



INTERLOCKING DIRECTORSHIP AND
CORPORATE PERFORMANCE

by

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Abstract

The issues of corporate performance and interlocking directorships have received considerable attention. Therefore, the objective of this study is to examine the effects of interlocking directorships on corporate performance. Using data from listed companies both on Main and Second board of Bursa Malaysia in 2007, the result shows that interlocking directorships have a significant positive effect on corporate performance. The finding supports the resource dependence theory and postulation that multiple directorships enhance directors' expertise and increased director's motivation in discharging their responsibility.

Abstrak

Isu mengenai prestasi korporat dan persilangan pengarah telah menerima perhatian yang banyak. Dengan itu, objektif kajian ini adalah untuk memeriksa kesan persilangan pengarah terhadap prestasi korporat. Menggunakan data daripada syarikat yang tersenarai di Papan Utama dan Kedua di Bursa Malaysia pada tahun 2007, keputusan menunjukkan persilangan pengarah mempunyai kesan positif kepada prestasi korporat. Dapatan ini menyokong teori persandaran sumber dan andaian bahawa memegang jawatan pengarah di pelbagai syarikat meningkatkan kepakaran dan motivasi pengarah untuk melaksanakan tanggungjawabnya.

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ABBREVIATIONS

Malaysian Accounting Standard Board	MASB
International Accounting Standard Board	IASB
Companies Commission of Malaysia	CCM
Return On Equity	ROE
Return On Assets	ROA
Ordinary Least Square	OLS
Logrevenue	LOGREV
Leverage	LEV
Board Size	BOARD_SIZE
Board Indipendent	BOARD_IND
Board Ownership	BOARD_OWEN
Multi Executive	MULTI_EXEC
Multi Non- Executive	MULTI_NON
Multi Indipendent	MULTI_IND

CHAPTER 1

INTRODUCTION

1.1 Introduction

The main goal of corporation is to enhance the shareholders' wealth and this goal can be achieved whether by making profit or through enhancing the value of company's shares or both. Therefore, the corporation involves in several strategic behavior and through various mechanism in achieving this goal. However, due to the separation of management and ownerships in the modern corporate structure, there are concerns that the management actions and decision are not in the benefits of the shareholders but for their own benefits.

One of the concerns is related to interlocking (multiple) directorships whereby a director is also holding directorships in other companies. By holding several directorships is doubtfully can affect the individual director's time and commitment in performing their roles but in contrast it could enhance the directors ability through the increased knowledge and experience (Haniffa and Hudaib, 2006; Ibrahim, Raman and Saidin, 2009). At the same time, interlocking directorships may also be used as a mechanism for the corporation to form an alliance with other corporation and thus enhance their performance (Phan, Lee and Lau, 2003). Due to the government concerns, some countries have made mandatory restriction on the multiple and interlocking directorships. In Malaysia, the government concerns on this issue can be seen through

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