IS AGENCY THEORY DOMINANT IN EXPLAINING THE BOARD ROLES OF MALAYSIAN LISTED FIRMS?

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Abstract

This study examines the experiences of board members regarding their roles, the conduct of board meetings, and their influence on the appointment of new directors, the influence of "major" shareholders on board decisions, and the protection of the interest of the minority shareholders. The main objective of this study is to determine whether agency theory plays a dominant role in explaining the roles of the directors of Malaysian listed firms. Semi-structured interviews were carried out amongst selected directors. Our results suggest that agency theory alone is not sufficient to explain the complex issues involving board roles. Rather, a clearer picture emerges with the integration of agency theory and wider theoretical perspectives (i.e. stewardship and resource dependency). Although there is a constrain in accessing the board, this should not hamper future studies on examining other issues that could affect board roles such as effectiveness of the chairman, non-executive directors and board sub-committees. Studies of this nature are important as the board has an important influence on the decision making process.

Keywords: Board Roles, Board Process, Agency Theory, Stewardship Theory, Resource Dependence Theory, Malaysia

1. INTRODUCTION

Issues of corporate governance, especially the roles of the board of directors, have received a lot of public attention with the collapse of large corporations in the US, the 1997 Asian financial crisis and the recent 2008 Global Financial Crisis. Corporate governance is a crucial issue in organizations because it serves as an important mechanism to ensure managers work in the interest of shareholders (Shleifer & Vishny, 1997). Corporate governance mechanisms could be internally and externally derived. As part of the internal governance mechanisms, the board of directors is regarded as one of the important elements of corporate governance. Jensen (1993) contends that the board is at the apex of a firm's corporate governance structure. Similar view on the position of the board of directors is also held in Malaysia, as reflected in the Malaysian Code of Corporate Governance. But issues with regard to board of directors are expected to be different across firms. For example, with respect to the maintenance of a board, for a small and closely held firm, the agency problems are not severe because the conflict between the owners - manager is lesser as compared to a large firm with wide ownership dispersion. Hence, the agency costs are predictably small as well for a small firm compared to a large firm.

From the legal viewpoint, having a board is part of the legal requirements in incorporating a company. The main purpose of having a board is to protect the company's shareholders from management moral hazards. The directors' fiduciary duty requires directors to act in good faith for the interest of the company. Directors are expected to actively involved in setting the direction of the company, making strategic decisions and monitoring management to ensure that management behaviours are consistent with shareholders' value maximization goals. However, the personal goal of a firm's director may not be congruent with the objectives of the shareholders. Hence, criticisms have been levelled at directors for not always fulfilling their responsibilities and for failing in their duty to protect shareholders. Specifically, the monitoring roles of the board are perceived to be compromised because of managerial domination, asymmetry of information, ineffective board meetings, and lack of checks and balances.

Researchers have attempted to identify board structures (i.e. board size, the proportion of outside directors on the board, and the board leadership structure) that could enhance company performance to meet shareholders' expectations (Abdullah, 2004; Baysinger & Butler, 1985; Brickley, Coles & Jarrell 1997; Conyon & Peck, 1998; Ponnu & Karthigeyan, 2010; Zainal Abidin, Mustaffa Kamal & Jusoff, 2009). Yet the results of these studies remain inconclusive. Finkelstein and Mooney (2003) give examples of five companies that were involved in financial scandals although they had a sound board composition and leadership structure in the year before the scandal hit the companies. As shown in Table 1, Enron, one of the companies involved in a scandal, had 86% outsiders on the board and the company separated the roles of the CEO and the board chairman. This

anecdotal evidence seems to suggest that board structure does not provide a strong indicator e that leads to conclude whether the corporate governance of a company is strong or. Thus, in this research, we explored the role of directors using a different indicator i.e. board process (e.g. board roles and board involvement in decision making) which we expect to reveal the effectiveness of the board.

Table 1. Board of five companies in the year before the scandal hit each company

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

(Source: Finkelstein & Mooney, 2003)

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

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

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

2. BOARD ROLES

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

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

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

2.1. Theoretical Perspectives

The roles of the boards are viewed differently from different perspectives but they tend to be complementary. Agency theory is the most recognised perspective in explaining the contribution of the board (Zahra & Pearce, 1983). However, empirical evidence is mixed. Thus, several alternative theories (i.e. legalistic, resources dependence, class hegemony, and stewardship) are proposed in addressing issues of the board. The board roles from different perspectives such as agency theory, stewardship legalistic, resources dependence, class hegemony/managerial hegemony, are shown in Table 2.

Table 2. Theoretical perspectives of the boards of directors

Items	***Perspectives***			
	Agency theory	***Stewardship***	***Resource dependence***	***Class hegemony / managerial hegemony***
Board role	The primary role of boards is to monitor the actions of agents (executives) to ensure their efficiency and to protect principals' (owners) interests.	Ensure the stewardship of corporate assets.	Boards are a co-optative mechanism for extracting resources vital to company performance. Boards serve a boundary-spanning role. Boards enhance organizational legitimacy.	Boards perpetuate the power and control of the ruling capitalist elite over social and economic institutions. Board "a legal fiction".
Theoretical origin	Economics and Finance	Organizational Theory	Organizational Theory and Sociology	Marxist Sociology/ Organization theory

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

Agency theory holds that the board plays a pivotal role in ensuring that managers act in the best interests of shareholders (Fama & Jensen, 1983) and hence the emphasis on the board is to monitor management. Management, who is composed of professional managers with insignificant shareholdings, is seen as pursuing their self interests at the expense of the firm's shareholders.

To curb the possibility of abuse of power, the board of directors retains the ultimate control by ratifying and monitoring major managerial decisions although most of the decisions are delegated to managers (Fama & Jensen, 1983). Thus, agency theory regards the board of directors as an essential control mechanism in a firm (Hart, 1995). The board is seen as a tool to reduce agency costs and thus the agency conflict which incur due to goal incongruence between owners and managers (Dallas, 1996). Agency theory, which is widely accepted in economics and finance, is different from the legal perspective with regard to the source of directors' power. Legally, the source of directors' power is state law, whereas agency theory considers that directors' power is delegated by shareholders (Johnson, Daily, & Ellstrand, 1996). Thus, agency theory emphasizes decision process in relation to how the board monitors managers in order to mitigate conflicts between managers and shareholders. Control is the primary role of the board. To enhance the board's incentive to monitor management, agency theory suggests ownership by manager to align the interest of manager and shareholders, higher proportion of outside directors on the board, and non-dual leadership to increase independence of the board (Muth & Donaldson, 1998).

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

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

The class hegemony views the board as a means of perpetuating the powers of the ruling capitalist elite. Elite groups are those who influence the decisions and policies of the companies because of their positions, such as owners of large shares or incumbent top managers (Useem, 1980). The term managerial hegemony is used when management dominates the board. The ability of the board to perform the control or governance function effectively is arguable (Kosnik, 1987). The board is seen as no more than just a legal fiction (Mace, 1971; Kosnik, 1987). The board plays a passive role in the firm's strategy formulation or in leading the firm. In fact, they do not perform the control role because they themselves are dominated by management. Hence, a company is run and dominated by the management team rather than by the board (Stiles, 1997). Thus, the board role is reduced to merely "rubber stamp" all management decisions. To overcome the problems, contra-managerial hegemony theory is suggested to diminish managerial influences over board (Dallas, 1996).

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

2.2. Board structure, roles and theories

Board roles to a large extent are influenced by the degree of their independence and monitoring intensity which are normally indicated by their structure i.e. board size, board composition and leadership structure (Jensen, 1993). Table 3 summarizes the board structures that will predictably increase a firm's value according to the respective theories (Muth & Donaldson, 1998).

Table 3. Recommended board structure by different theoretical perspectives

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

(Source: Muth & Donaldson, 1998)

Agency theory focuses on monitoring and control mechanism to align the interest of owners and managers (Fama & Jensen, 1983). Consequently, it recommends the board to have more outsiders and non-duality leadership structure (i.e. the separation of chairman and CEO) (Kiel & Nicholson, 2003). In contrast, stewardship theory believes managers are good stewards of corporations and

they understand the business better than outsiders. Thus, stewardship theory recommends board to have more insiders to ensure effectiveness in governing the company (Kiel & Nicholson, 2003). Since resource dependency theory views board as an important boundary spanner that has the ability to bring outside resources to the company, more outsiders are expected to be in the company (Daily, Dalton, & Cannella, 2003). Agency theory and resource dependency theory stress on appointing more independent directors in order to strengthen the effectiveness of the board. However, while independent directors in agency theory perform primarily the control function, independent directors in resources dependency theory discharge primarily the service/counsel roles.

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

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

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

3. RESEARCH METHODOLOGY

Extensive quantitative research has been carried out to examine the effectiveness of board governance with regard to the relationship between board structure and value-increasing performance, but yet there is no indication of what the best governance practices are. More recent research has started to investigate the effectiveness of the board by conducting personal interviews with board members (Kakabadse & Kakabadse, 2007; Kakabadse, Kakabadse & Barratt, 2006; Kakabadse, Yang & Sanders, 2010; Maharaj, 2009; Mailtlis, 2004; McCabe & Nowark, 2008; McNulty & Pettigrew, 1999; Nowak & McCabe, 2003; Okpara, 2011; Roberts, McNulty & Stile, 2005; Useem & Zelleke, 2006; Vinnicombe & Singh, 2003). In line with the current methodological development, the methodology used in this study is qualitative in nature in an attempt to understand the roles of board of directors. To this end, we employed semi-structured interviews with selected board members of selected Malaysian listed companies. The main advantage of this approach is that it allows data which is readily available in the public domain about a firm's board to be collected. Further, personal interview with directors is the best approach to understand how the board actually operates. The selected board members are expected to answer candidly about their experience in their board. The respondents were chosen from the list of members of the Malaysian Institute of Directors (MID), who have experience in public listed companies (PLCs). A letter was then sent to the company secretary to seek their consent to be interviewed. Then telephone calls were made as a follow up to encourage as many participants as possible and to make an appointment for the interview. Securing their consent to participate was very challenging due to trust and confidential issues. The fact that directors of PLCs normally have a hectic schedule also posed another challenge for this study. In view of these challenges, we finally managed to have 10 directors of PLCs to agree to participate in this study. The directors are aged between 45 and 75 years with experiences in at least three different PLCs.

Because we are interested in understanding the board roles, we thus posed open-ended questions to the directors. The major questions that were asked are as follows:

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

ownership concentration)? To what extent is your board involved in protecting minority shareholders' interests of the firm?

The individual semi-structured interviews were held at the directors' office which lasted, on average, for one hour. All interviews were tape-recorded.

4. FINDINGS

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

4.1. Board roles

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

"Look after shareholders' interests…"
"Make sure objective of the company is achieved…."
"Ensure shareholders' intentions are achieved…."
"Provide oversight, check and balance views…"
"Control management performance…"
"Monitor company's performance…."

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

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

Another interviewee put it this way,

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

Apart from the control/monitoring role, many of the interviewed directors also mention that they also perform the service and strategy roles. Some illustrations of service and strategy roles that they perform are,

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

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

As far as non-executive directors are concerned, agency theory argues that the role of non-executive directors is important in providing check and balanced views (Fama, 1980; Fama & Jensen, 1983; Jensen, 1993). However, our evidence reveals that non-executive directors only receive information in the form of board papers for their evaluation which are circulated prior to any board meetings. Hence, non-executive appear to have a limited amount of information available to them because they are not involved in day-to-day affairs. For this reason, most of the respondents agreed that the company cannot waste its resources by having somebody who is incapable to sit on the board as a non-executive director. Instead, non-executives must have sound professional experience and basic fundamental qualification to perform their role effectively in monitoring management. As pointed out by one respondent,

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

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

"The benefit of having them is only if he is a good professional; he understands the business; and he is a person with knowledge. Most important thing is the reputation that he brings into the company."

Another director acknowledged the existing non-executive director,

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

But there are several issues that limit the capability of non-executive directors. Some of the respondents felt that the payment made to non-executive directors is too low in comparison with the number of paperwork that has to be completed and the high cost of living presently. Some of them felt that the non-executive directors have a limited time to enable them to provide a sound advice and balanced view on business and compliance matters. So, non-

executive directors should have the relevant qualification, experience and also commitment to understand all board papers so that they could provide strong oversight views to the board which are useful in arriving at the right decisions for the company.

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

4.2. Board meeting

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

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

Essentially, in board meetings, two types of papers are commonly presented, i.e. papers for board's notification and papers for seeking board's approval. In normal practice, the board papers are prepared and distributed to board members before each meeting. However, one of the respondents highlighted a case where management would suddenly bring up papers on the day of the meeting was held without prior notice because they were deemed urgent by the management. When we asked the respondents whether the board rely on the information provided by the management in the board papers, none of the respondents agreed to the statement. They responded that a director's main role is to ask questions for clarification from management. They further said that even though papers for board's notification do not require approval from the board, directors would still ask the "why" question for more clarification on the matters being presented. A string of questions are normally posed when it comes to papers which require board's approval. In fact, it has been noted that directors even start asking questions before the meetings start. One of the respondents explained that,

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

All respondents indicated that they normally delegate to sub-committees in helping them make decision. It is thus common for papers or proposals being vetted by the relevant board committees such as investment, risk or audit committee before they are brought to the board for approval or ratification. Since a number of the matters are delegated to the sub-committee, the issues that are discussed in a board meeting are substantially reduced. However, sometimes coordination needs to be carried out between the sub-committee and the board as a whole to reach ultimate decisions. In deliberating the papers that require board's approval, the experience of the outside directors are very crucial. However, one of respondents noted that,

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

In reference to the participation in board meetings, all respondents seem to agree that a majority of board members participate in the deliberation. Members have high regard for each other's views and they are allowed for constructive dissent. Most of the respondents note that there are no major disagreements on any issues because the board members are professional in their conduct. Sometimes the board may ask the management to revisit and revise the proposal. Occasionally, a decision on a paper is postponed for more information gathering and fact finding especially when the chairman felt that the discussion has become so intense. According to one of the respondents, the atmosphere in a board meeting depends largely on the capability of the chairman is in handling the discussion or the debate that ensues. While some chairmen encourage every board member to participate, or proactively trigger a discussion, others may simply give instructions to management on what needs to be done. One interviewee points that,

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

Another point highlighted by another interviewed director,

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

4.3. Influence of board on appointment of new director

Company directors interviewed are of the opinion that a proper way for selecting a new director is by referring it to the nomination committee. The committee is given the task of nominating a new director, who is normally and ultimately ratified by the board. One respondent director noted that

networking may be possibly used to get identify nominees for new directors. However, he believes that networking is fine if nobody misuses it because the company may be able to locate and get a suitable director easier through such networking. One of the respondents mentioned that if the nomination committee plays its role properly, without bias or being guided, the person chosen is supposed to be the best person for the company. One of the respondents, who is currently holding an executive post, gave his view,

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

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

Another aspect highlighted by some of the respondents is the act of the directors where directors are expected to act both individually and collectively in performing the stipulated role. Discussion on director acts is related to the board process (Kula & Tatoglu, 2006; Roberts, McNulty, & Stile, 2005).

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

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

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

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

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

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

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

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

He added:

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

One of the respondents pointed out that,

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

This is supported by another respondent,

"Some minority shareholders are very vocal in AGM".

5. CONCLUSION

This study examined the perceptions of PLC directors based on their experiences as directors. Theoretically, many previous studies rely primarily on agency theory to explain the board roles. We note that the monitoring role, which is a central element of agency theory, is in fact it is the key role played by the board as highlighted by most of the respondents. Upon scrutinizing all the responses given, we find that the result of this study is consistent with that reported by Daily, Dalton and Cannella (2003) where a multi-theoretical approach is essential in explaining the roles of board. In fact, corporate governance research in developed countries has started to integrate different theories in their studies (e.g. McNulty & Stile, 2005; Minichilli, Zattoni & Zona, 2009; Roberts, Zattoni & Cuomo, 2010; Useem & Zelleke, 2006).

Previous studies on the board have reported inconclusive findings as to board effectiveness by

focussing on the performance of the company as the indicator of board performance. However, company performance might be a short-term focal point for the director compared to the long-term survival of the company.

"The board may see its role as primarily protecting (not generating) the shareholders' investment by ensuring the survival of the company. Directors may have to make tradeoffs between the amount of risk management should take in generating shareholder value versus the stability and survival of the company (Brennan, 2006, p. 591)

Similarly, as one of our respondents viewed that board should focus on the survival of the company,

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

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

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