

# THE RESOURCE PROVISION CAPABILITY OF INDEPENDENT DIRECTORS IN FAMILY-CONTROLLED, PUBLICLY-LISTED COMPANIES IN MALAYSIA

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## Abstract

To develop a comprehensive measurement index that captures a wide range of independent director characteristics that collectively reflect their overall resource provision capability in the context of Malaysian publicly-listed companies. A detailed content analysis of independent director-related disclosures in the annual reports of 217 family-controlled companies listed on the Malaysian stock exchange (Bursa Malaysia). Ten distinctive types of 'resource' that independent directors bring to their respective companies were identified. These resources (e.g. government contracts, networks, loans, expertise, etc.) are then utilized to develop a resource provision capability index. The resultant index provides a fair indication of independent directors' contribution to enhancing/sustaining their respective companies' performance. The developed comprehensive resource provision capability index can be used to explore as well identify the specific nature of independent director contribution to their respective firms. This study makes a contribution to the governance literature by elaborating on independent directors' resource provision role that has been generally ignored in "Western" studies. More specifically, not only we are proposing that independent directors' role transcends the classic, Western-inspired monitoring role, we provide evidence of other specific means by which they can contribute to their respective firms and offer a framework to capture all such capability in a concurrent manner.

**Keywords:** Family-controlled Companies, Corporate Governance, Resource Provision Capability, Independent Directors

## 1. INTRODUCTION

Corporate governance is becoming increasingly prominent in the past few decades. This is largely due to the widely accepted view that numerous corporate scandals as well as financial crises (e.g. the 1997 Asian financial crisis, 2008 global credit crunch, etc.) are partly caused by serious lapses in governance. These adverse incidences have greatly shaken investor confidence in the global capital markets (Abdul Rahman and Ali, 2006; Che Haat, Abdul Rahman, and Mahenthiran, 2008; Erkens, Hung, and Matos, 2012). As a consequence, sustained corporate governance was triggered across many capital markets worldwide.

One of the primary reform measures instituted by capital market regulators worldwide is the inclusion of independent, non-executive directors onto companies' board of directors so that no group or individual can dominate board decision making (Abdul Rahman and Ali, 2006; Abdullah, 2004). This is because, unlike executive directors, independent directors are less likely to be influenced or controlled by top management. Hence, these directors are seen to be effective monitors of top executives thus providing better protection for shareholders (Dunn and Sainty, 2009; Roy, 2011).

Despite the seemingly persuasive arguments favoring the inclusion of independent directors onto

the boards of publicly-listed companies, empirical findings on the effects of board independency on company performance in developing countries is, at best, inconclusive. For instance, while Ibrahim and Samad (2011) showed that independent directors have a positive effect on company performance while Amran and Ahmad (2009) documented a negative relationship. On the other hand, Haniffa and Hudaib (2006) and Che Haat *et al.* (2008) could not find any significant relationship between board independence and performance of publicly-listed companies. A bleaker assessment of such empirical findings is that they are mixed or even downright contradictory.

This study contends that the incoherent findings of previous studies and the continual uncovering of new scandals implicating publicly-listed companies worldwide may be partially caused by the dominance of the agency perspective in academia (Daily, Dalton, and Albert, 2003) and also its subsequent impact on proposed regulatory reform measures (i.e. governance mechanisms built upon Western principles and philosophies). Specifically, the often-trumpeted monitoring role by independent directors may be unsuitable, perhaps even misguided (Arsalidou and Wang, 1999), given that the corporate and institutions environments in East Asian economies such as Malaysia is very different from that of Western countries where such governance mechanisms seem to work fairly well.

Consistent with this, despite the existence of a comprehensive code on corporate governance in Malaysia that relies on independent director monitoring as a core mechanism (Thillainathan, 1999; Tam and Tan, 2007); high-profile scandals and persistent fraudulent practices within Malaysian publicly-listed companies still continue to dominate news headlines on a worryingly frequent basis. Prominent recent examples include Axis Incorporation (providing false report to Bursa Malaysia), Transmile (accounting fraud), SCAN Associates (misappropriation of funds), OilCorp (inadequate transparency and disclosures), Technology Resources Industries (accounting fraud), Megan Media (fictitious transactions), Padiberas (insider trading), Tat Sang (accounting fraud), OCI (missing or destroyed accounting books and records), etc.

From a wider perspective, of late, many governance scholars and also regulators have highlighted the fact that the one-size-fits-all approach to corporate governance is ineffective as the governance mechanisms within each capital market is embedded within its distinctive social, institutional, political and cultural context. Taking this notion of the distinctiveness of capital markets a step further, many academics are now acknowledging that corporate governance is highly path-dependent and simply importing principles/mechanisms from one country to another may likely fail to achieve the intended outcomes (Aguilera and Jackson, 2003, 2010; Pahlevan Sharif, Yeoh, and Khong, 2015; Bota-Avrama, 2013; Fligstein and Choo, 2005; Matoussi and Jardak, 2012).

Similarly, the primary role of independent directors can only be truly understood when an in-depth understanding of the corresponding corporate, political and institutional environments as well as its evolution is developed (Bammens, Voordeckers, and Gils, 2011; Ekanayake, 2004; Essen, Oosterhout, and Carney, 2012; Pahlevan Sharif and Yeoh, 2014). In this regard, this paper has opted to focus specifically on the Malaysian capital market.

In terms of underlying theory, this study adopts the resource dependence perspective in order to develop new insights into the roles played by this select group of individuals (i.e. independent directors). This is because a resource-based view is deemed more suitable in taking into account the influences of contextual and institutional environment on the actual workings of adopted governance mechanisms in a particular country (Cuevas-Rodríguez, Gomez-Mejia, and Wiseman, 2012; Hillman, Withers, and Collins, 2009; Pahlevan Sharif and Yeoh, 2014). The crux of our argument is that independent directors, notwithstanding or beyond their intended monitoring role, contribute to the overall success of their respective firms in other ways. In effect, our study intends to explore independent directors' resource provision role that has been generally ignored in "Western" studies (Hillman and Dalziel, 2003). The aim is to develop a comprehensive measurement index that captures a wide range of independent directors' characteristics that collectively reflect their overall resource provision capability in the Malaysian context.

The rest of the paper is structured as follows. The next section outlines the various institutions and cultural norms that fundamentally influence the supposed and also actual role(s) played by independent directors within the Malaysian

corporate governance system, particularly within family-controlled companies. This is followed by an elaboration of Malaysia's political evolution, apparatus and system in terms of how they too greatly affected the aforementioned role of independent directors. The final section of the literature review expands on the resource dependence perspective that acts as the alternative lens by which we make sense of the said role (i.e. that of resource provision capability). Then, this study moves on to outline the methodology adopted and this is followed by corresponding empirical findings, discussion and conclusions.

## 2. LITERATURE REVIEW

### 2.1. Institutions and Cultural Norms

Recent empirical research have shown that corporate governance practices in a particular country/capital market reflects that jurisdiction's prevailing institutional norms and also embedded in society's cultural underpinnings (Li and Harrison, 2008). This stream of literature suggests that the traditional "one-size-fits-all" approach to enhancing governance standards is not appropriate (Jogulu, 2010). Therefore, in order to set the paper in the appropriate context, this study will elaborate on a particular political, historical and institutional environment (i.e. Malaysia) where a distinctive set of corporate governance mechanisms are in place.

As the Malaysian capital market has been chosen to provide the institutional context for this paper, this section begins with the contention that Malaysian political and corporate history and culture have a remarkable effect on governance practices and directors' behavior in Malaysian publicly-listed companies (Hashim, 2012). In this regard, past empirical studies have shown that Malaysians are characterized by a high collectivist tendency and as well as considerably high power distance (Hofstede, 1997; Kennedy, 2002; Manan, 1999). In addition, there is much cultural emphasis on (i) status inequality, (ii) the use of titles, (iii) adherence to pre-set protocols and (v) the importance of maintaining connections/ relationships through both compromise and consensus (Jogulu, 2010; Kennedy, 2002).

The aforementioned high power distance culture leads to autocratic leadership where leaders are considered as 'wise elders' who are the unchallenged decision makers (Hofstede and Hofstede, 2005; Jogulu and Ferkins, 2012). On the other hand, the strong collectivist inclination of Malaysians results in the avoidance of conflicts, direct debates, aggressive mannerisms and displays of anger (Jogulu, 2010; Kennedy, 2002; Lo, Ramayah, Min, and Songan, 2010; Tajaddini and Mujtaba, 2009). The main objective of communication is to develop and maintain good relationships and trust rather than information exchange per se (Kennedy, 2002; Tajaddini and Mujtaba, 2009). Interestingly, these characteristics are in direct contrast to countries like the US and the UK.

Considering the cultural tendencies exhibited by Malaysians within a corporate setting, independent directors who are tasked to question and challenge managerial decisions (as envisioned by established CG codes/guidelines that are based on Western governance values and principles) may actually be disinclined to do so in reality. This is

because frequent questioning of the CEO or chair, even if independent directors are being given the freedom to do so, is actually against Malaysian cultural norms. Similarly, agency theory predictions may prove to be misguided or even downright unrealistic. Put simply, independent directors may not undertake their monitoring role effectively.

The various conflicts between cultural norms and governance requirements arguably manifest themselves most significantly in family-controlled publicly-listed companies based in non-Western developing economies such as Malaysia. This is because such organizations are often viewed as an expanded “family unit” with the organization head as the parent and employees as children. Subordinates appreciate the leaders’ authority and interpret it as a form of protection which is a reward to their commitment familial harmony and loyalty (Jogulu, 2010; Kennedy, 2002). Hence, in practice, independent directors may allow family leaders/top management to have largely unrestrained decision-making powers.

Even though family-controlled companies are compelled to ensure that a certain minimum number/percentage of independent directors must be present in their respective company boards because it is a requirement stipulated within the Malaysian Code on CG, this study argues that the presence of this select group of individuals actually serves the purposes of these families rather well. This is because most of these families’ wealth is tied to such entities and thus they strive to ensure that decision-making powers (Tsui-Auch, 2004; Young, Ahlstrom, Bruton, and Chan, 2001), top management posts as well as broad oversight (Essen *et al.*, 2012) largely remain in the hands of family members. Even so, this closely-knit network limits the ability of such companies to secure certain valuable external resources. In this regard, the use of independent directors is deemed to be a relatively low-risk means to expand the closely-knit core network of family members/owners with the wider corporate environment while, at the same time, preserving the overall degree of control exerted by the family owners. Basically, this paper posits that independent directors are chosen on a basis that is altogether distinct from the ability to monitor executive actions, that of the securing/provision of specific resources that these companies lack or prizes.

In summary, one of the key roles played by independent directors in family-controlled Malaysian publicly-listed companies is in providing access to resources, contacts and contracts that the company needs for enhancing and also sustaining financial performance (Haniffa and Hudaib, 2006; Hillman and Dalziel, 2003; Hillman *et al.*, 2009; Ibrahim and Samad, 2011; Pfeffer and Salancik, 1978). The importance of resource provision role and accessing to scarce resources becomes more critical in countries with very high involvement of the government in the business sector such as Malaysia.

## 2.2. Political Environment

Apart from the institutions and cultural norms covered in the earlier section of the paper, the role played by independent directors is also a direct consequence of Malaysia’s distinct political evolution, apparatus and system. In essence, in the past few decades, Malaysian politics have become so intertwined with the corporate and business sectors

that the very boundaries of these spheres of activity have become blurred. Within this enmeshed system of politics and business, the role of independent directors has also evolved.

First, in order to gain an in-depth appreciation of the various factors leading to the blurring of boundaries between politics and business in Malaysia, this paper sets the appropriate context by charting the political evolution of the country from its pre-independence era. The Malaysian population is made up of three major ethnic groups including Malays, Chinese, and Indians who represent 60%, 23%, and 7% of the population respectively (Demographic Statistics Division, 2011).

Historically, largely due to the ‘divide and conquer’ strategy by British colonialism, while Malays were restricted to the villages being fishermen, farmers, and civil servants, the Chinese mostly involved in mining, industry, and business in urban areas, and the Indians were employed in plantation estates (Crouch, 1996; Verma, 2002; Yeoh, 2010). The agreement between major ethnic groups, in the negotiations leading to Malaysia’s independence in 1957, is that key posts in the civil services were conferred to the Malays and citizenship was granted to ethnic Chinese and Indians (Rahman and Salim, 2010). Non-Malays accepted Malay political paramountcy and Malays agreed not to hinder Chinese business and economic interests (Crouch, 1996; Heng, 1997; Verma, 2002).

Over the years, the Chinese who were the more business oriented and entrepreneurial group dominated and controlled the extensive part of the economy and business in Malaysia (Gomez and Jomo, 1999). This increasingly significant economic inequity between the Malays and the Chinese triggered racial riots in 1969 (Jayasankaran and Hiebert, 1997; Searle, 1999).

To alleviate this critical situation and correct economic imbalance, the New Economic Policy (NEP) was launched by the government in 1971. In effect, Malay bumiputera (i.e. “sons of the soil”) are given preferential treatment in terms of the granting of licenses, jobs, government contracts, admission to public universities, etc. (Balasubramaniam, 2007). The implementation of the NEP led to significant discrimination in favor of bumiputeras against non-bumiputeras. Although NEP was successful in involving Bumiputera into business and commercial activities, it failed to build an independent bumiputera entrepreneurial class. Most Malay businesspeople remained highly dependent on their political and bureaucratic links in order to access to the government resources and obtain special privileges. On the other hand, ethnic Chinese businessmen were forced to make partnership with the bumiputera to access these resources - in practice many of them became clients/proxies of Malay patron politicians (Crouch, 1996; Verma, 2002).

Over the course of the next few decades since the implementation of the NEP, the involvement of the United Malays National Organization (UMNO), the largest and dominant political party in Malaysia, in business extended to such an extent that few political parties anywhere in the world is more entrenched in a country’s economic activities (Searle, 1999). It basically resulted in a complex blurring of political party, state and business interests in the Malaysian corporate sector (Kahn and Loh Kok Wah, 1992). Once again, within such a political and business environment where patronage and access

within close-knit elite circles are rife, to expect independent directors to perform a largely arms-length monitoring role within publicly-listed companies in Malaysia seems counter-intuitive at best. Alternatively, those individuals or companies associated with the government can benefit from the state economic sponsorship and access to valuable and vital resources that are in the control of the government.

In summary, for family-controlled publicly-listed companies in Malaysia to (i) satisfy the local stock market's (i.e. Bursa Malaysia) Listing Requirements as well as the Malaysian Code on Corporate Governance on the recommended proportions of independent directors, and (ii) gain access to valuable external resources such as government contracts, networks, projects, licenses, loans, specialized skills and expertise, etc.; independent directors are appointed largely based on such provision capabilities (Pahlevan Sharif, Yeoh, and Khong, 2014). This perspective is highly compatible with the supposed trends arising from the earlier examination institutional and cultural norms. Most importantly, this paper posits that this country-specific context in understanding the actual role(s) of independent directors is highly complementary with the focus and also predictions of the resource dependence perspective. The following section, therefore, elaborates on the resource dependence perspective.

### 2.3. Resource Dependence Perspective

Resource dependence perspective suggests that companies act to reduce environmental dependency and uncertainty by controlling the sources of such dependencies (Bryant and Davis, 2012; Hillman *et al.*, 2009; Pfeffer and Salancik, 1978; Ulrich and Barney, 1984). One of the channels by which organizational uncertainty is reduced is through strategic development of social interactions, networks and linkages. Put simply, when companies face uncertainty, they develop their linkages with elements within their surrounding external environment to access to needed resources which stabilize consequences and interdependent relationships as well as reduce their environmental dependency (Pfeffer, 1972a; Pfeffer and Salancik, 1978).

In relation to the arguments above, the board of directors is often regarded as the most flexible and easiest form of inter-organization linkage that companies use to interact with the environmental elements through network development and stabilizing coordination (Hillman, Shropshire, and Cannella, 2007). In fact, it views primary characteristics of the board of directors as "rational organizational responses to the conditions of the external environment" (Pfeffer, 1972a). More specifically, all appointments to the board are assumed to be made based on the kinds of distinctive resources that their respective companies lack and/or values. In this sense, board directors are seen to be resource providers and important links to external networks (Hillman, Cannella, and Paetzold, 2000; Hillman and Dalziel, 2003; Hillman *et al.*, 2009; Marlin and Geiger, 2012; Pahlevan Sharif and Yeoh, 2014; Peng, 2004; Zahra and Pearce, 1989).

The use of social coordination as a primary means of managing interdependence with sources of uncertainty also stems from certain impracticalities and/or complications potentially arising from

alternative mechanisms. For example, attempts at controlling dependencies through mergers and acquisitions such as (i) merging with the government, (ii) taking over large companies and (iii) acquiring banks, is not always possible. Hence, appointing certain individuals on the board of directors, especially as independent and/or non-executive director(s) seems to be a viable, low-risk and easily implementable measure. More importantly, publicly-listed companies, by appointing representatives from dependency sources (e.g. government, banks and financial institutions, competitors, large market players, and other important stakeholders) on their respective boards, naturally facilitate access to required resources (Daily and Schwenk, 1996; Hambrick and D'Aveni, 1992).

As mentioned earlier, the utilization of independent directors for the said purposes are especially appealing for family-controlled, publicly-listed companies as these appointed individuals do not dilute their control over the companies, does not intrude the day-to-day operations of the company and a relatively easy means to acquire valuable skills, expertise and resources (i.e. access to key external relationships, securing of contracts, etc.). This is because independent directors are assumed to have significant networks that extend beyond inside directors' closely-knit circles and this is crucial in accessing new resources, networks, connections and channels.

The resource dependence perspective places more emphasis on independent directors' collective resource provision capability (i.e. the types of distinctive resources that they can secure) rather than the number of independent directors appointed per se (Boyd, 1990; Marlin and Geiger, 2012; Pahlevan Sharif and Yeoh, 2014; Peng, 2004; Pfeffer, 1972a). In essence, resources are defined as "anything that could be thought of as a strength or weakness of a given firm" (Wernerfelt, 1984, p. 172).

Considering the various arguments above, this study posits that an exploration of disclosures relating to independent directors made within the annual reports of family-controlled, publicly-listed companies in Malaysia is essential. Such an exercise would allow us to identify actual natures and also types of distinctive resources (i.e. expertise, experience, networks, links, etc.) that they are providing to these companies. On the other hand, this would also give a good indication of the kinds of resources that companies endeavor to acquire through the appointment of these outside directors.

The research methodology is detailed in the following section.

### 3. RESEARCH METHOD

In order to identify the various types/categories of resources provided by independent directors of family-controlled, publicly-listed companies in Malaysia, a comprehensive review of disclosures relating to them (i.e. director biographies) in the annual reports of selected companies was conducted using content analysis. The annual reports chosen are published throughout 2008. A total of 699 independent directors from 217 randomly-selected family-controlled publicly-listed companies on Malaysian stock exchange, Bursa Malaysia with family ownership concentration greater than 20% make up the main sample. These samples are big enough to represent the population at 95%

confidence level (Krejcie and Morgan, 1970). Table 1 shows sample properties across sectors as well as average of total assets, equity and income of all companies in each family ownership group. As it is shown, most of the samples are from industrial production (38.71%) followed by trade and service (20.28%), and consumer (17.05%).

The average board size for sampled companies is 7.6 directors and the average number of independent directors on their boards is 3.2. A list of distinctive resources provided by independent directors was identified from all disclosures that relate specifically to them. In addition, where possible, each identified theme was linked back to established corporate governance literature in order to better understand their importance when interpreted from the resource dependence perspective. Each resource is assumed to form a component of a particular director's overall resource provision capability. Indeed, by using content analysis, this research identifies independent directors' resource provision capability indicators disclosed in their biographies published in companies' annual reports. Thus, these indicators form a resource provision capability disclosure index which reflects resources that independent directors can provide to their companies.

#### 4. RESULTS AND DISCUSSION

From the detailed content analysis of independent directors' profiles in the sampled annual reports, this study has identified ten (10) distinctive resources that this select group of individuals brings to the publicly-listed companies that they serve. Table 2 shows a summary of the ten resource provision capabilities of independent directors of samples.

##### *Resource Type 1: Level of Education*

The detailed content analysis uncovered formal education as a key type of resource provided by independent directors. This is consistent with established governance literature where independent directors with higher education level have higher prestige and more powerful friends and they can connect the company to external "stars" and "boundary spanners" (Finkelstein, 1992). Put simply, prestige power facilitates the absorption of uncertainty from the institutional environment and helps directors manage uncertainties informationally and symbolically (Finkelstein, 1992). In addition, prestige of directors lends legitimacy to their company (D'Aveni, 1990) and to the extent that a company's legitimacy increases, the uncertainty from the environment reduces (Selznick, 1957). Their academic knowledge, expertise and skills also enable them to provide appropriate advice to the board on strategy planning and implementation.

##### *Resource Type 2: Business and Law Education*

Besides overall formal education, this study found that companies regard education that is specific to areas within business and law as a highly prized commodity. It is expected that directors with formal education in business and law provide advice and consultation on company operation issues and critically analysing business strategies and plans (Dimov and Shepherd, 2005). Providing advice and counsel to the board is seen as one of the most

important independent directors' activities that fall under their resource provision function (Baysinger and Butler, 1985; Hillman, Nicholson, and Shropshire, 2008; Pfeffer and Salancik, 1978). Moreover, companies by appointing independent directors with education in business and law by offering legitimacy to the company facilitate attracting other resource providers such as investors, suppliers, bankers, etc. (Withers, Hillman, and Cannella, 2012).

##### *Resource Type 3: Tenure (Relevant Experience)*

The third primary resource that is a common characteristic of independent directors across all sampled companies is directors' tenure. This is because, according to the extant literature, board members' capability to serve on the board is influenced by their knowledge which is a result of their working experience (Kamardin and Haron, 2011). Independent directors with higher tenure have more knowledge about the operation and strategies of the company as well as its needed resources. Hence, the reason for the importance of tenure is that independent board members' tenure is considered as a proxy for their task knowledge, experience, information diversity, power, and task interest which play a critical role in their decision making procedure and affects the company performance (Hambrick and Fukutomi, 1991). In addition, due to the collectivism culture of Malaysians, independent directors with higher tenure have more commitment to the company. Indeed, by increasing independent directors' tenure, they feel more obligations to the company and use their networks and channels in a more merciful manner.

##### *Resource Type 4: Titles*

The fourth type of prized resource is formal/conferred titles with all the accompanying benefits that can be derived from these. Indeed, the perception of power and prestige stemming from the acquisition and/or use of official/conferred titles by independent directors serves to lend companies that they are linked to with an aura of legitimacy (D'Aveni, 1990; Finkelstein, 1992). Thus, it is expected that boards with independent directors with higher titles have higher prestige and this is intensified by high power distance culture in Malaysia. It is because Malaysians put value in seniority and titles (Hofstede, 1980). Indeed, independent directors' titles and reputation influence the perception of institutional environment members consists of the government, banks, financial institutions, and other key stakeholders which a company depends on their resources and support. This enhances company's legitimacy which leads to facilitating the company's access to certain needed resources. Moreover, those with higher titles presumably have extensive network linkages and access to key relational resources - i.e. access to powerful friends, contacts, contracts and social networks (Finkelstein, 1992; Jogulu, 2010; Kennedy, 2002).

Table 1. Sample properties across sectors

Family direct and indirect ownership (F.O.)	Sector												
	Construction	Consumer	Industrial production	IPC	Plantation	Properties	Technology	Trade/Service	Average board size	Average No. of independent directors	Average total assets ('000)	Average total equity ('000)	Average income ('000)
20% < F.O. < 30%	2	5	17	--	--	5	6	16	7.2	3.2	334,769.3	89,715.2	14,588
	3.92%	9.80%	33.33%	--	--	9.80%	11.76%	31.37%					
30% < F.O. < 40%	4	13	25	1	5	2	2	11	7.7	3.2	1,421,528	211,474	23,187
	6.35%	20.63%	39.68%	1.59%	7.94%	3.17%	3.17%	17.46%					
40% < F.O. < 50%	1	8	14	1	3	5	--	4	7.6	3.1	195,232.3	103,976	14,170
	2.78%	22.22%	38.89%	2.78%	8.33%	13.89%	--	11.11%					
50% < F.O. < 60%	1	7	17	1	1	7	1	10	7.8	3	379,776.5	148,060	13,410
	2.22%	15.56%	37.78%	2.22%	2.22%	15.56%	2.22%	22.22%					
60% < F.O. < 70%	--	3	7	--	1	3	--	1	8.1	3.7	453,752.1	115,218	13,961
	--	20.00%	46.67%	--	6.67%	20.00%	--	6.67%					
70% < F.O.	--	1	4	--	--	--	--	2	7.3	3.9	119,547.1	64,238.6	3,792.5
	--	14.29%	57.14%	--	--	--	--	28.57%					
All samples	8	37	84	3	10	22	9	44	7.6	3.2	648,288.4	143,655	16,475
	3.69%	17.05%	38.71%	1.38%	4.61%	10.14%	4.15%	20.28%					

Table 2. A summary of resource provision capabilities of independent directors of samples

Family direct and indirect ownership (F.O.)	Number of companies (% of all selected companies)	Mean (SD) of % of family-controlled companies;	Number (and % in each group) of companies disclosed the identified resource type									
			Education level	Business and law education	Lawyers	Accountants	Tenure	Bankers	Government servants and politicians	Interlocking directorships	Titles	Community leaders
20% < F.O. < 30%	51(23.50%)	25.33%(3.03)	44	45	49	38	46	14	13	13	45	30
			86.27%	88.24%	96.08%	74.51%	90.20%	27.45%	25.49%	25.49%	88.24%	58.82%
30% < F.O. < 40%	63(29.03%)	34.36%(3.11)	54	64	66	43	64	27	20	20	54	38
			80.60%	95.52%	98.51%	64.18%	95.52%	40.30%	29.85%	29.85%	80.60%	56.72%
40% < F.O. < 50%	36(16.59%)	45.40%(2.86)	24	28	31	19	32	13	9	9	27	16
			75.00%	87.50%	96.88%	59.38%	100.00%	40.63%	28.13%	28.13%	84.38%	50.00%
50% < F.O. < 60%	45(20.74%)	54.17%(3.07)	36	42	45	31	43	15	8	9	39	30
			80.00%	93.33%	100.00%	68.89%	95.56%	33.33%	17.78%	20.00%	86.67%	66.67%
60% < F.O. < 70%	15(6.91%)	63.73%(3.32)	12	14	15	12	15	9	4	4	11	9
			80.00%	93.33%	100.00%	80.00%	100.00%	60.00%	26.67%	26.67%	73.33%	60.00%
70% < F.O.	7(3.23%)	74.95%(4.59)	4	7	7	7	7	2	1	1	7	6
			57.14%	100.00%	100.00%	100.00%	100.00%	28.57%	14.29%	14.29%	100.00%	85.71%

Government servants and politicians: reporting independent directors' connections with the government and/or ruling political parties. Interlocking directorships: reporting independent directors' current and former positions in other large companies. Title: disclosing independent directors' titles (e.g. royalty family, federal titles, state titles). Bankers: reporting independent directors' connections to the bankers or insurance representatives. Lawyers: independent directors who are lawyers. Accountants: accountants as independent directors on the board. Tenure: the year that independent directors joined the company.

### *Resource Type 5: Interlocking Directorships*

An interlocking directorship occurs “when one person affiliated with one organization sits on the board of directors of another organization” (Mizruchi, 1996, p. 271). From the empirical scrutiny of sampled annual reports, this is yet another important resource that most companies look for in their independent directors. Companies, by appointing representatives from important external players to the board, facilitate access to external resources, develop inter-organization commitment, and establish legitimacy. Independent directors with many interlocking directorships can perform an important function in bringing knowledge about competition and industry and also they can help in strategy development and decision making (Peng, Au, and Wang, 2001). Moreover, they have network and connections in other companies that provide channels to them to provide required resources to the company (Hillman *et al.*, 2000) which enhance companies’ profitability (Burt, 1983; Mizruchi, 1996; Pennings, 1980). This is because interlocking directorship, through developing friendships and information exchange, can be seen as a means to “co-opt” sources of environmental uncertainty, stabilize coordination and reduce inter-organizational interdependence (Boyd, 1990; Mizruchi and Stearns, 1988; Pfeffer, 1972b; Pfeffer and Salancik, 1978).

Furthermore, appointing independent directors with interlocking directorships with ties to other large companies can bring prestige and reputation is interpreted as a positive signal by other important market stakeholders and institutional environment such as the government, banks, investor, suppliers, buyers, etc. This facilitates company’s access to distinctive resources that other stakeholders can provide (Mizruchi, 1996; Peng *et al.*, 2001).

### *Resource Type 6: Government Servants and Politicians*

This research findings show that independent directors who are currently/formerly government servants and/or politicians are regarded as highly valuable to sampled companies. More specifically, the prized resource provided by these individuals is in facilitating access to government contracts, soft loans, preferential treatment and regulatory protection, etc. This finding is consistent with the earlier contention that the very high involvement of the Malaysian government as well as political parties in business has created a “nexus of business, politics and the state” (McVey, 1992, p. 9). Consequently, rent seeking corporate activities became an integral part of the corporate landscape and the boundaries between politics, state, and business in Malaysian political economy have become more and more blurred (Gomez and Jomo, 1999; Johnson and Mitton, 2003; Searle, 1999; White, 2004).

In line with the findings above, the extant literature in the resource dependence tradition has also highlighted the importance of linkages with the government and also strong political ties especially for companies operating in developing economies (Hillman, 2005; Pfeffer and Salancik, 1978; Li, Popo, and Zhou, 2008). Within the context of the Malaysian political economy, the having close relationship with the government and the ruling

political parties is a means by which companies manage their respective external dependencies (Essen *et al.*, 2012; Li and Harrison, 2008; Pahlevan Sharif and Yeoh, 2014; Yoshihara, 1988). More generally, this resource type is typically valued in most developing countries around the world as companies often reap significant benefits arising from close relationships with government leaders, officials, and/or influential politicians. While governments often provide some forms of protection to their local companies from foreign competition, the resource dependence perspective focuses more on these parties being key sources for acquiring exclusive licenses, capital, major projects, and/or subsidies (Gomez and Jomo, 1999) Guo, Xu and Jacobs, 2012).

### *Resource Type 7: Bankers*

The analysis of annual report disclosures also found that independent directors who are bankers and/or possess banking-related experience/expertise are regarded as an important resource to the sampled companies, presumably to facilitate access to scarce capital. When the general economic conditions are favorable and when capital is plentiful and cheap, independent directors with a banking background could provide valuable input (i.e. advice and counsel) in (i) assessing the financial viability and feasibility of potential projects, and (ii) the use of various financial instruments/options that are available to these companies. Furthermore, in times of economic uncertainty or crises when there is stiff competition for limited capital and/or when the company is not performing well, then banks and financial institutions will be in a relatively stronger bargaining position with respect to these companies. In response, these companies would presumably appoint bankers onto the board to reduce uncertainties in raising financial capital (Mizruchi and Stearns, 1988). Indeed, Pfeffer (1972a) showed that as larger companies have higher need for financial capital, they increase their board size by appointing representatives from financial institutions.

### *Resource Type 8: Lawyers*

The next significant finding is that legal expertise is regarded as a valuable independent director trait. Lawyers are an important source of advice on legal rights and regulations and improved companies’ prestige and legitimacy in the institutional environment (Hillman *et al.*, 2000; Mahon and Murray, 1981; Withers *et al.*, 2012). More specifically, lawyers are important to help companies to understand their legal rights and duties as well as guidance to comply with existing/new regulations (Mahon and Murray, 1981). With their extensive experiences of dealing with government as counterparty in administrative or legal proceedings, they offer this sort of distinctive political acumen to the board (Agrawal and Knoeber, 2001). As large companies often attempt to lobby the government to establish policies and regulations that are favorable to their respective businesses, independent directors with strong legal backgrounds play a critical role in companies that are operating in the wider business and political institutional environment (Agrawal and Knoeber, 2001).

*Resource Type 9: Accountants (financial experts)*

The content analysis exercises uncovered yet another type of valuable resource, that of specific expertise in accounting and finance, which presumably enhances the effectiveness of independent directors in carrying out their board advisory role. While financial experts and accountants are an important source of advice on financial communication strategy for CEOs and top management team, their presence on the board would also facilitate access to new equity and debt financing by reassuring potential investors and/or creditors (Francis, Hasan, and Qiang, 2012; Hillman *et al.*, 2000; Jeanjean and Stolowy, 2009; Kirkpatrick, 2009).

*Resource Type 10: Community Leaders (Academic, Clergy, Social, NGOs, etc.)*

The final type of valuable resource that independent directors bring to their respective companies is benefits, links and also legitimacy derived from them being community leaders (i.e. academic, clergy, social, etc.). Companies by appointing independent directors with social connections endeavor to endear themselves to these powerful groups in the community and provide communication with other stakeholders beyond suppliers and competitors. These independent directors, by providing non-business perspectives on company's proposed actions and strategies, keep the company away from threats and implementing misguided strategies which may conflict with the interests of community groups and movements (Hillman *et al.*, 2000). Indeed, community leaders are appointed on the company's board to represent the interests of local community, workers, consumer interests, etc. (Baysinger and Zardkoohi, 1986).

From the resource dependence perspective, community leadership is a means to reduce certain environmental uncertainties, especially those that originate from certain sections of society and/or pressure groups. Thus, companies try to manage their external dependency by developing links, relationships, and networks with these environmental components through their independent directors. In addition, the presence of independent directors who are community leaders on the board increases the boards' overall prestige and lends added legitimacy to their respective companies from the standpoint of external key stakeholder groups (Baysinger and Zardkoohi, 1986; D'Aveni, 1990; Finkelstein, 1992; Hillman *et al.*, 2000; Selznick, 1957). Moreover, it is plausible that these prestigious independent directors have powerful friends and rich social networks that would improve companies' access to external resources.

## 5. CONCLUSION

In conclusion, we provide some evidence which suggest that, even though publicly-listed companies in developing countries such as Malaysia appoint independent directors onto their respective boards as this is a requirement of corporate governance codes/guidelines and stock market listing regulations; the actual choice of who they select is largely based around these directors' resource

provision capabilities (Pahlevan Sharif and Yeoh, 2014; Pahlevan Sharif *et al.*, 2014). Furthermore, we contend that such a tendency is exhibited more strongly in family-controlled families as they typically have a relatively small, closely-knit network (Claessens, Djankov, and Lang, 2000) and also depend on a smaller pool of resources (i.e. those that reside within the family). Hence, independent directors are prized not because of their supposed monitoring role but because of their ability to facilitate access to valuable external resources such as government contracts, networks, projects, licenses, loans, specialized skills and expertise, etc. In fact, this resource dependence perspective is especially applicable in economies where there is strong relationship-based business culture and extensive political involvement in business (Gomez and Jomo, 1999; Searle, 1999; Verma, 2002). This sort of institutional environment differentiates countries such as Malaysia from Western countries and is seen to go against agency perspective assumptions (Essen *et al.*, 2012; Mohd Ghazali, 2010). Once again, in family-controlled companies, independent directors are chosen on a basis that of the securing/provision of specific resources that these companies lack or prizes.

Another conclusion reached is that the existing literature lacks a comprehensive resource provision capability index which addresses all possible aspects of directors' capability in providing different resources even though these can be extracted from directors' biographies published in these companies' annual reports. From the detailed content analysis of independent directors' biographies in the sampled annual reports of family-controlled publicly-listed companies, ten distinctive resource provision capability indicators were identified. These disclosed indicators reflect certain resources that independent directors can provide to their company and are categorized into (i) education, (ii) business and law education, (iii) tenure, (iv) titles (iv) interlocking directorships, (v) government servants and politicians, (vi) bankers, (vii) lawyers, (viii) accountants, and (ix) community leaders.

The main limitation of this study is stems from using only the disclosed information in companies' annual reports rather than a more comprehensive search for information relating to independent directors from all publicly available sources. Nevertheless, we argue that our approach is sufficiently robust as most investors tend rely on annual reports or company-generated information (e.g. on the companies' websites) for details relating to their respective directors. More importantly, the index developed by this study can be used in future quantitative research as a construct to explore the overall resource provision capability of independent directors in order to examine its impact on companies' performance and success.

Moreover, future studies can be conducted to identify the preferences of family-controlled companies in terms of their independent directors' resource provision capability. Furthermore, qualitative research through interviewing directors and managers is worthwhile to gather an in-depth understanding of companies' attitude towards independent directors' roles in developing countries and more specifically scrutinize appointment criteria of independent directors in family-controlled companies.



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