

BOARD CHARACTERISTICS: AN EMPIRICAL STUDY OF LISTED COMPANIES IN MALAYSIA

Cyril Ponnu*, Juan Soo and Nordin Abidin

Abstract

This paper investigates five important characteristics of board committee members of various committees in public listed companies in Malaysia. The five characteristics include director type, tenure, age, internal activity and external activity. Sample of 111 listed companies were collected using simple random five sampling of the annual reports based on financial year 2005 posted online. Sample includes 6 committees with the highest frequency of occurrences – audit, remuneration, nomination, stock option, risk management and executive. Data collected was analyzed using tests of correlation, analysis of variance and regression. The results, however, do not support the hypothesis that members of committees tend to be non-executive directors, older, have longer tenure and show greater evidence of internal and external activities.

Keywords: Board characteristics, corporate governance, Malaysia

*Head of Department, Department of Business Policy & Strategy, Faculty of Business & Accountancy, University of Malaya, 50603 Kuala Lumpur, Malaysia. Tel: 603 7967 3954 Fax: 603 7967 3980 email: cyrilh@um.edu.my (corresponding author).

1. Introduction

Corporate governance can be defined as the organizational controls that govern the behavior of managers and define their discretionary powers (Charreaux, 1997). In other words, corporate governance is a set of laws, policies, institutions, customs and processes which governs, controls and administers a corporation. It includes relationships among the stakeholders, for example, shareholders, management, and board of directors. As mentioned by Shleifer and Vishny (1997), corporate governance can also be narrowly defined as instruments that are in place to guarantee the maximum rate of return on investment to the shareholders and creditors of the company. Effective corporate governance has been widely recognized as a crucial factor in determining the success of a corporation. However, the 1998 Asian financial crisis revealed the weakness in the corporate governance structures in most Asian countries, and highlighted the need for more effective corporate governance (Mobius and Chan, 2000).

In Malaysia, three regulatory bodies continuously maintain, ensure, enhance and secure the foundation of corporate governance. They are Bursa Malaysia (BM) as the front line regulator for all exchange traded securities and derivatives, Securities Commissions (SC) as the principal regulator of securities market in Malaysia, and the Companies Commission of Malaysia (CCM) which administer all companies in Malaysia Act. After the Asian financial crisis, BM's new listing requirements (LRs) were revamped. The new LRs were launched on 22 January 2001. In these new LRs, guidance on internal control

was established and there is a chapter dedicated to corporate governance. Listed companies are now required to disclose the application of and compliance with the Principles and Best Practices of the Malaysian Code on Corporate Governance (MCCG) in their annual reports. The objective of this Code is to empower investors by providing them with information on listed companies' corporate governance practices. This code addresses issues that include board of director's composition, directors' remuneration, directors' nomination and the roles of board committees.

According to the Malaysian Code of Corporate Governance (2000), a company should be headed by an effective board that should lead and control the company. Board of directors holds an essential position in all companies, bearing huge responsibilities of legitimizing and ensuring the fulfillment of legal requirements, directing and determining the overall mission, direction, and broad strategies and policies of the corporation, and overseeing management by ensuring continued competence of management and integrity of the corporate asset. According to Fama and Jensen (1983), board of directors is referred to as the apex of an organization's monitoring and control systems. They are often seen as serving a monitoring function, protecting the interests of various stakeholders against management's self-interests

2. Committee Members' Characteristics

Corporate governance functions previously performed by the full board of directors are now conducted by various committees of the board. This is to ensure

effective monitoring by specific committee members consisting of board of directors. Basing on previous empirical work on the qualifications of these board committee members (Kesner, 1988; Bilimoria & Piderit, 1994), this paper investigates five important characteristics of committee members of various committees in public listed companies in Malaysia. The five characteristics include director type, tenure, age, internal activity and external activity.

Director Type

The qualification of director type represents a board member's affiliation with the management of the company. Inside directors are members of the top management team, whereas outside directors are members of the board who are not corporate executives or their family members. These directors bring external perspective to the governance and control of the corporations as they are not closely affiliated with the current management of the company. In Malaysia, inside directors are known as executive directors, while outside directors are non-executive directors.

Tenure

Board tenure is the number of years a director has been on the company's board of director. In other words, board tenure reflects the experience and knowledge of board of directors. The longer the tenure, the more experience and knowledge a director has of the company. This is because longer tenure means the directors have more experience in dealing with the management in numerous situations that the companies face, compared to others with shorter tenure.

Age

The director's age indicates the overall business experience and maturity of the directors. Older directors tend to be more knowledgeable, wiser and mature in their decision making.

Internal Activity

Internal activity means the number of board committees that the directors sit in the company. Directors who serve on several board committees indicate that the directors have the ability to work effectively with diverse groups of management teams. This is because only those individuals who contribute to effective interpersonal functioning are likely to be nominated to several committees. These directors should have the capability of effectively handling diverse roles and responsibilities as well as building solid working relationships in different areas.

External Activity

As opposed to internal activities, external activities are the number of other boards in which the director is also a member. Directors who are members of other boards offer alternate perspectives on company and industry operations. These directors who serve on

several boards are normally prominent in the larger business and social community. The presence of these directors should contribute to the organizational performance because of the experience in dealing with other companies in multiple industries.

3. Roles of Committees

A continuing stream of research has argued that a firm's board of directors is an important mechanism through which organizations respond to environmental uncertainties (Pfeffer, 1972; Mizruchi and Stearns, 1988; Boeker and Goodstein, 1991). Empirical studies have linked board member characteristics to changes in a firm's strategy (Pearce and Zahra, 1992; Goodstein et al., 1994). Studies on the determinants of board characteristics have highlighted the substitute role of different governance mechanisms such as the proportion of outsiders, inside ownership, ownership structure and leverage (Prevost et al., 2002; Rediker and Seth, 1995; Bhatala and Rao, 1995; and Li, 1994). John and Senbet (1998) suggest that board effectiveness in its monitoring role is determined by its composition, independence and size.

The Malaysian Code of Corporate Governance is largely based on the Cadbury Code. One of the recommendations outlined in the Cadbury Code of Best Practices is that the establishment of board monitoring committees. These committees are responsible for specific functions, such as the nomination of new directors and the setting of directors' remuneration. However, the Malaysian Codes specifies that the committees' authorities should be spelled out, whether the committee has the authority to take action or simply provides recommendation to the board of directors.

The Malaysian Codes of Corporate Governance outlines the functions of some of these committees. For example, the audit committee is responsible for discussing any problem and reservation raised from the audits and any matter that the auditor needs to discuss in the absence of the management. Under the listing requirements, the audit committee should keep under review the scope and results of the audit and its cost effectiveness, and the independence and objectivity of the auditors. The remuneration committee is in charge of recommending to the board of directors the executive directors' remuneration. The nomination committee is responsible for nominating candidates to be on the board of directors. The task of determining and awarding stock options to company's employees is owned by the stock option committee. Other committees like risk management focuses on monitoring company's risks, while executive committee acts as a stand-in for the board in crisis situations.

Each committee is given a specific role to focus on the different aspects of overseeing the affairs of the company. While different functions require different knowledge and background, the qualifications are not limited purely to directors' field of expertise. There

are other qualities that are expected of these committee members, considering the important tasks that they are assigned.

4. Literature Review & Hypothesis

The Cadbury Committee proposed that the committees should consist of mainly non-executive directors (Cadbury 1992). It is a universal practice to have outside, non-executive directors on the boards of companies. Legally and commercially this is seen as an important guarantee of the integrity and accountability of companies (Clarke, 1998). A board composed of a higher proportion of outside directors is perceived to be more independent, leading to being more effective in governing its company. Outside directors have incentives to monitor management on behalf of shareholders because the demand for directors' services, and therefore, the value of their human capital, is dependent upon their effectiveness as decision control specialists (Fama & Jensen, 1983).

Beasley (1996) suggests that a larger proportion of outside members on a board significantly reduces the likelihood of financial statement fraud. In addition, as outside director tenure on the board increases, and as the number of outside directorships in other firms held by outside director decreases, the likelihood of financial statement fraud decreases.

However, an alternative perspective would suggest a reliance on the preponderance of insiders. Inside directors possess superior information that could lead to more effective evaluation of top managers (Baysinger and Hoskisson, 1990). On the other hand, outside directors are usually part-time and may sit on a number of other boards. As a result, it may be difficult for them to understand the complexities of the firm. They may not have all the information necessary for decision-making.

Directors who served on the same board for some period of time are likely to develop strong friendships and professional ties (Fredrickson et al., 1988). Alderfer's (Alderfer, 1986) clinical study of board decision making found that board members with long tenures shared common understandings of the way the firm operated.

Although the actual operations of individual companies' corporate governance systems are left to their directors, governments play a central role in developing the legal, institutional and regulatory frameworks within which these companies conduct their businesses. However, the laws in many jurisdictions do not specifically spell out the desired attributes of directors to ensure that they have the abilities and motivation to properly play their roles in governing their companies. Instead, these companies are left to determine the best attributes to be possessed by their directors. Without these specifications in law, almost anyone can be appointed as a company director. Consequently, the governance of a company might well be vested in persons who simply do not know

their legal obligations to their companies. This is alarming since other stakeholders (such as shareholders, creditors, employees, government, etc.) assume that the directors will follow the law (Chan and Lau, 2003).

The impact of directors' attributes on corporate governance has been an issue of concern to researchers (Majid et al., 1998). However, the understanding in this topic is rather limited as little relevant empirical research has been conducted to date especially on the listed companies in Malaysia. The findings from this study may contribute to revealing the adequacy of Malaysia directors' desired attributes to discharge their duties that contribute to the corporate governance structure of listed companies here. Based on previous studies, we can see that much emphasis has been placed on directors being non-executive. The tenure of the directors also contributes to the performance of the board of directors. As such, our hypothesis is as follows:

Members of committees will be outside directors, have longer board tenure, be older, and show greater evidence of internal and external activity, than will non-members of committees.

5. Method

Data of 111 companies were successfully collected using simple random five sampling from listed companies on the Main Board of Bursa Malaysia. The samples were gathered based on financial year 2005 annual report. All annual reports are readily available on the Bursa Malaysia website as well as the company's website. From these annual reports, we managed to obtain the names and titles of all directors, including information for each director. The samples included 13 committees: Audit, Remuneration, Executive, Compensation, Nomination, Stock Option, Risk Management, Tender, Investment, Vessel Acquisition, Strategic Management, Retirement, and Selection. Before performing various analyses on the data, frequency of members in the committee was examined (Table 1).

Table 1. Frequency of Occurrences

No	Committee	Frequency (N)
1	Audit	368
2	Remuneration	278
3	Nomination	247
4	Stocks Option	81
5	Risk Management	40
6	Executive	45
7	Compensation	4
8	Tender	14
9	Investment	11
10	Vessel Acquisition	3
11	Retirement	4
12	Selection	3
13	Strategic Management	1

Committees with the least frequent occurrences were excluded from subsequent analyses. Those

excluded were Compensation, Tender, Investment, Vessel Acquisition, Retirement, Selection and Strategic Management committees, leaving only six committees to be evaluated.

6. Measures

The characteristics of board of directors are director type, tenure, age, internal activity and external activity were measured as follows:

1. director type – dichotomous variable type with '0' representing inside directorship (executive) & '1' representing outside directorship (non-executive)

2. tenure – number of years a director was on the board
3. age – number of years
4. internal activity – number of other committees involved by the director other than the one being examined
5. external activity – total number of directorship he or she held excluding the evaluated company

Conducting the first analysis, the average tenure, average age, average internal activity and average external activity were calculated for each committee. Next, correlation tests were conducted among these characteristics. Refer to Table 1 to see all the results for this analysis.

Table 2. Mean, SD, and Correlation among Qualifications

		Mean	SD	1	2	3	4
1	Audit committee						
	Tenure (years)	1.399966	0.92069	1			
	Age (years)	53.15915	11.60182	0.259987	1		
	Number of internal activities	1.736842	1.125014	0.127159	0.190578	1	
	Number of external activities	1.001493	0.718869	0.075348	0.23318	-0.01309	1
2	Renumeration						
	Tenure (years)	1.419962	0.893115	1			
	Age (years)	55.21404	10.16656	0.227767	1		
	Number of internal activities	2.080702	1.102404	0.115864	0.134175	1	
	Number of external activities	0.932885	0.753123	0.090414	0.231263	0.036897	1
3	Stock Option						
	Tenure (years)	1.834243	0.839868	1			
	Age (years)	52.39759	10.16923	0.311756	1		
	Number of internal activities	1.906977	1.333972	-0.0009	0.182194	1	
	Number of external activities	0.827957	0.747691	0.101876	-0.02053	-0.17288	1
4	Risk Management						
	Tenure (years)	1.667964	0.946673	1			
	Age (years)	53.39535	9.045229	0.059005	1		
	Number of internal activities	2.069767	1.183122	0.212123	0.159776	1	
	Number of external activities	0.87936	0.698614	-0.02181	-0.21205	-0.22115	1
5	Executive						
	Tenure (years)	1.347022	0.971657	1			
	Age (years)	52.43439	10.8449	0.240479	1		
	Number of internal activities	1.011325	1.142801	0.118862	0.17379	1	
	Number of external activities	0.966556	0.701514	0.053951	0.175685	-0.01304	1
6	Nomination						
	Tenure (years)	1.342051	0.836766	1			
	Age (years)	55.73307	11.15726	0.287548	1		
	Number of internal activities	2.117647	1.094853	0.184662	0.098942	1	
	Number of external activities	0.943504	0.753863	0.033509	0.273727	0.025042	1

A second test was performed to examine whether members and non-members of corporate committees can be distinguished according to the four important characteristics. ANOVA was used to indicate the appropriate aggregations of members & non-members. Subsequently, comparisons were undertaken between

committee members & non-members. To determine whether the groups differed in terms of the director characteristics, multivariate Hotelling' T² Tests, Wilk's Lambda & Univariate F statistics were used (Harris, 1985; Olson, 1974; Stevens, 1986).

7. Results

Table 3. Mean, SD, and Wilk's Lamda Results

	MEMBER		NON MEMBER		Wilk's Lambda	F	Sig
	(N = 368)		(N = 484)				
Audit	Mean	Sd	Mean	Sd			
Director Type	0.7446	0.4367	0.4504	0.4980		130.4471	0.0000
Tenure	5.7663	5.7703	5.8161	6.5400		2.2901	0.1306
Age	53.2174	11.6248	52.0310	10.3286		5.5761	0.0184
Internal Activities	1.7609	1.1328	0.4731	0.8097		100.0492	0.0000
External Activities	2.1114	2.3752	2.0599	2.4744	0.6594	0.9296	0.3353
	(N = 278)		(N = 574)				
Remuneration	Mean	Sd	Mean	Sd			
Director Type	0.7554	0.0287	0.4913	0.0200		201.0296	0.0000
Tenure	5.8849	0.3730	5.7509	0.2596		3.5817	0.0588
Age	55.3489	0.6445	51.1847	0.4486		2.0158	0.1560
Internal Activities	2.1115	0.0525	0.5052	0.0365		104.0013	0.0000
External Activities	2.1079	0.1459	2.0697	0.1015	0.5627	0.1017	0.7499
	(N = 247)		(N = 606)				
Nomination	Mean	Sd	Mean	Sd			
Director Type	0.9150	0.2795	0.4397	0.4968		1099.9285	0.0000
Tenure	5.1377	4.2824	6.0628	6.8350		23.4798	0.0000
Age	55.9190	11.1294	51.1653	10.5307		0.1765	0.6745
Internal Activities	2.1579	1.0836	0.5686	0.8162		58.1231	0.0000
External Activities	2.2024	2.4075	2.0331	2.4405	0.5230	0.4225	0.5159
	(N = 81)		(N = 771)				
Stock Option	Mean	Sd	Mean	Sd			
Director Type	0.3580	0.4824	0.6005	0.4901		2.8058	0.0943
Tenure	8.3951	6.4395	5.5214	6.1323		2.1945	0.1389
Age	52.1975	10.1445	52.5798	11.0001		0.3604	0.5485
Internal Activities	1.9753	1.3414	0.9300	1.0872		14.5825	0.0001
External Activities	1.6790	2.3918	2.1245	2.4325	0.8708	0.5861	0.4441
	(N = 247)		(N = 606)				
Nomination	Mean	Sd	Mean	Sd			
Director Type	0.9150	0.2795	0.4397	0.4968		1099.9285	0.0000
Tenure	5.1377	4.2824	6.0628	6.8350		23.4798	0.0000

Age	55.9190	11.1294	51.1653	10.5307	0.5230	0.1765	0.6745
Internal Activities	2.1579	1.0836	0.5686	0.8162		58.1231	0.0000
External Activities	2.2024	2.4075	2.0331	2.4405		0.4225	0.5159
	(N = 81)	(N = 771)					
Stock Option	Mean	Sd	Mean	Sd			
Director Type	0.3580	0.4824	0.6005	0.4901		2.8058	0.0943
Tenure	8.3951	6.4395	5.5214	6.1323		2.1945	0.1389
Age	52.1975	10.1445	52.5798	11.0001		0.3604	0.5485
Internal Activities	1.9753	1.3414	0.9300	1.0872		14.5825	0.0001
External Activities	1.6790	2.3918	2.1245	2.4325	0.8708	0.5861	0.4441

Normality

There are altogether 884 response items. If there are no outliers occurring in the data, the distribution may still deviate from normality. From preliminary analysis in Table 4, we could roughly estimate that our data is normally distributed (i.e. skewness less than 2 and kurtosis less than 3). Skewness and kurtosis refer to the shape of the distribution. Skewness & kurtosis are used together with interval and ratio level data.

Positive value of skewness specifies a positive skew, while positive value for kurtosis specifies a distribution that is peaked (leptokurtic). Negative value of skewness indicates a negative skew, while negative value for kurtosis indicates a distribution that is flatter (platykurtic). Therefore our data analysis shall be based on three (3) statistical tests: Confirming Normality; Factor Analysis; Correlation and Regression.

Table 4. Normality Test Results

Study Group	Mean		Statistic	Std. Error
	95% Confidence Interval for Mean	Lower Bound	1.24	0.04
		Upper Bound	1.16	
	5% Trimmed Mean		1.32	
	Median		1.18	
	Variance		1.00	
	Std. Deviation		1.42	
	Minimum		1.19	
	Maximum		0.00	
	Range		5.00	
	Inter-quartile Range		5.00	
	Skewness		2.00	
	Kurtosis		0.58	0.08
			-0.75	0.16

Confirming Normality

On the other hand, after we have done the normality test (refer to Table 5), the probability value in the significance column was less than 0.05. Therefore, it can be concluded that the variable is not normally

distributed. The distribution can be statistically analyzed as non-symmetrical. This means that one tail of the distribution is longer than the other tail (skewed) or the distribution of the data is too flat or too peaked, that is the tails are too short or too long (kurtosis).

Table 5. Kolmogorov-Smirnov and Shapiro-Wilk Results

Study Group	Kolmogorov-Smirnov(a)			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
	0.21	884	0.00	0.85	884	0.00

(a) Lilliefors Significance Correction

Note that for this analysis we used the Kolmogorov-Smimov test because the data set is larger than 50. Whereas, the Shapiro-Wilk test is for data that has less than 50 respondents.

Histogram

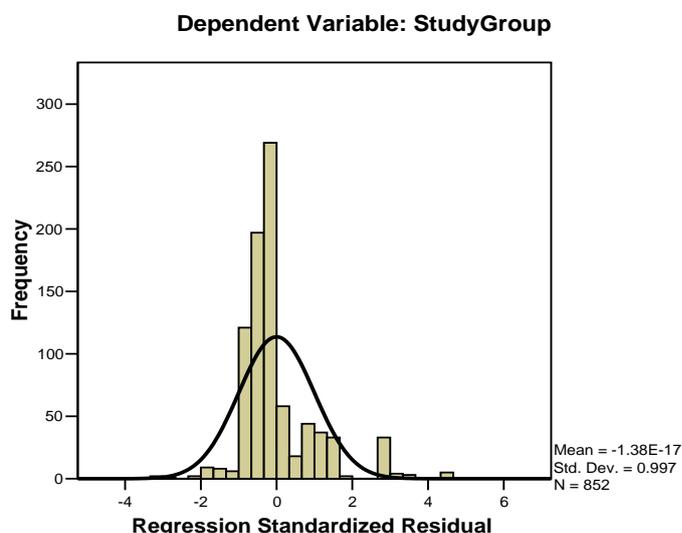


Figure 1. Dependent Variable- Study Group

Factor Analysis

Factor analysis is a data reduction technique which is used to reduce large number of variables to smaller sets. It is also used to summarize the essential information contained in the variables (Sheridan J Coakes, Lyndall Steed, Peta Dzidic, 2004). It is a statistical technique to determine the underlying forces among large number of interdependent variables. It is a process to extract common factor variance from a set of observations. It combines the number of variables into smaller set uncorrelated factors potentially conveying a great deal of information which tells us

which variables belong together and which ones measure the same thing.

We studied the Kaiser-Meyer-Olkin (KMO) and Bartlett's test (refer to Table 6) before looking into the factor analysis test. The KMO which measures the sampling adequacy should be greater than 0.6 for a satisfactory factor analysis to proceed (Tabachnick and Fidell, 2001). Looking at the table below, the KMO measure is 0.602. From the same table, we can see that the Bartlett's test of Sphericity is significant at 0.000. This means that the sample collected is sufficient and has factorability.

Table 6. KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.602
Bartlett's Test of Sphericity	Approx. Chi-Square	483.822
	Df	15.000
	Sig.	0.000

Correlation

Correlation happened when two variables varies together. The correlation coefficient, r (small r), measures the direction and magnitude of the

correlation. It ranges from -1 to +1. The interpretation of non-parametric Spearman correlation coefficient, abbreviated rs is as in Table 7.

Table 7. Interpretation of Pearson Correlation

Value of r (or rs)	Interpretation
r= 0	The two variables do not vary together at all.
0 > r > 1	The two variables tend to increase or decrease together.
r = 1.0	Perfect correlation.
-1 > r > 0	One variable increases as the other decreases.
r = -1.0	Perfect negative or inverse correlation.

If r or r_s is far from zero, there are four possible explanations:

(a) The X (independent) variable helps determine the value of the Y (dependent) variable.

(b) The Y variable helps determine the value of the X variable.

(c) Another variable influences both X and Y.

(d) X and Y don't really correlate at all, and you just happened to observe such a strong correlation by chance. The p value determines how often this could occur.

Correlation (r) scores are: Audit = 0.027, Remuneration = - 0.002, Executive = 0.155, Nomination = - 0.040 and Stock Option = 0.050.

Among these five models, the Executive model is the most powerful one to indicate strengthening relationship while others are weak. Therefore, the executive model is the best model to support our hypothesis.

The results indicate that Audit, Remuneration, Nomination, Stock Option and Risk Management are not perceived as contribution to become a board member, a significant difference among modes at the 0.01 significant levels.

The correlation matrix approach (Table 8) was applied to evaluate the means of independent variables (Audit, Remuneration, Nomination, Executive, Stock Option and Risk Management) were taken and measured against dependent variable (Committee Members).

Table 8. Correlation Matrix

		Audit	Remuneration	Executive	Nomination	Stock Option	Risk Management
Audit	Pearson Correlation	1	0.310	-0.047	0.350	0.031	$r = 0.027$
	Sig. (1-tailed)	.	0.000	0.083	0.000	0.178	0.214
	N	884	884	884	884	884	884
Remuneration	Pearson Correlation	0.310	1	0.027	0.517	0.068	$r = 0.002$
	Sig. (1-tailed)	0.000	.	0.212	0.000	0.022	0.482
	N	884	884	884	884	884	884
Executive	Pearson Correlation	-0.047	0.027	1	-0.086	0.174	$r = 0.155$
	Sig. (1-tailed)	0.083	0.212	.	0.005	0.000	0.000
	N	884	884	884	884	884	884
Nomination	Pearson Correlation	0.350	0.517	-0.086	1	-0.024	$r = -0.040$
	Sig. (1-tailed)	0.000	0.000	0.005	.	0.241	0.120
	N	884	884	884	884	884	884
Stock Option	Pearson Correlation	0.031	0.068	0.174	-0.024	1	$r = 0.050$
	Sig. (1-tailed)	0.178	0.022	0.000	0.241	.	0.069
	N	884	884	884	884	884	884
Risk Management	Pearson Correlation	0.027	0.002	0.155	-0.040	0.050	1
	Sig. (1-tailed)	0.214	0.482	0.000	0.120	0.069	.
	N	884	884	884	884	884	884

Table 9. Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.19	0.10		1.96	0.05
	Director Type	0.30	0.04	0.13	6.74	0.00
	Tenure	0.01	0.00	0.03	1.49	0.14
	Age	0.00	0.00	0.00	-0.10	0.92
	Internal Activities	0.85	0.02	0.83	47.36	0.00
	External Activities	-0.01	0.01	-0.02	-1.16	0.25

a Dependent Variable: Study Group

Variables Entered/ Removed (b)

Table 10. Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	External Activities, Internal Activities, Tenure, Director Type, Age(a)	.	Enter

a All requested variables entered.

b Dependent Variable: Study Group

Model Summary (b)

Table 11. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.87	0.76	0.76	0.58

a Predictors: (Constant), External Activities, Internal Activities, Tenure, Director Type, Age

b Dependent Variable: Study Group

From the score of R^2 (big R square) in Table 11, we notice that 76% of the variables are explained by the equation. Internal Activities contribute the highest strength because of having the highest coefficient figure.

8. Analysis

Audit Committee

The results show that for audit committee, the means for director type characteristic is 0.7 for members and 0.4 for non-members. This means that for this committee, director type does matter, with members of committee are mostly non-executive directors. As for tenure, the means for both members and non-members do not differ much. Members of audit committee, on average have tenure of 5.77 years, while non-members have tenure of 5.82 years. This shows that as far as audit committee is concerned, the number of years the director spent on the board is not an important qualification to become a member of the committee. The same goes for age, which is also not a discriminating factor to become a member of the committee. This is evident from the results, that show the means for members and non-members are 53 years

old and 52 years old respectively. As far as age is concerned, a different of 1 year does not mean a huge gap of wisdom between the two groups. In terms of internal activities, there is a minor difference between the two groups. Members of the committee on average have 1.76 internal activities, while the non-members have on average only 0.47 internal activities. This means that the experience and familiarity with the companies does have some weight to become a member of the audit committee. However, external activities do not carry the same weight. This is derived from the results that show both groups have the similar average of number of external activities, 2.11 for members and 2.06 for non-members.

For both members and non-members of the audit committee, the differing factors that are significant are the director type and internal activities. The results are the same as the findings by Bilimoria and Piderit (1994), except that they did not find internal activity as a discriminating factor. As such, the results may be

explained by reasons that may be specific for companies in Malaysia.

The Malaysian Code of Corporate Governance requires that the audit committee should consist of a majority of non-executive directors, with the Chairman being a non-executive director. The requirement clearly puts emphasis on the independence of the audit committee, hence the majority numbers of non-executive directors. This is inline with the functions of the audit committee, which among others is to monitor the external auditing of the companies' financial statements and other auditing issues that arise. A study by Beasley (1996) also suggests that a larger proportion of outside members on a board significantly reduce the likelihood of financial statement fraud. The Cadbury committee also recommended that majority of non-executive directors should be sitting on important committees such as audit, as this ensure the independence of the decision made. Therefore it is apparent that director type is a discriminating factor, due to the requirement as well as the functions of the audit committee itself.

This study also finds that internal activity is an important factor, which is not the case in the study by Bilimoria and Piderit (1994). Internal activity is the number of committees in the company in which the director is also a member. The results seem to indicate that familiarity with the company is essential in order to become an audit committee member. While this may seem peculiar, the possible explanation for this factor is maybe because of the small number of directors in each company in the study, causing multiple committee membership. Another possible reason is because of the importance of the audit committee, therefore the director who usually holds a place in the audit committee also sits on other important committees like remuneration or related committees like risk management.

Remuneration Committee

For remuneration committee, director type and internal activities are also the discriminating factors between members and non-members. Age, however, though not significant, differ in terms of its means between members and non-members. The results are consistent with the functions of the remuneration committee. Since remuneration committee is responsible for determining the remuneration amount for the management, therefore it seems logical that members of the committee should be independent and non-executive directors. The Malaysian Code of Corporate Governance also indicates that the members of the committee should consist of wholly or mainly non-executive directors. Therefore the result of the study is aligned with the codes, where director type is a factor to be in the remuneration committee.

Internal activity is again a factor that qualifies to become a member. This can be possibly explained by the fact that those sitting on the remuneration committee should also have experience being in other

committees. This may be necessary because the members may need to have interactions with other members of other committees within the company, to gain information of the company's strategies and issues. The interactions with other members may help the remuneration members to better understand the roles and challenges of each director and top management, therefore better decision in compensating these individuals.

Age also differentiates between both groups. Although the age gap on average is not huge, the almost significant factor tells us that members of remuneration committee should be older. This can be related to the experience and wisdom of the director in determining the compensation reasonably and fairly. With the current situation in Malaysia which recently has younger top management especially among the Government Linked Companies (GLCs), this may seem reasonable that some roles still require maturity and age to be effective. As such, remuneration committee is proof that in some instances, maturity and wisdom still speak volume as opposed to paper qualifications that these younger top managements possess.

Nomination Committee

For nomination committee, the differentiating factors are similar to the previous committees. Director type is again the main qualification to sit on the nomination committee. This is expected, because nomination committee needs to be independent in recommending new person for directorship. The Malaysian Code of Corporate Governance states that the nomination committee members should be exclusively composed of non-executive directors. The independence becomes important because the committee is also responsible for monitoring and assessing the current directors' performance taking into account the right mix of qualifications and background to sit on the board of the companies. As such, it is not surprising to find that director type is an important qualification to be a nomination committee member.

Tenure is also a significant factor in becoming a nomination committee. Even though the means of members and non-members only differ by 1 year, it is reasonable to note that tenure does play a factor. A possible reason for this is that a nomination committee member needs to have some experience and familiarity with the operations of the companies. By having enough knowledge on the company, the member is able to identify the needs and the right mix of directors that should sit on the company's board. The director should be able to appreciate and understand the direction of the company. Being a non-executive director, by default an outsider, it is only natural that the member should have spent some time being on the company boards to truly understand the company's needs. Therefore, tenure is important to become a nomination committee member.

Another characteristic that is significant is

internal activities. This can be argued using the same reason as tenure, although the number of years spent with company is not the case here. Both factors represent familiarity and knowledge of the company that are required from a nomination committee member.

Stock Option Committee

Based from the results, stock option committee does not require the same qualifications as the previous committees. Director type does not indicate a strong significance of requiring the member to be a non-executive director. This is may be because of the function of the committee, which is mainly determining the stock options for the employees. This role does not require the members to be independent from the management.

However it is interesting to note that the average of tenure of members and non-members differ. Members have tenure of 8 years while non-members have on average 5 years of tenure on the company's boards. This indicates that knowledge of the company is necessary to sit on the committee. This is possible because the members should understand the interest of the shareholders in determining the stock options for the employees.

This is consistent with another discriminating factor that is internal activity. Internal activity shows that the director must also sit on another committee board to better appreciate the company's strategies and performance. Interactions with other committee members also improve the members' understanding and knowledge. While all these factors are not mandated by the Malaysian Code of Corporate Governance, the companies in the study that have stock option committees maintain that the qualifications are tenure and internal activities.

Risk Management Committee

Risk management committee does not have a major significant factor that discriminates these two groups. While there is still difference in terms of each characteristics' mean, the significance show that factors that are important in previous committees, are not as important for this committee. This can be possibly explained by the role of risk management in a company. The number of occurrences in the companies in the study is relatively low, as compared to the previous committees. Therefore, we can not really draw a significant figure in differentiating the qualifications between the two groups. However, it is important also to note that within the small number, internal activity is still a factor. Because of the small number, we can not really conclude that it is a significant factor in qualifying a risk management committee.

Executive Committee

For executive committee members, director type is also a factor, but with members tend to be executive

directors. This is expected with the functions of the executive committee, which is supposed to be the stand-in for the full board in crisis situations and is also responsible for setting the agenda for board meetings. The other characteristics, age, tenure, internal and external activities are not showing any significant difference between members and non-members. The small number of companies having executive committees is also a reason that we can not derive a firm conclusion of the important qualifications between the two groups. As such, based on the result, the only qualification that matters in the executive committee is to be an executive director.

9. Discussion and Conclusion

Overall, the results show that the main characteristics important for most of the committees are director type and internal activities. Age and tenure are also important, though not as consistent as compared to director type and internal activities. External activity does not appear as a significant factor in all of the committees. This is not the case in the findings by Bilimoria and Piderit (1994) where greater number of external activities is evident. In this study, both members and non-members show the same level of external activities. Therefore, regardless of being members or non-members, the majority of directors are also active in being board members in other companies apart from the companies in the study. While this factor is not a differentiating characteristic between the two groups, this factor may indicate that in Malaysia, it is expected of directors to be active in other companies as well. This is to ensure that the directors gain knowledge from interactions with directors from other companies, so that they may contribute fresh perspectives from their exposure in other companies and external networking. However, this factor is not considered an advantage for them to become a member of the sub-committees, hence the non-differentiating factor between the two groups.

The study also finds that the different qualifications that matter for each committee are mainly due to the functions of the committee itself. For instance, age and tenure shows that experience and maturity are factors that may contribute to the effectiveness of remuneration and nomination committees. Requirements from the Malaysian Code of Corporate Governance also ensure that qualification like director type is a major factor in determining members of the committees. Executive directors are only favorable in the executive committee. Internal activities are also considered important since it is evident in almost all the committees. This shows that directors who are familiar with inside operations of the companies are favored for becoming committee members.

In general, the study suggests that maturity in age is apparent for all the directors, though it is not required to be a member of a committee. The number of years spent on the board is significant for some

committees, but this is also not major requirement to become a member of a committee. External activities are in general common among all the directors in Malaysia, therefore it is not a determining factor in qualifying to be a committee member. Being active within the company's committees does count as a determining factor, which shows directors have the tendency to hold multiple memberships within a company. This suggests that maybe the number of qualified directors is limited among the companies in Malaysia, hence the multiple memberships. This may also suggest that the multiple memberships may also happen because most of the memberships require the directors to be non-executive. As such, only non-executive directors are mostly qualified to become committee members, causing them to hold multiple memberships in each company.

From the results, our findings do not support the hypothesis where members of committees tend to be non-executive directors, older, have longer tenure and show greater evidence of internal and external activities.

The non-conclusive findings from the study suggest a worrying trend among the committee memberships in Malaysia. For instance, there is no apparent qualification that can be drawn to nominate a director to become members of a committee. Therefore, one may wonder what exactly qualify a director to hold important roles in running a company via these committees. To really emphasize on the effectiveness of corporate governance, it is necessary for companies to take into account the necessary requirements to become committee members. The study clearly shows, apart from the mandatory requirement, there are no strong characteristics that measure the qualifications of a director. The high number of occurrences for audit, remuneration and nomination committees show that companies are only having these committees as recommended by the Malaysian Code of Corporate Governance. There is no strong pattern of companies having other common committees other than these three committees. This may suggest that companies are not aware of the importance of having these committees in practicing good corporate governance.

However, good governance aside, at the end of the day it is the performance of the companies that matter most to the shareholders. As such, further study that explores relationships between these qualifications and companies performance can be done in order to better understand their effects on corporate performance in Malaysia. While trying very hard to portray good corporate governance, it is still open for study as to what extent these practices affect the companies' performance in Malaysia. Since this study is built from previous study by Bilimoria and Piderit (1994), there may be other qualifications that have become importance since that study. There may also be other qualification that is unique to this country that may not be considered important in other countries. As such, much needs to be studied in terms

of the qualification mix of the board of directors and committee members specifically in Malaysia.

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