(2), 211-232. <http://dx.doi.org/10.1111/1467-6281.00127>
- Dalton, D., Daily, C., Ellstrand, A., & Johnson, J. (1998). Meta-analytic reviews of board composition, leadership structure, and financial performance. *Strategic Management Journal*, 19, 269-290. [http://dx.doi.org/10.1002/\(SICI\)1097-0266\(199803\)19:3%3C269::AID-SMJ950%3E3.0.CO;2-K](http://dx.doi.org/10.1002/(SICI)1097-0266(199803)19:3%3C269::AID-SMJ950%3E3.0.CO;2-K)
- Dalton, D. R., & Daily, C. M. (1999). What's Wrong With Having Friends on the Board. *Across the Board*, 36(3), 28-32.
- Davidson III, W. N., & Rowe, W. (2004). Intertemporal Endogeneity in Board Composition and Financial Performance. *Corporate Ownership and Control*, 1(4), 49-60.
- Dahya, J., Lonie, A. A., & Power, D. M. (1996). The case for separating the roles of chairman and CEO: An analysis of stockmarket and accounting data. *Corporate Governance: An International Review*, 4, 71-77.
- Dahya, J., & McConnell, J. J. (2003). Board Composition, Corporate Performance, and the Cadbury Committee Recommendation. *Purdue CIBER Working Papers*. <http://dx.doi.org/10.2139/ssrn.687429>
- Dechow, P., Sloan, R., & Sweeney, A. (1996). Causes and Consequences of Earnings Manipulations: An Analysis of Firms Subject to Enforcement Actions by the SEC. *Contemporary Accounting Research*, 13(1), 1-36. <http://dx.doi.org/10.1111/j.1911-3846.1996.tb00489.x>
- Dehaene, A., De Vuyst, V., & Ooghe, H. (2001). Corporate Performance and Board Structure in Belgian Companies. *Long Range Planning*, 34(3), 383-398. [http://dx.doi.org/10.1016/S0024-6301\(01\)00045-0](http://dx.doi.org/10.1016/S0024-6301(01)00045-0)
- Demb, A., & Neubauer, F. F. (1992). *The Corporate Board: Confronting the paradoxes*. New York and Oxford: Oxford University Press. [http://dx.doi.org/10.1016/0024-6301\(92\)90364-8](http://dx.doi.org/10.1016/0024-6301(92)90364-8)
- Demsetz, H., & Villalonga, B. (2001). Ownership Structure and Corporate Performance. *Journal of Corporate Finance*, 7(3), 209-233. [http://dx.doi.org/10.1016/S0929-1199\(01\)00020-7](http://dx.doi.org/10.1016/S0929-1199(01)00020-7)
- Denis, D. J., & Sarin, A. (1999). Ownership and Board Structure in Publicly Traded Corporations. *Journal of*

- Financial Economics*, 52(2), 187-224. [http://dx.doi.org/10.1016/S0304-405X\(99\)00008-2](http://dx.doi.org/10.1016/S0304-405X(99)00008-2)
- Downes, D. H., & Heinkel, R. (1982). Signaling and the valuation of unseasoned new issues. *Journal of Finance* 37(March), 1-10. <http://dx.doi.org/10.1111/j.1540-6261.1982.tb01091.x>
- Eisenberg, T., Sundgren, S., & Wells, M. (1998). Larger Board Size and Decreasing Firm Value in Small Firms. *Journal of Financial Economics*, 48, 35-54.
- Faccio, M. (2006). Politically Connected Firms. *American Economic Review*, 96(1), 369-386. <http://dx.doi.org/10.1257/000282806776157704>
- Faccio, M., Masulis, R., & McConnell, J. J. (2006). Political connections and corporate bailouts. *Journal of Finance*, 61, 2597-2635. <http://dx.doi.org/10.1111/j.1540-6261.2006.01000.x>
- Fama, E., F. (1980). Agency problems and the theory of the firm. *Journal of Political Economy*, 88(2), 288-307. <http://dx.doi.org/10.1086/260866>
- Fama, E. F., Jensen, M. (1983). Separation of ownership and control. *Journal of Law and Economics*, 26, 301-325. <http://dx.doi.org/10.1086/467037>
- Farooque, O. A., Tony, Z., Keitha, D., & AKM, W. K. (2007). Ownership Structure and Corporate Performance: Evidence from Bangladesh. *Asia-Pacific Journal of Accounting & Economics*, 14(2), 127-149. <http://dx.doi.org/10.1080/16081625.2007.9720792>
- Ferguson & Voth. (2008). Betting on Hitler-the value of political connections in Nazi Germany. *Quarterly Journal of Economics*, 123, 101-137. <http://dx.doi.org/10.1162/qjec.2008.123.1.101>
- Fernandes, N. (2005). *Board Compensation and Firm Performance: The Role of "Independent" Board Members*, ECGI Working Paper Series in Finance. European Corporate Governance Institute. <http://dx.doi.org/10.2139/ssrn.830244>
- Financial Reporting Council. (2003). *Combined Code on Corporate Governance*. London, Financial Reporting Council.
- Finkelstein, S., & Hambrick, D. C. (1996). *Strategic Leadership: Top Executives and Their Effects on Organization*. West Publishing Company, Minneapolis/ St. Paul.
- Fisman, R. (2001). Estimating the Value of Political Connections. *American Economic Review*, 91(4), 1095-1102. <http://dx.doi.org/10.1257/aer.91.4.1095>
- Florackis, C., & Ozkan A. (2004). *Agency Costs and Corporate Governance Mechanisms: Evidence for UK Firms*. Working Paper, University of York, UK. <http://dx.doi.org/10.1108/17439130810837375>
- Forsberg, R. (1989). Outside Directors and Managerial Monitoring. *Akron Business and Economic Review*, 20, 24-32.
- Fraser, D. R., Zhang, H., & Derashid, C. (2006). Capital structure and political patronage: The case of Malaysia. *Journal of Banking and Finance*, 30, 1291-1308. <http://dx.doi.org/10.1016/j.jbankfin.2005.05.008>
- Ghabayen, M. A. (2012). Board Characteristics and Firm Performance: Case of Saudi Arabia. *International Journal of Accounting and Financial Reporting*. <http://dx.doi.org/10.5296/ijafr.v2i2.2145>
- Gilley, K., Matthew, J. E., & Coombs, R. H. (n. d.). Boards of director influence and organizational performance in entrepreneurial firms: Mediating and moderating effects. Retrieved from <http://fusionmx.babson.edu/entrep/fer/XXVII/XXVIIA/XXVIIA.htm>
- Goldman, E., Rocholl, J., & So, J. (2009). Do Politically Connected Firms Affect Firm Value? *Review of Financial Studies*, 22(6), 2331-2360. <http://dx.doi.org/10.1093/rfs/hhn088>
- Goodstein, J., Gautam, K., & Boeker, W. (1994). The effects of board size and diversity on strategic change. *Strategic Management Journal*, 15, 241-250. <http://dx.doi.org/10.1002/smj.4250150305>
- Grace, M., Ireland, A., & Dunstan, K. (1995). Board Composition, Non-Executive Directors' Characteristics and Corporate Financial Performance. *Asia-Pacific Journal of Accounting*, 2(1), 121-137. <http://dx.doi.org/10.1080/10293574.1995.10510481>
- GUL, F. A. (2006). Auditors' Response to Political Connections and Cronyism in Malaysia. *Journal of Accounting Research*, 44, 931-963. <http://dx.doi.org/10.1111/j.1475-679X.2006.00220.x>
- Haleblian, J., & Finkelstein, S. (1993). Top management team size, CEO dominance, and firm performance: The moderating roles of environmental turbulence and discretion. *Academy of Management Journal*, 36,

- 844-863. <http://dx.doi.org/10.2307/256761>
- Haniffa, R. (2006). Corporate Governance Structure and Performance of Malaysian Listed Companies. *Journal of Business Finance & Accounting*. <http://dx.doi.org/10.1111/j.1468-5957.2006.00594.x>
- Haniffa, R., & Hudaib, M. (2006). Corporate Governance Structure and Performance of Malaysian Listed Companies. *Journal of Business Finance & Accounting*, 33(7-8), 1034-1062. <http://dx.doi.org/10.1111/j.1468-5957.2006.00594.x>
- Hermalin, B. E., & Weisbach, M. S. (1988). The Determinants of Board Composition. *RAND Journal of Economics*, 19(4), 589-606.
- Hermalin, B., & Weisbach, M. (1991). The effects of board composition & direct incentives on firm performance. *Financial Management*, 20(4), 101-112. <http://dx.doi.org/10.2307/3665716>
- Hermalin, B. E., & Weisbach, M. S. (2003). Boards of directors as an endogenously determined institution: A survey of the economic evidence. *Economic Policy Review*, 9, 7-26
- Higgs Report. (2003). *Review of the Role and Effectiveness of Non-executive Directors*. London: Department of Trade and Industry.
- Hill, C. W., & Snell, S. A. (1989). Effects of ownership structure and control on corporate productivity. *Acad. Manage. J.*, 32, 25-46. <http://dx.doi.org/10.2307/256418>
- Hritos, D. (2007). Director's Remuneration and Performance in Australian Banking: Director's remuneration and performance in Australian Banking. *Corporate Governance an International Review*. <http://dx.doi.org/10.1111/j.1467-8683.2007.00651.x>
- Hsu-Huei, H. (2010). The Influence of Corporate Governance on Corporate Performance and Value after changing the CEO: Evidence from Taiwan. *Asia-Pacific Journal of Financial Studies*. <http://dx.doi.org/10.1111/j.2041-6156.2009.tb00035.x>
- Hu, F., Xiaofei, P., & Gary, T. (2013). Does CEO pay dispersion matter in an emerging market? Evidence from China's listed firms. *Pacific-Basin Finance Journal*, 24, 235-255. <http://dx.doi.org/10.1016/j.pacfin.2013.07.003>
- Jacqueline, C. (2010). Corporate Governance and Company Performance in Australia: Corporate Governance and Company Performance in Australia. *Australian Accounting Review*. <http://dx.doi.org/10.1111/j.1835-2561.2010.00108.x>
- Jayachandran, S. (2006). The Jeffords effect. *Journal of Law and Economics*, 49, 397-425. <http://dx.doi.org/10.1086/501091>
- Jensen, M. C. (1993) The modern industrial revolution, exit, and the failure of internal control systems. *Journal of Finance*, 48, 831-880. <http://dx.doi.org/10.1111/j.1540-6261.1993.tb04022.x>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3(4), 305-360. [http://dx.doi.org/10.1016/0304-405X\(76\)90026-X](http://dx.doi.org/10.1016/0304-405X(76)90026-X)
- Johnson, S., & Mitton, T. (2003). Cronyism and capital controls: Evidence from Malaysia. *Journal of Financial Economics*, 67, 351-382. [http://dx.doi.org/10.1016/S0304-405X\(02\)00255-6](http://dx.doi.org/10.1016/S0304-405X(02)00255-6)
- Jonsson, E. I. (2005). The Role Model of the Board: A Preliminary Study of the Roles of Icelandic Boards. *Corporate Governance: An International Review*, 13(5), 710-717. <http://dx.doi.org/10.1111/j.1467-8683.2005.00462.x>
- Kaplan, S. N., & Reishus, D. (1990). Outside directorships and corporate performance. *Journal of Financial Economics*, 27(2), 389-410. [http://dx.doi.org/10.1016/0304-405X\(90\)90061-4](http://dx.doi.org/10.1016/0304-405X(90)90061-4)
- Khas, M. N. (2002). *Corporate governance in Malaysia: issues & challenges*. Colloquium for UiTM-MICG Corporate Governance Research Centre. UiTM, Shah Alam.
- Kesner, I. F., & Johnson, R. B. (1990). An Investigation of the Relationship between Board Composition and Stockholder Suits. *Strategic Management Journal*, 11, 327-336. <http://dx.doi.org/10.1002/smj.4250110408>
- Klein, A. (2002). Audit committees, board of director characteristics, and earnings management. *Journal of Accounting and Economics*, 33, 375-400. [http://dx.doi.org/10.1016/S0165-4101\(02\)00059-9](http://dx.doi.org/10.1016/S0165-4101(02)00059-9)
- Klein, A. (1998). Firm Performance and Board Committee Structure. *Journal of Law and Economics*, 41(1),

- 275-303. <http://dx.doi.org/10.1086/467391>
- Koh, P. S., Laplante, S. K., & Tong, Y. H. (2007). Accountability and value enhancement roles of corporate governance. *Accounting and Finance*, 47(2), 305-333. <http://dx.doi.org/10.1111/j.1467-629X.2006.00207.x>
- Kumar, P., & Alessandro, Z. (2013). How Much Do Country-Level or Firm-Level Variables Matter in Corporate Governance Studies? *Corporate Governance An International Review*. <http://dx.doi.org/10.1111/corg.12025>
- Khawaja, A. I., & Mian, A. (2005). Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market. *The Quarterly Journal of Economics*, 120(4), 1371-1411. <http://dx.doi.org/10.1162/003355305775097524>
- Lee, Y. S., Rosenstein, S., & Waytt, J. G. (1999). The value of financial outside directors on corporate boards. *International Review of Economics and Finance*, 8(4), 421-431. [http://dx.doi.org/10.1016/S1059-0560\(99\)00039-8](http://dx.doi.org/10.1016/S1059-0560(99)00039-8)
- Lee, S. H., & Oh, K. E. (2010). Why do firms bribe? Insights from residual control theory into firms' exposure and vulnerability to. *Management International Review*.
- Li, H. B., Meng, L. S., Wang, Q., & Zhou, L. A. (2008). Political connections, financing and firm performance: Evidence from Chinese private firms. *Journal of Development Economics*, 87(2), 283-299. <http://dx.doi.org/10.1016/j.jdeveco.2007.03.001>
- Linden, P., Matolsky, Z. (2004). Corporate Governance Scoring Systems: What Do They Tell Us? *Australian Accounting Review*, 14, 9-16. <http://dx.doi.org/10.1111/j.1835-2561.2004.tb00278.x>
- Lipton, M., & Lorsch, J. W. (1992). A modest proposal for improved corporate governance. *Business Lawyer*, 48, 59-77.
- MacGregor, J. (2012). Audit committee equity holdings, the risk of reporting problems, and the achievement of earning thresholds. *Journal of Accounting and Public Policy*. <http://dx.doi.org/10.1016/j.jaccpubpol.2012.08.001>
- Mak, Y. T., & Yuanto, K. (2003). Board Size Really Matters: Further Evidence on the Negative Relationship Between Board Size and Firm Value. *Pulses by Singapore Stock Exchange*. <http://dx.doi.org/10.1016/j.pacfin.2004.09.002>
- Menon, K., & Williams, J. D. (1994). The use of audit committees for monitoring. *Journal of Accounting and Public Policy*, 13, 121-139. [http://dx.doi.org/10.1016/0278-4254\(94\)90016-7](http://dx.doi.org/10.1016/0278-4254(94)90016-7)
- Menozi, A., Gutiérrez, U., & María, V. (2011). Board composition, political connections, and performance in state-owned enterprises. *Industrial and Corporate Change*. <http://dx.doi.org/10.1093/icc/dtr055>
- Mintzberg, H. (1984). Who Should Control the Corporation? *California Management Review*, 27(1), 90-115. <http://dx.doi.org/10.2307/41165115>
- Mitton, T. (2002). A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis. *Journal of Financial Economics*, 642, 215-241. [http://dx.doi.org/10.1016/S0304-405X\(02\)00076-4](http://dx.doi.org/10.1016/S0304-405X(02)00076-4)
- Mohamad, S., Hassan, T., & Chen, C. M. (2006). Impact of political-business relationship: Ownership patterns and corporate performance in Malaysia. *Paper presented at the AFAJFMA 2006 Meeting*. Auckland, New Zealand.
- Mohammadi, S., Monfared, M. M., & Mansouri, O. (2012). The Effect of Cash Holdings on Income Smoothing. *Interdisciplinary Journal of Contemporary Research in Business*.
- Monks, R., & Nell, M. (1995). *Corporate Governance*. Cambridge, Massachusetts: Blackwell.
- Muth, M. M., & Donaldson, L. (1998). Stewardship Theory and Board Structure: A Contingency Approach. *Corporate Governance: An International Review*, 6(1), 5-28. <http://dx.doi.org/10.1111/1467-8683.00076>
- New Zealand Securities Commission. (2004). *Corporate Governance in New Zealand Principles and Guidelines: A Handbook for Directors, Executives and Advisers*. NZSC, Wellington
- Nicholson, G. J., & Kiel, G. C. (2004). A Framework For Diagnosing Board Effectiveness. *Corporate Governance: An International Review*, 12(4), 442-460. <http://dx.doi.org/10.1111/j.1467-8683.2004.00386.x>
- Nickell, S., Nicolitsas, D., & Dryden, N. (1997). What makes firms perform well? *Eur. Econ. Review*, 41, 783-796. [http://dx.doi.org/10.1016/S0014-2921\(97\)00037-8](http://dx.doi.org/10.1016/S0014-2921(97)00037-8)

- Niessen, A., & Ruenzi, S. (2010). Political connectedness and firm performance: Evidence from Germany. *German Economic Review*, 11, 441-464. <http://dx.doi.org/10.1111/j.1468-0475.2009.00482.x>
- Noordin, H. (1999a). Judicial Management to the Rescue of Companies in Trouble. *Akauntan Nasional*, 4-5.
- Norhashim, M., & Abdul Aziz, K. (2005). Smart partnership or cronyism? A Malaysian perspective. *The International Journal of Sociology and Social Policy*, 258(3), 1-48. <http://dx.doi.org/10.1108/01443330510629081>
- Olson, M. (1982). *The Rise and Decline of Nations*. New Haven: Yale University Press.
- Omran, M. A., & Marwa, A. (2013). The association between corporate governance and corporate disclosure: A critical review. *Journal of Public Administration and Governance*. <http://dx.doi.org/10.5296/jpag.v3i3.4028>
- Palia, D., & Lichtenberg, F. (1999). Managerial ownership and firm performance: a re-examination using productivity measurement. *J. Corp. Finance*, 5, 323-339. [http://dx.doi.org/10.1016/S0929-1199\(99\)00009-7](http://dx.doi.org/10.1016/S0929-1199(99)00009-7)
- Pamela, K. (2008). Corporate governance and disclosures on the transition to International Financial Reporting Standards. *Accounting & Finance*. <http://dx.doi.org/10.1111/j.1467-629X.2007.00257.x>
- Patton, A., & Baker, J. (1987). Why do Directors Not Rock the Boat? *Harvard Business Review*, 65, 10-12
- Pau, C. (2011). The effects of surprise political events on quoted firms: The March 2004 election in Spain. *SERIEs*. <http://dx.doi.org/10.1007/s13209-011-0080-5>
- Pearce II, J. A., & Zahra, S. A. (1992). Board Composition from a Strategic Contingency Perspective. *Journal of Management Studies*, 29(4), 411-438. <http://dx.doi.org/10.1111/j.1467-6486.1992.tb00672.x>
- Pfeffer, J. (1987). A resource dependence perspective on interorganizational relations. In Mizruchi, M. S., & Schwartz, M. (Eds.), *Intercorporate Relations: The Structural Analysis of Business* (pp. 25-55). Cambridge UK: Cambridge University Press.
- Pfeffer, J. (1972). Size and composition of corporate board of directors. *Administrative Science Quarterly*, 21, 218-228. <http://dx.doi.org/10.2307/2393956>
- Pham, P. K., Suchard, J. A., & Zein, J. (2012). Corporate Governance and the Cost of Capital: Evidence from Australian Companies. *Journal of Applied Corporate Finance*, 24, 84-93. <http://dx.doi.org/10.1111/j.1745-6622.2012.00392.x>
- Pettigrew, A., & McNulty, T. (1995). Power and Influence In and Around the Boardroom. *Human Relations*, 48(8), 845-873. <http://dx.doi.org/10.1177/001872679504800802>
- Pi, L., & Timme, S. G. (1993). Corporate control and bank efficiency. *Journal of Banking & Finance*, 17, 515-530. [http://dx.doi.org/10.1016/0378-4266\(93\)90050-N](http://dx.doi.org/10.1016/0378-4266(93)90050-N)
- Poo, W. C., Angeline, K. H., & Teck-Heang, L. (2012). The Outcome of Politically Connected Boards on Commercial Bank Performance in Malaysia. *Modern Applied Science*.
- Rashid, K., & Sardar, M. I. (2013). Corporate governance, firm performance and complementarities in a developed market: A study of the Australian case for the period 2000-2003. *International Journal of Disclosure and Governance*. <http://dx.doi.org/10.1057/jdg.2013.19>
- Rechner, L. & Dalton, D. (1991). CEO duality and organizational performance: A longitudinal study. *Strategic Management Journal*, 12, 155-160. <http://dx.doi.org/10.1002/smj.4250120206>
- Rose, C. (2005). The Composition of Semi-Two Tier Corporate Boards and Firm Performance. *Corporate Governance: An International Review*, 13(5), 691-701. <http://dx.doi.org/10.1111/j.1467-8683.2005.00460.x>
- Ruigrok, W., Peck, S., Tacheva, S., Greve, P., & Hu, Y. (2006). The Determinants and Effects of Board Nomination Committees. *Journal of Management Governance*, 10(2), 119-148. <http://dx.doi.org/10.1007/s10997-006-0001-3>
- Rustam, S., Kashif, R., & Khalid, Z. (2013). The relationship between audit committees, compensation incentives and corporate audit fees in Pakistan. *Economic Modelling*. <http://dx.doi.org/10.1016/j.econmod.2013.01.008>
- Salmon, W. J. (1993). Crisis Prevention: How to Gear up Your Board. *Harvard Business Review*, 71(1), 68-75.
- Shleifer, A., & Vishny, R. W. (1997). A Survey of Corporate Governance. *The Journal of Finance*, 52(2), 737-783. <http://dx.doi.org/10.1111/j.1540-6261.1997.tb04820.x>
- Stratmann, T. (2005). Some Talk: Money in Politics. A (partial) Review of the Literature. *Public Choice*, 124,

- 135-156. <http://dx.doi.org/10.1007/s11127-005-4750-3>
- Stewart, R. (1991). Chairman and chief executive: An exploration of their relationship. *Journal of Management Study*, 28(5), 511-27. <http://dx.doi.org/10.1111/j.1467-6486.1991.tb00766.x>
- Sycip, W. (1998). The Managerial Challenge and Response to the 1997/1998 Asian Economic Crisis. *Malaysian Management Review*, 33(2), 1-9.
- Tricker, R. I. (1984). *Corporate Governance: Practices, Procedures and Powers in British Companies and Their Boards of Directors*. Gower Publishing Company, Vermont.
- Vafeas, N. (2000). Board Structure and the Informativeness of Earnings. *Journal of Accounting and Public Policy*, 19(2). [http://dx.doi.org/10.1016/S0278-4254\(00\)00006-5](http://dx.doi.org/10.1016/S0278-4254(00)00006-5)
- Varshney, P., Vijay, K. K., & Vasal, V. K. (2013). Corporate governance mechanisms and firm performance: A study of select Indian firms. *Afro-Asian J of Finance and Accounting*. <http://dx.doi.org/10.1504/AAJFA.2013.057001>
- Victor, D. (2004). Does the Composition and Practice of Boards of Directors Bear Any Relationship to the performance of their Companies? *Corporate Governance An International Review*.
- Wang, M. Z., & Khaled, H. (2013). Voluntary forward-looking statements driven by corporate governance and their value relevance. *Journal of Accounting and Public Policy*. <http://dx.doi.org/10.1016/j.jaccpubpol.2013.02.009>
- Weisbach, M. S. (1988). Outside Directors and CEO Turnover. *Journal of Financial Economics*, 20, 431-460. [http://dx.doi.org/10.1016/0304-405X\(88\)90053-0](http://dx.doi.org/10.1016/0304-405X(88)90053-0)
- Williams, R. J., Fadil, P. A., & Armstrong, R. W. (2005). Top Management Team Tenure and Corporate Illegal Activity: The Moderating Influence of Board Size. *Journal of Managerial Issues*, 17(4), 479-493.
- Williamson, O. E. (1983). Credible commitments: Using hostages to support exchange. *American Economic Review*, 73, 519-540.
- Williamson, O. E. (1985). *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*. New York: Free Press. [http://dx.doi.org/10.1007/978-3-8349-9320-5\\_6](http://dx.doi.org/10.1007/978-3-8349-9320-5_6)
- Wu, Y. (2000). *Honey, CalPERS Shrunk the Board*. Working Paper. University of Chicago.
- Yamazawa, I. (1998). The Asian Economic Crisis and Japan. *The Developing Economies*, 36(3), 332-351.
- Yermack, D. (1996). Higher market valuation for firms with a small board of directors. *Journal of Financial Economics*, 40, 185-211. [http://dx.doi.org/10.1016/0304-405X\(95\)00844-5](http://dx.doi.org/10.1016/0304-405X(95)00844-5)
- Zahra, S. A., & Pearce II, J. A. (1989). Board of Directors and Corporate Financial Performance: A Review and Integrative Model. *Journal of Management*, 15(2), 291-334. <http://dx.doi.org/10.1177/014920638901500208>
- Zahra, S. A., & Stanton, W. (1988). The implications of boards of directors composition for corporate strategy and performance. *International Journal of Management*, 5(2), 229-236.

## Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/3.0/>).