FACTORS THAT DETERMINE INDEPENDENT DIRECTOR'S EXISTENCE ON THE BOARD OF DIRECTORS: EVIDENCE FROM MALAYSIAN LISTED COMPANIES

BY:

MUBARIK MOHAMED ABDI

812371

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ABSTRACT

The purpose of this paper is to study the determinants of the presence of independent directors on boards of directors. Based on the agency theory, we study the different factors influencing the nomination of independent directors. The tests were applied to a sample of 71 companies belonging to Bursa Malaysia Main Market from 2007 to 2009. Using an OLS data regression framework, the findings show that the, coalition control, leverage and CEO tenure determine the independence of the board from the management. The result indicated that when the part of capital represented on the board and held by the coalition of control is low, the presence of independent directors is more important. The presence of the independent directors is significantly and positively determined by the level of debt and CEO tenure. However, we do not find evidence of the influence of the ownership structure, Company size and CEO Duality.

Keywords: Corporate governance, Independent directors, Ownership structure, board independence

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LIST OF APPROVIATION

ACE	Access, Certainty and Efficiency
BURSA MALAYSIA	Malaysian stock exchange
CEO	Chief Executive Officer
IPO	Initial Public Offering
KLSE	Kuala Lumpur Stock Exchange
MCCG	Malaysian Code on Corporate Governance
MESDAQ	Malaysia Exchange of Securities Dealing and Automated Quotation
PINDEP	Percentage of independent directors on the board
OLS	Ordinary Least Square
OECD	Organization for Economic Cooperation and Development
ROA	Return on Assets
ROE	Return on Equity
R&D	Research and Development
SC	Securities Commission
USA	United States of America
UK	United Kindom

CHAPTER ONE

1.0 INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

Chapter one discusses the content of the research outline. It provides the bases of this current research. This chapter explains the fundamental of the research containing of the background, the development of Malaysian corporate governance, problem statement, research objectives and questions, significance, scope, definition of terms. The summary of the chapter is given at the end of the chapter.

1.2 BACKGROUND

Corporate governance has been a vital framework of rules and practices that determine corporate direction and performance. This issue of ensuring effective corporate governance has become a well-known discussion in the developed countries and as well as developing countries. Usually, the development of the corporate governance literature has highlighted a firm of having good corporate governance by considering an institution or management team that can affect the firm performance in the organization. This has been well agreed from previous studies carried out in both developed countries like the US and the UK, and also in developing countries like Malaysia, Sri Lanka, Thailand and Taiwan.

Corporate governance, however, has also been based on economic, political and social aspects of a country. These factors will affect how firms are operated and organized, for example, firms in developed countries have a wide range of shareholders and a stable economic condition. This factor leads to a well-developed regulatory framework and effective corporate governance practice.

Based on the literature, corporate governance has also been agreed as the factor that is associated with the financial distress of a firm (Johnson, 2000). Corporate governance has become a vital tool in leading firm and institutional performance. Over 78% of institutional investors want to invest in well-organized companies. For example, in 1998 in the aftermath of the Asian financial crisis, many companies had realized the importance of having good corporate governance. This is due to the exposure from the crisis that uncovered numerous corporate governance practices in Malaysia which was found to comprise of the negligence of independent directors, independent auditors and impartial audit in controlling and disciplining corporate misbehavior (Liew, 2006).

Similarly, according to Claessens and Djankoy (1999), the absence of financial disclosure, transparency, accountability and lower level of minority investors legal protection against expropriation of the inside administration are also factors that lead to the failure of a company. For Malaysian companies, the existence of substantial shareholders in the management of the company has allowed them to act based on their own interest because of their large number of representations in management.

Thus, this has led to corporate misbehaviors (Khoo, 2003). Due to inefficiency of management, numerous firms collapse such as Ronong Berhad and Perwaja Steel and KFC Holding, Berhad (Haniffa & Hudaib, 2006). Clearly, all these were due to low level in the practice of corporate governance, which had led these companies to fail. As argued by many authors, the corporate governance reforms at that time, which had not yet improved in Malaysia, did not give a solution to solve the obstacles of the country (Liew, 2006).

Following a serious of bankruptcies happened during the Asian financial crisis period, the number of boards of listed companies was subjected to a lack of effectiveness after the crises hit. The lack of effectiveness and failure had given numerous researchers to explore the efficiency of corporate governance composition, primarily the composition of board of directors and their effectiveness. Nevertheless, the boards were condemned as not being effective and competent in safeguarding the interest of the shareholder's wealth and firms and should be restructured in order to effectively fulfill their duties. It was interesting to note that, these reports and studies had particularly mentioned the importance of board of director's independence and the need for a sufficient number of independent directors on the board.

During the years 1995 to 1999, many studies in the western countries had also highlighted the roles and the importance of independent director's existence on the board, particularly addressing the existence of a sufficient number on the board. The Bouton report in 2002 stressed that "A

director is totally someone who is independently free from administration of the company who does not have any relationship with the company to influence the judgment of the director".

On the issue of the significance of having a sufficient amount of a director who is independent, the Bouton report finds it essential to increase the amount of directors who are independent on the board to have at least fifty percent of director who is independent from the company for the company who has a dispersed capital with monitoring shareholders.

Numerous studies have examined the elements that contribute to the independence of the board and what factors that influence the independence of the board. In Malaysia, despite the many studies that have been carried out on the board of directors (see Hashim, H. A., and Devi, S. S. (2010); Abdullah, S. N., and Nasir, N. M. (2004); Osma, B. G. (2008); and (Amran and Ahmed (2011)), few have analyzed the independent directors' existence on the board when in fact, the outside directors' studies dominated the discussion.

The aim of this current research is therefore set to analyze the elements that contribute to the independent directors' existence on the boards of Malaysian listed companies. This study examines the effect of company size, ownership structure and leadership structure on the existence of board independence. The study is conducted for a sample of 71 listed companies in Bursa Malaysia from 2007 to 2009. To the knowledge of the author in this case, there are no such studies that have been carried out in examining the factors that affect the existence of

independent directors in Malaysia or in the Asian continent before. Only a few studies had investigated independent directors on the board (see Noraini, Rashidah, and Ahmed (2005); and Lee, (2013).

This study hopes to improve the shareholder's respect of identity for the analysis of the effects of shareholding composition on independent directors who are present on the board. Thus, analyzing the factors that determine the independent directors' existence on the board should provide a better understanding behind the reasons of their selection process and appointments to the board of directors, as well as enlighten the contributions and roles that independent directors contribute to the Malaysian companies.

1.3 MALAYSIAN CODE OF CORPORATE GOVERNANCE

In developing economies, for example, Malaysia, executing great corporate governance practices diminishes the introduction to monetary emergencies and in addition helping manageable financial advancement (World Bank Annual Report, 2005). Nevertheless, the Asian financial crisis in 1997 had brought monstrous misfortune of trust for foreign investors who invest the Malaysian capital market (Abdul Haniffa and Rahman, 2005).

Due to the circumstances of that crisis, the Malaysian government introduced a higher level of finance committees regarding corporate governance, which included government and industry agents, to launch the framework of corporate governance best practices. High level of finance

committee on corporate governance was structured to identify and express weaknesses underlined during the Asian crisis in 1997. The committee made comprehensive examinations through research and surveys of corporate governance best practice of public listed companies in Malaysia.

The Malaysian government established Malaysian corporate governance code in March 2002 by the Malaysian Security Council that led to the realizing the list requirement of companies on Bursa Malaysia. This was subsequently followed by the revised Malaysian corporate governance code (Cheah and Lee, 2009). The Malaysian Code of Corporate Governance (MCCG) announced and required each and every listed company to appoint independent directors. Thus, the MCCG functions and governs all Malaysian companies in the favor of enhancing the corporate governance applications to companies' well-being.

1.4 PROBLEM STATEMENT

Independent director's existence on the board of directors of a company has an important influence on the company's financial well-being. Such directors are important because they bring unbiased opinions regarding the company's decisions and diverse experience to the company's decision-making process. The role of independent directors, in part, is to act as an overseer on the promoters and the management of the company, and protect minority shareholders' interests.

According to Chouchene I., (2010), factors that influence the independence of the board have been much discussed in recent studies, but only a few had investigated the elements that determine the independent director's existence on the board and there is yet a significant need for the existence of independent directors to ensure the protection of shareholder's interest.

In the Malaysian context, all the important effort done by the Malaysian regulators announcing the significance of independent director's existence on the board in promoting well established corporate governance and assisting the nominating of independent boards, many listed firms still did not appoint adequate independent directors to board following the requirement made by Malaysian regulators, MCCG (2007). To our knowledge, in Malaysia there are only two studies done by Noraini, Rashidah, and Ahmed (2005) and Lee, (2013) who examine independent directors on the board, but there is no sole investigation of the elements that influence the appointment and nomination of independent directors on the boards of directors in Malaysian. Therefore, since the independent director's existence on the board has its own features and yet has hardly been examined, this present study seeks to provide answers to what are the factors that influence the existence of independent directors on the board of directors.

1.5 RESEARCH OBJECTIVES

The main objective of this research is to identify the elements/factors that influence the independent director's existence on the boards of Malaysian listed companies on the main market of Bursa Malaysia for the period 2007 to 2009. The specific objectives of this study are to:

1. Examine how coalition controls influence the independent director's existence on the board.
2. Test how institutional investor influences the existence of independent directors on the board.
3. Investigate the impact of debt on independent director's existence on the board.
4. Examine how CEO duality influences the existence of independent directors on the board.
5. Investigate how the CEO tenure impacts the existence of independent directors on the board.
6. Investigate how company size affects the independent director's existence on the board.

1.6 REARCH QUESTIONS

In order to achieve the above mentioned objectives, the following research questions are postulated.

1. How coalition controlling influences the independent director's existence on the board?
2. How institutional investor affects the existence of independent directors on the board?
3. What is the impact of debt on independent director's existence on the board?
4. How CEO duality influences the existence of independent directors on the board?
5. What is the impact of CEO tenure on s the existence of independent directors on the board?
6. How company size effects on independent director's existence on the board?

1.7 SIGNIFICANCE OF THE STUDY

This research is important since it can assist in giving additional information to researchers, investors and other relevant information seekers on what the elements/factors are that influence independent director's existence on the board. This present study hopes to contribute relevant knowledge both theoretically and practically, in this specific area of the corporate governance, that is the board of directors, with a focus on independent directors. Regulatory bodies, practitioners, shareholders, and as well as mangers benefits with an up-to-date information on the role of the board of directors that has increasingly come under scrutiny in light of corporate scandals such as those at Enron, WorldCom and HealthSouth, in which the board of directors failed to act in investors' best interests.

This study hopes to provide empirical findings on how coalition control, institutional investors, debt, duality, company size and CEO tenure influence the independent director's existence on the board. This process of understanding these relationships will enhance the corporate governance level in Malaysia since independent directors play a major role in improving the planning and controlling of the organization to protect the shareholder's wealth.

By analyzing the impact of the structure shareholding on independent director's existence on the board, this study also provides findings for the consideration of the distinctiveness of the shareholders who significantly influence the existence of independent directors on the board.

1.8 SCOPE OF THE STUDY

The main objective of this research paper is to analyze the attributes that influence the independent director's existence on the board of Malaysian listed firms. The influence of ownership structure, the size of the company size and the structure of the leadership of the board independence are examined in a sample of 71 listed companies in Bursa Malaysia for the years 2007 to 2009. Data for this study were gathered from secondary sources such as annual reports, data stream, journals, magazines, MCCG, and books. The period of this study is 2007 to 2009. The selection of the period covers the financial recession, which is 2007 as pre-recession, 2008 during the recession and 2008 after the recession. In the first quarter of 2008 there was a massive world financial crisis where many companies collapsed. The structure of the board of directors in Malaysian companies during the financial crises, with a particular focus on independent directors, is further examined.

1.9 CHAPTER ORGANIZATION

This chapter provides the overview and e background of the study, followed by a brief explanation for the development of the Malaysian Code of Corporate Governance (MCCG), the statement of problem, objectives and research questions, significance of the study and finally the scope of the study.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION

Chapter two provides a brief discussion on the term corporate governance and independent directors. The discussion continues on dependent and independent variables by examining suggestions, proposes and arguments from previous studies. The main focuses on this chapter is the review on the relevant literature of the elements that influence the independent director's existence on the board. Related literature on each variable is discussed to develop hypotheses to be tested in this study.

2.2 CORPORATE GOVERNANCE

Corporate governance has recently become an essential topic in the discussion of modern corporations, due to the separation of ownership and management control in the companies. There are clashes of interest between shareholders and managers (the agency conflict). Due to the differential interest of the company's stakeholders, the principal-agent conflict arises in the management and direction- related problems.

There is no widely agreeable definition of corporate governance but there are different views which the researchers and experts viewed from different angles such as argued by Berle and Means (1932) and also Smith (1776). Zingales (1998) define corporate governance as "allocation

of ownership, managerial incentives schemes, takeovers, capital structure, board of directors, product market competition, organizational structure, pressure from institutional investors, labor market competition, etc., can all be considered as institution that influence the process through which quasi-rents are conveyed" (Financial Economics, page7, 125-48).

Garvey and Swan (1994) state that "corporate governance determines how the company's top management (directors) usually control and manage such contracts. According to Shleifer and Vishny (1997) define the corporate governance as "the courses in which the investors who finance the corporation assure themselves of getting their investment return". (Corporate Finance 1, 139-174).

The corporate governance, composition explains the dispersion of rights and obligations between different stakeholders in organizations, for instance, the shareholders, the board, managers and other stakeholders, and spells out the guidelines and strategies for making decisions on organizational issues. By practicing this, it additionally gives the structure through which the organization goals are set, and the ways of accomplishing these goals and controlling performance.

Similarly, Oman (2001) defines corporate governance as tenure alludes to the public and private institution that incorporates laws, regulations and business practices which controls the relationship between the stakeholders and organization managers. Malaysian Code of Corporate

Governance (MCCG) defines the corporate governance as "The process and structure used to direct and manage the business and affairs of the company towards enhancing business wellbeing and corporate accountability with the final purpose of understanding long-term shareholder value, although taking into account the interests of other stakeholders."[1]

La Porta, Silanes (2000) and Shlienfer (2002) describe corporate governance as a set of system through which shareholders secure themselves from the managers. The Organization for Economic Cooperation and Development (OECD) gives another viewpoint by stating that "corporate governance is the mechanism by which the business organizations are guided and controlled".

The different views summarize that corporate governance structure explains the responsibilities and the distribution of rights between the different stakeholders and spell out the rules and regulations for making decisions on the corporate issues. By applying this, it also gives the structure through the objectives that firm set to accomplish those objectives and control performance.

[1] The Malaysian Corporate Code of Governance (MCCG) 2012, constant with the Proposal, retains the definition of corporate governance as set out in the High Level Finance Committee Report 1999.

2.3 INDEPENDENT DIRECTORS

The definition of independent direct varies according to experts, but the common definition lies on that the independent directors are a director who is independent and who has no other relationship with the company other than being a member of the board of directors. An independent director is a member of the board who does not have a particular position in the firm or office, has no enthusiasm towards the company at all and has no management responsibilities (Goo and Carver, 2003).

An independent director can also be described as a person who is separated from his payment as a director, who has no other financial or material interest in the organization or any other relationship which may obstruct the independent director's judgments (Muhiudeen, 2010). Finally, according to Stein and Plaza (2011) independent directors are those who are nominated for their personal and their expert qualities, which can play their roles and obligations without depending on by the company, its managers, and its shareholders.

2.4 BOARD INDEPENDENCE

According to Fama and Jensen (1983), corporate board must incorporate independent directors into the company to reduce agency conflict and increase the efficiency of the organization. Appointment of corporate boards usually comes from the senior managers who worked inside management for their managerial skills and knowledge to the company. According to Peasnell et al. (2003), the appointment of insiders has, however created huge disagreement and higher

conflict of interest to manage the firm. The independent director's existence on the board raises the ability of the board to be highly effective in controlling its administration and to ensure there is no conspiracy with the top management to monitor inappropriate shareholder's wealth as they have incentives to increase their dignity as professionals in decision making (Fama and Jensen, 1983).

Abdullah (2004) argues that there are two different perspectives about the efficiency of the board of directors. These are the managerial supremacy theory and the agency conflict. Those who support the agency theory assume that having an independent director on the board creates an efficient controlling mechanism for the board (Fama and Jensen, 1983). The proponents of the managerial supremacy theory claim that the power of independent directors to succeed their controlling and evaluating responsibility, when the top management controls and leads the board, is questionable (Abdullah, 2004).

Because of the domination of power and over taking the decision by the CEOs in the director appointment process, there is a different view about the capabilities of independent directors in giving independent report and judgments. This issue increases the question and concern about the eminence of the independent directors (Abdullah, 2004). Since independent directors do not perform a specific part in the company's management, their existence may give a powerful controlling mechanism to the board and yet transform the highest quality of financial reports (Peasnell et al., 2000).

A large amount of studies has tested the association among board composition and financial deception. Beasley (1996) examining the agency conflict predictions found that board performance can be increased when higher percentages of independent director are present on the board. This confirms the notion that independent director's existence on board gives good overview of management performance and subsequently decreases the probability of fraud rates.

Beasley (1996) further proposes that independent directors raise the adequacy to anticipate financial fraud rate by successfully over sighting management performance. Additionally, comparable reports by Dechow et al. (1996) find that companies which are related to the security and exchange commission (SEC), accounting enforcement action and their investigations, give an important help for exploring the significance of the corporate governance process in improving financial reporting quality.

According to Dayton (1984), the board has to be independent from the management just to carry out their responsibilities effectively. Weisbach (1988) contends that high independent directors' incentives to control management emerge because these directors would not want to mix themselves with troubled firms. Beasley (1997) shows identical results when he finds that the independence of the board is measured by the extent of the independent director's existence on the board. Thus, the proportion of independent directors present on the board could be the aim of the board independence.

However, limited confirmation of the irrelevant impact of board independence has also been recorded. For example, Mac Avoy et al. (1983) assert that there is no substantial difference in firm performance with the existence of independent directors. The firms of which independent directors dominated have the same performance with those firms which were not dominated by independent directors. Fosberg (1989) also has not found any evidence to indicate that boards that are dominated by independent directors are controlled better than boards that do not include independent directors. Kosnik (1987) contends that the utilization of short-term financial measures could have been neglected to catch the roles of board independence.

On the determinants of board independence, Shamsul Nahar Abdullah (2002) finds that the concern of the board interest, firm size and CEO duality have a negative influence on board independence. His study also shows that coalition control (largest shareholders) interests in the company are positively correlated with board independence. As a matter of fact, the large companies that are related with low board independence has much concern about this issue as it would be anticipated that large companies are considered to have a higher agency conflict. These large firms are expected to set an example by having good corporate governance practices and by having independent boards which can fulfill their responsibilities effectively.

Evidence in Malaysia indicates that the boards of directors in Malaysian listed companies are dominated in large number by independent directors (Shamsul Nahar Abdullah, 1999, 2001, and

2002b). Regardless of these, results and findings related to board independence and its effectiveness in fulfilling its responsibilities is not clear, as evidence from the developed countries found no influence of board independence on its controlling incentives.

2.5 DETERMINANTS OF INDEPENDENT DIRECTORS

As stated by PricewaterhouseCoopers (PwC) (2000), a board's arrangement is essential to its adequacy. Boards need to have a level of independence from the administration and have to have the right individuals at the table and be of reasonable size to work well. Fama and Jensen (1983) find that outside chiefs are successful controllers of administration due to the solid necessity to keep in place their notoriety for being great, independent decision makers. The Finance Committee of Malaysia (1999) suggests that the board of listed companies must at least contain one third of independent directors on their board of directors.

In the Green Book under Rule 9 of Malaysian listing company's requirements "Independent" is defined as *"The composition of the board of directors should reflect the ownership structure of the company. Every listed company should have independent directors, that is, directors that Are not officers of the company; who are neither related to its officers nor represent concentrated or family holdings of its shares, who, in the view of the company's board of directors, represent the public interest of shareholders, and are free of any relationship that would interfere with the exercise of independent judgment".*[2]

[2] (FCCG, pg. 82)

Lechem (2003) proposed that an independent director ought to be free from administration and free from any association which could meddle with the activity of independent judgment. Matolscy, Stokes and Wright (2004) support this statement. However, they state that corporate governance would debilitate if inside executives ruled the board. Moreover, stronger governance might do better if the board majority of the boards are independent because independent directors do not rely on the CEO for their future salary. Outside directors have an extra role of controlling governance; they can, in fact, change weak links of senior management specially the CEO.

2.6 THE EXISTENCE OF INDEPENDENT DIRECTORS

There are various definitions of independent director. An independent director is a person who does not have a specific position in the firm, has no enthusiasm towards the company at all and has no management responsibilities (Goo & Carver, 2003). Therefore, an independent director is who someone who has no interest on monetary or other material, dealings, subsidiaries and promoters, is someone who is separated from the company, who does not have any association with the management which could influence him in his independent judgments (Muhiudeen, 2010).

According to Stein & Plaza (2011), the independent directors are those who are nominated based on their expertise, qualities and eligibility; that can fulfill their roles and obligations without

associating on the company management or its shareholders to damage their judgment. Similarly, the independent directors are fit to disclose unconditional judgments without having any relationship with the company's administration, they also give the company beneficial opinions which are crucial to improve the quality of the decision making (Cheah and Lee, 2009).

Many companies failed due to the lack of independent directors whose importance and role can be seen in various system failures. For example, when addressing the situation of corporate governance, failure of Enron and other similar companies around the world and the current financial crises have all probably eliminated investor's confidence (Solomon, 2007). According to Lessing (2009), a basic difficulty lies with the management of large listed firms because of the gap among the control and ownership. In other words, the threat exists between managers and directors seeking their self-interests other than the maximization of shareholder's wealth.

Despite the fact that the problem of whether independent directors have to be within management employees or associated with the management of the company, or be fully independent, has been well investigated. Yet no reasonable and clear conclusion has been found. If the independent directors observe the chance to develop into the position held by inappropriate and unskillful directors, they can take over and act as controls to the top management because they usually are well acquainted with the firm's daily activities. Similarly, independent directors may become professional referees to guarantee that competition among the independent directors creates effective by consistent with the objectives of protecting shareholder's wealth (Fama, 1980).

Field and Keys (2003) who did an extensive examination of independent directors, found overpowering compliment from investigators. Brickley and James (1987), Weisbach (1988), Byrd and Hickman (1992) and Brickley et al. (1994), all agree on the beneficial controlling and advisory functions of independent directors to company shareholders. In addition, within this argument, there are no clear indications that find that the ratio of independent directors is linked to the performance of the company (Hermalin and Weisbach, 2001). However, those companies having a higher proportion of independent directors present on the board can maintain higher performance than those with lower percentage included their board of directors (Bhagat and Black, 2002, 1999).

Similarly, Baysinger and Butler (1985) support a mix of independent directors on the board and find empirical provision that this method improves company's overall performance. Agrawal and Knoeber (1996) recommend that the boards which stretched for political issues usually end up having too many independent directors on board who do not support and help the company gain better performance. According to Cotter and Silvester (2003), the percentage of women and controlling on boards falls when the number of non-independent directors (inside directors) on the board rises. Deli and Gillan (2000) find that companies with lower managerial ownership, which also have a lesser growth chance, have more independent directors and active audit committees.

Klein (1998) who examines board committees categorizes them into two different major roles of directors: controlling and decision making[3]. She finds that companies with increasing independent directors demonstrate committees correlated with decision making[4].

Empirical studies on independent directors find that there is a correlation between CEO appointment and independent directors. For instance, Harmalin and Weisbach (1988) find that independent directors are highly inclined to be part of the company after poor execution when a new CEO is appointed for the company. Nevertheless, Mak and Li (2001) find proved that there is a negative association between the proportion of independent directors and managerial ownership. Recently it appears that more studies that concentrate on the inner company's agency cost and internal working of boards will lean to more knowledge on the importance of independent director's existence on the board.

In Malaysia, the importance of independent directors is illustrated in two cases which put focus on the importance of independent directors. The first case involved the director of Linear Corporation Berhad who was found on 29th December 2009 to have paid out the company's whole money reserve of RM36 million without the knowledge of the board's approval after its been awarded for RM1.67 billion contract to build a district for cooling plant (Tee, 2010). There was no legal documentation to define the entire sustainability of the project and investigators discovered that there were no clear prove of any significant process relating to the performance of

[3] Advising managers and consulting the company's activities.
[4] For example: finance and strategy committees have higher contemporaneous stock returns and return on investment

the that contract. These have damaged the investors' confidence due the absence of an accurate information and balance in Linear Corporation Berhad's top management powers.

There was a significant need for the existence of independent directors to ensure the safeguarding of the shareholder's interest. In the second case, Tee (2010) reveals that Axis Incorporation Berhad, a PN17 firm has been found to have their delivery orders, check butts, and purchases lost, all of which had created huge write-offs. This situation had raised several questions concerning who the contract manufacturers were and how they could have taken all that huge amount of money amounting to RM100 million.

The Code of Corporate Governance in Malaysia was established following the 1997- 1998 financial crisis. The Code stresses the importance of risk management and internal controls. The high finance committee was structured in the middle of 1998 to establish a corporate governance framework to build best practices for business sector (Cheah and Lee, 2009). The establishments of the Malaysian Code of Corporate Governance in March 2002 by the Malaysian Security Commission have led to the release of the requirements for listing companies by Bursa Malaysia Security Berhad, followed by the revised Malaysian Code of Corporate Governance (MCCG) in 2007 (Cheah and Lee, 2009).

The MCCG requires every listed company to appoint independent directors on their board. The aim is to satisfy the requirements of listing firms on the main market of Bursa Malaysia as

expressed in paragraph 15.02, to have no less than two independent directors on their boards or not less than one third of the board should independent directors among the board of directors. In spite of all the important effort done by the Malaysian regulators announcing the significance of independent director's existence on the board in promoting well established corporate governance and assisting the nominating of independent boards, many listed firms still did not appoint adequate independent directors to board following the requirement made by Malaysian regulators, MCCG (2007).

Asian countries have different practices in corporate governance. Some of their appointments on independent director are mixed; some are lacking; some are required and endorsed. The observation of the firms listed on Thailand Stock Exchange directed by Pricewaterhouse management consultant (limited in the year of 1998) uncovered that the fifteen percent of the firms observed and accepted the inclusion of independent directors on the board, creating great value on their companies and providing a good example (Nikobarirak, 2001). Japan, which restricts the obligation of independent directors, has brought in a large number of firms to nominate independent directors after the amendments of the Commercial Code, though the independent director's appointment is not commonly practiced as predicted by the regulators due to the internal management nomination where the independent directors are appointed within the management (Saito, 2009). In China, there are few companies that practice the appointment of independent directors of listed companies (Ho and Xu, 2002).

In Malaysia, a confirmation led by 30 main board public listed companies on Bursa Malaysia for the year of 2009 Malaysia which framed the benchmark of Federal Territory Stock Exchange (FTSE) revealed that at least 50% of independent directors sat on board of Malaysian largest firms. 18 out 30 or 65% have shown that half of the directors are independent directors (Yeah, 2009). A study carried out in Melbourne based on corporate governance consultancy and institutional investigations in the highest 100 Australian firms ranked by market capitalization for the year of 2000 find that the boards consisted of 22% of non-independent directors; the other 78% were represented by independent directors (Baxy, Ramsay and Stapledon, 2002). In the United States, the normal board size is 10 where each company must have at least 10 memberships on the board of directors and each of the10, there must 8 independent directors (Solomon, 2007).

Independent directors may not be fully free from the management and skillful enough to help the firm in an efficient decision making even though in countries like Malaysia where the majority of the listed firms have practiced and fulfilled the main market listing requirements of having one third of independent director on their board of directors (Chong,2009). Basically, independent directors are hard to be independent from the management, but most of the time they are found to be associated with management and fail to offer the important qualities anticipated to fulfill on their board duties. As confirmed by Tan Sri Ramon Navaratnam, Malaysia might have a large number of independent directors, but that does not necessarily mean that they are fully independent directors who can represent the quality of independent director's nature. There is no

evidence of whether some directors on the board are still being independent directors (The Edge Malaysia, 2009).

1.9 OWNERSHIP

As stated by La-Porta, Lopez and Shleifer (1999), Malaysian firms are highly concentrated. Ownership is highly concentrated in its owners. In addition, the owners are also the executives of the company (Cheach and Chu, 2004). Thillainathan (1999) concurs that there is a concentration of ownership in Malaysia. However, Cheach et al. (2004) finds that this large shareholder structure frequently permits cross possessions and pyramid structure to exit and controls different firms without high budgetary expenses. In the Malaysian viewpoint, shareholding in Malaysian public listed companies (PLCs) is focused by different structures: family, state, and generally held by financial institutions and corporations, foreign corporations and obviously block holder and managerial ownership. As stated by Thillainathan (1999), 85% of the PLCs had holder chiefs in that the posts of the CEO, Board Chairman or Vice Chairman were either a part of the regulating family or a worker drawn from the positions of the regulating shareholders.

2.7 DEPENDENT VARIABLE

This current study employs one dependent variable which is the percentage of independent directors. Since this dependent variable is regularly used in prior studies (such as in Chouchene, I., 2010), it is considered as an acceptable variable to be employed in examining the elements that

influence the independent director's existence on the board of directors for listed companies on Bursa Malaysia.

2.7.1 Percentage of independent directors

Nowadays, there is a considerable amount of interest and demand for the independent director's existence on the board of directors in companies. For instance, the proportion of independent directors in American firm's board has increased from 66% in ten years prior to 78% in 2000 (the Economist, 2001). This indicates that the existence of independent directors is an important factor for the effectiveness of the board when the board is completely independent from the management. Numerous American firms are actively looking for independent directors to be included in their board of directors to assist the company to be competent in providing better disclosure (The Economist, 1997).

Another study finds that most of the directors in Britain companies want to have more percentage of independent directors on their company boardrooms. The Hampel committee in Britain has announced pressure in the interim report on the governance of British companies with the aim of the board safeguarding the wealth of shareholders and not just making the managers accountable for increasing earnings growth that could only make the companies increase the shareholder's wealth. In order to increase the earnings growth companies need to be reformed (The Economist, 1997).

The government of South Korea is also willing to raise the proportion of independent directors present on their companies' boards so that their corporate governance can be effective and applicable. The government has passed a law demanding that large firms must have a minimum of one quarter of independent directors on the board. Since the independent directors are from outside, and do not have any specific relationship as it has to be, then it is less possible for them to be influenced by the management.

A company must select the right person to manage it. Recently, the institutional investors and academicians in the US and UK have been recommending companies to raise the number of independent directors on the board. To offset the conflicting interest of shareholders with interest of directors the independent directors must contribute more to the success of the firm. The majority of independent directors must comprise the mechanism of the high performing board. If there are 10 or 11 members of independent directors, then 8 of them should be independent directors without inside directors. This meeting would permit the board to discuss many sensitive issues about the company objectively (Neuschel, 2001).

Many studies have been carried out to examine the relationship between independent directors and firm performance. Most of the studies find that there are positive significant association between firm performance and independent director's presence. Ghosh and Sirmans (2003) propose that one significant component intended to decrease the agency conflict is independent director's existence on the board. Both theoretical and empirical investigations additionally

proposed that independent directors on the board of directors play a significant role in controlling, over sighting and disciplining top management, and thus, that in increasing firm performance.

The monitoring managerial opportunism becomes more efficient with a higher percentage of independent directors. There have been various studies that conducted and analyzed the relationship between firm performance and independent directors. It is doubtful that the general position of the independent director is to control the senior management. Laing and Weir (1999) indicate that board consisting of a majority of independent directors does not improve the company's performance as contrasted to non-independent directors dominating the board. There is no proof that indicates increasing independent director's representation on the board of the directors positively correlates to firm performance. This result is also supported by other empirical studies. Fosberg (1989) acknowledges that there is no relationship between the percentage of independent directors and the different variables used to measure management performance (return on equity, average return on equity, sales).

Bhagat and Balck (2000) likewise confirm that firms experiencing low profitability have an increasing proportion of independent directors on the board. In Malaysia, Abdullah (2004), and Othman (2003), discover a negative relationship between firm performance and board independence. Utilizing data from 1994 to 1996, Abdullah (2004) notes that CEO duality, board independence, either separately or jointly; does not affect the performance of the firm. In

addition, Othman (2003) discovered a negative correlation between the proportion of independent directors and return on asset (ROA) but it is not a significant relationship.

Schellenger, Wood, and Tashakori (1989) however, found that there is a direct and positive association between corporate financial performance and independent director's existence on the board of directors. Their investigations show that the independent director's existence on the board improves the firm performance. Hutchinson (2002) finds that a higher proportion of independent directors on the board of high growth companies are related to the companies' higher performance based on the accounting rate of return on equity measure.

Taub (2004), and Uzun, Szewczyk and Varma (2004) discovered that a higher proportion of independent directors in corporate board is associated with lower probability of corporate fraud. Chen and Jaggi (2000) similarly find a positive relationship between the proportion of independent directors on the board and completeness of financial disclosures. They in fact believe that independent directors on the board are important to observe the board's activities and enhance the disclosure of corporate boards. Bonn (2004) conducts a study on board structure and firm performance and shows that the proportion of independent directors on corporate board is positively correlated with firm performance. The study recommends that independent director's existence on the board of directors can efficiently monitor and impact the entire management of the company. Rosenstein and Wyatt (1990) have also argued that firm's value increases if more independent directors were added to the board. Baysinger and Butler (1985) agree with these

findings as they prove that firm's performance increases if more independent directors were appointed.

The purpose of having a board independent from the management of effective controlling management has usually been widely discussed in corporate literature. Most studies done with this area find that board with the independent directors present can have a positive influence on corporate governance (Solomon, 2007). However, the question which has to be answered is this: Does the percentage of independent directors make sense for the firm? Prior studies have different views as to whether the percentages of directors, which are independent have a positive or negative impact of the company's performance.

Various numbers of theories have been utilized as part of clarifying the relationship between the performance of company and corporate governance. The most usable and recognized theory is agency theory which originates from the thesis conducted in 1932 by Berle & Means entitled *The Modern Corporation and Private Property*. The agency theory finds that leadership relationship as an agreement among the agents (directors) and owners (shareholders) (Tricker, 2009). The directors of a company may not behave solely in the interest of the shareholders and may have self-interest on their own by way of leading the company which could weaken shareholder's wealth (Paul, Friday & Godwin, 2011). It is contended that boards are more efficient when the majority of the boards of directors are independent directors protecting the shareholder's interest of wealth maximization which will enhance the performance of the firm.

Panasian, Christine, Prevost, Andrew and Bhabra (2008) find that the board composition of the top 300 Canadian firms with a higher percentage of independent directors present on their board have a positive relationship with firm performance of these firms. More importantly, they suggest that increasing the percentage of independent directors on the board will give companies incentives, especially for the companies that have agency problems.

Pearce II and Zahra (as in Ezzamel and Watson, 2005) also state in their report that boards with a higher proportion of independent directors are linked with excellent financial performance than boards which have a minimum number of independent directors. Similarly, Ma and Tian (2009) obtain proof that showing that the proportion of independent directors has a significant positive association with firm performance. Goo and Carver (2003) agree that better corporate governance improves company's performance and additionally proposed that the board of directors should include a sufficient proportion of independent directors since they are capable of making decisions and judgments on their duties where there is no huge conflict of interest.

The global investor opinion survey of corporate governance done by Mckinsey (2002) report that global investors want to expense and pay approximately 22% premium for stock of firms with better corporate governance implementations which should mostly contain independent directors as this has been proven to attract a large number of of investors. The report, however

did not give any suggestion as to whether firms with a higher percentage of directors, which are independently present in their boards are better in terms of their performance.

Such suggestions on the benefits of independent directors are also supported in various studies. Khan and Owen (2012), who conducted studies of a sample of 91 companies listed in Karachi Stock Exchange for the year of 2010, conclude that the higher number of independent directors present in, the board provides better performance on the firms investigated in the forms of return on assets, return on equity and Tobin's Q. In addition, (as cited in Kiel and Nicholson, 2003) Lawrence and Stapledon (Year) discovered just distributed non-robust association between the proportion of independent directors on the board and an extent of performance measures. There is however only a small positive relationship that exists between board independence and financial performance.

However, there is evidence that proposes that directors, which are independent have a negative influence on firm performance. Conversely to agency theory, the stewardship theory embraces. In contrast to agency theory, the stewardship theory embraces more optimistic perspective of human (Paual et al. 2011). In addition, the stewardship theory accepts that directors may not act on behalf of the shareholder's interest, but for their own interest maximization (Tricker, 2009). This implies that inside directors are better than directors, which are independent as they will abide by the governance and legal obligations to protect the shareholder's wealth which will ultimately improve the performance of the organization. Nikomborirak (2001) additionally asserts that

independent directors may not have good information about the organization since they do not have a good relationship in terms of management and are not familiar with the management. Since they rely only on inside directors and management information, their decision may not help the company. So far, it is rare that empirical evidence finds a negative association between firm performance and proportion of independent directors present in the board of directors.

Agrawal and Knoeber (as referred to in Solomon, 2007) have also discovered consistent proof that there is a negative correlation between the structure of independent directors and financial performance of a company. Even though they state that independent directors are usually nominated when the firms turn to perform poorly to enhance the firm's exaction, they did not agree with the prediction that a higher proportion of independent directors enhance the financial performance of the company. Mohd Saat et al. (2011) also find that there is a significant negative association between the existence of proportion of independent directors and firm performance.

Despite all the previous studies, there are additionally stream of studies that has neglected to indicate the relationship between the proportion of independent directors and firm performance. Bhagat and Black (2000) conducted a study using data from a database of 934 large US firms for the year 1991 and find that there is no proof that a higher proportion of independent directors present in the board of directors will enhance or decrease the firm performance. Similarly, Ponnu (2008) on a study using 100 non-financial firms in Malaysia showed that there is no significant association between the proportion of independent directors present in the board of directors and

firm performance. Paul et al. (2011) conducting a study consisting sample of 38 firms in Nigeria during the year of 2009, find that there is no significant relationship between firm performance and the proportion of independent directors on the board. They further add that there is no prove that organization can enhance their performance by increasing the number of independent directors on the board. Skawa, Watanabel and Ben-Zion (2009) using a sample consisting of 522 manufacturing firms listed on the Tokyo Stock Exchange between the years of 1991 to 1995, discovered that there is no significant association between independent directors and firm performance.

Essentially, the insignificant negative association between the proportion of independent directors on the board and firm performance is also discovered in most prior studies in the United States of America and Australia. (Bext et al., 2002).

Yet, there is an argument among the researchers regarding the issue of whether the existence of a higher proportion of independent directors could make a difference in corporate performance and well established decision making that will prove the entire company's wellbeing. However, Dalton, Daily, Ellstrand and Johnson (1998) discovered that there is no correlation between firm performance and board structure where Hermalin and Weisbach (2003) have concluded their investigation that the higher proportion of independent directors have no correlation with the firm's performance, but have a correlation with the quality of decision making on CEO replacement, CEO compensation plans, potential takeover and responses to hostile. On the other

hand, the study conducted by Kiel and Nicholson (2003) for a sample of 348 Australian large public listed firms assessed the association between firm performance and board demographics which is discovered that there is a positive association between the proportion of non-independent directors (managers and other directors) and the market based measure of firm performance.

Similarly, Shakir (2008) conducted a study consisting of 81 listed companies (property) in Bursa Malaysia; discover that there is a positive association between the proportion of independent directors and firm performance measured by Tobin's Q.

Prior studies have different views and perspective regarding the number of independent directors on the board and firm corporate performance relationship. However, most of the recent studies find that the larger proportion of independent directors present in the board of directors has a positive influence on the firm performance of the Malaysian companies.

2.8 INDEPENDENT VARIABLES

The independent variables examine in thus study are, coalition control, institutional investors, level of debt, CEO duality, CEO tenure and company size.

2.9 DETERMINANTS OF INDEPENDENT DIRECTORS AND DEVELOPMENT OF HYPOTHESES

There are few studies which mainly studying American firms that have concentrated on the impact of independent directors to the part of management by the board. These investigations have affirmed the significance of the existence of independent directors by both when considering over the effect on the firm value (Cotter & Silvester (2003); Rosenstein and Wyatt (1990); Pearce & Zahara (1992); and Baysinger & Buttler (1985)). When analyzing the effect in place which the interest of higher management and shareholders are in disagreement as the official compensation, thus, the independent director's existence might permit the board to fulfill its part of control with proficiency. Taking into account the structure of the agency theory, a few studies investigated the existence of the independent directors. We propose in what takes to investigate these issues and then propose the hypotheses from these theories.

2.9.1 Institutional investors

The institutional investors regularly seen as an effective influencer can utilize their own voting power to support good corporate governance for the companies that they invested. These investors can influence the governance and lead to manage the company to keep the shareholder's wealth accordingly, or they can even change in the structure of leading, controlling and compensation systems (Gillan & Starks, 2003).

Smith (1996) contends that the institutional investor's effectiveness of the system can dramatically influence and give the coalition control to implement organizational modifications and added that the effectiveness of institutional investors in the organization can lead to biggest internal organizational modifications, for example the separation of the chairman and the CEO, appointment of specialized committee and mainly nomination of the independent directors on the board. Similarly, Bathala and Rao (1995) conducting a study on a sample of 261 U.S firms and finds that effectiveness of institutional investors in the organization has a positive impact on the independent director's presence. They further conclude that institutional investors influence the firms to increase the number of independent directors on the board.

Having unique skills and adequate information, institutional investors have advantages over other individual investors. Institutional investors also have good incentives and the power to force the management of the company to enhance the economic performance and to force the management to renounce from the self-interest behavior (Bushee, 1998; and Chung et. al., 2002). While institutional investors are alternative system to eliminate company's agency conflict, it also expected that the bigger the institutional investor's ratio is the smaller is the demand for companies to appoint independent directors.

A large number of authors (see O'Sullivan (2000); Bathala & Rao (1995), and Whidbee (1997) contend that there is a positive association between level of institutional investors and independent director's existence on the board of the firms investigated. Their findings indicate

that activism and effectively participating as institutional investors in an organization have significant positive impact on the independent director's existence on the board. Thus, it is hypothesized that:

H1: There is a positive association between institutional investors and independent director's existence on the board.

2.9.2 Coalition control

According to Charreaux and Pitol Belin (1987) the recommendations of nominating usually arises within the board of directors where the names of directors going to be nominated are then confirmed by the general meeting of shareholders. In this context, Le Maux (2004) suggest that the research conflict between the coalition control (economic actors) must be arranged not with the structure of the general meeting, but with the inside directors on the board, who are in the strategic position in terms of controlling and making decision. Le Maux (2004) further suggest a new archaeology of the firm control which considers the structure of the board and their ownership composition. Le Maux presumes that substantial shareholders and directors from the coalition control can entirely impact the decision making done mutually by the directors on the board.

Le Maux (2004) defines coalition control as all economic representatives who have the following attributes: Firstly, an access to all tools and systems for administration and control, with such this access not inconceivable for the outside members (shareholders and directors). Secondly, there is a wide amount of information related to the monitored firm. In fact the coalition control has a

better access to the information about the company than outside members of the company. To the knowledge of the present author, the only study which had investigated the effect of predominant shareholders represented on the board structure of the board is the study conducted by Cotter and Silvester (2003), with the majority of the studies examining the effect of ownership concentration, (measured by the proportion of the capital owned by the largest shareholders) on the representation of independent directors (Li, 1994; Prevost, Rao and Hossain, 2002).

Cotter and Silvester (2003) analyzing the determinants of independent directors of the board of directors and supervisory committee structured by it (compensation and audit committee) of large Australian firms suggest that when companies have coalition controls made up of large shareholders, there will be less percentage of independent directors. They also find that the representation of shareholders on the board is a significant element of board independence. However, the coalition controls' existence on the board has significant negative impact on the board of director's independence. In the Malaysian context the coalition control is considered as consisting of large shareholders represented on the board. Management can influence their power to the structure of making decisions and limit the practicing of supplementary control systems, for instance, the nomination of the independent directors on the board. Thus, this study proposes the following hypothesis:

H2: The capital held by the coalition control has a negative impact on the existence of independent directors' presence on the board.

2.9.3 Level of debt

The effect of the level of debt under the stream of agency theory plays a significant part in controlling agency conflicts. The determined nature of debt leads top administration to reduce their disagreement in interest and conflict concerning free cash flow of the firm and in their inspiration to participate in decisions that decrease the organization's value (Jensen, 1986). At this juncture, top management expends fewer profit and become more productive, to avoid the company from experiencing insolvency or losing control and their dignity. Thus, the level of debt has been found to decrease the agency conflict (Harris and Raviv, 1991).

According to Whited (1992), small companies cannot benefit themselves to long-term debt markets where their growth will be more than their collateral assets. Titman and Wessels (1988) stated that capital structure is easily accessible to larger companies. Morck et al. (1988) argue that managers from the more powerful (influential) firms may hold high equity for the same Tobin's Q. Additionally, Welch (2003) proposes that companies' influence lead to a measure of the controlling by lenders. This may lower the need for the other controlling granted by ownership concentration. Thus, agency theory foresees that board effectiveness would grow to the extent of leverage increases. On independent director's existence on the board and the level of debt, Li (1994) and Prevost et al. (2002) propose an inverse relationship between debt and independent director's presence. It is hypothesized therefore, that:

H3: *Leverage has a negative impact on the existence of independent directors*.

2.9.4 CEO duality

Separation of the Chief Executive officer and chairman of the board's duties appear to prefer a separate leadership structure. According to Coskan and Sayiar (2012) a CEO will be more powerful in maximizing his interest at the disbursement of the shareholders, if the CEO and chairman of the board is one and the same person, than would be more likely if other people were to control his own power. The separation of leadership composition is preferred in order to control the CEO impartially and efficiently. Nevertheless, the point when the same individual stands the twofold "control" of a Chairman of the board and CE, such that the Mastery of the board is generally proclaimed, the chairman is more inclined with the management objectives than the shareholders (Mak & Li, 2001).

According to Jensen (1993), the separation of the CEO and chairman power on the board may enhance controlling the board without independently. The authors added that making decisions and controlling the management to the board is intended to decrease the agency conflict. Usually the CEO has to launch and execute the strategic decisions where the directors of the board (including the chairman) function of approving and overseeing decisions taken by the top management. On the other hand, when the CEO is also the chairman of the board, he will secure a higher control of the board and manage the entrenchment of the company's management.

The separation of the position is therefore needed to maintain the balance of control and power of the two designations as well as to eliminate conflict of interest to be present. If the board does not

have a separation of the chairman and CEO, then the board will not able to effectively monitor and evaluate the CEO (Mary, 2005). Usually, when the CEO is the chairman at the same time, he is more likely to use his power to appoint any director of his favor.

O'Sullivan (2000) shows the existence of a prevailing identity when both powers are combined which creates higher power of the chief executive officer which would therefore debilitate control of the board. In addition, Sullivan finds that separation of CEO and chairman has a positive effect on the independent director's existence on the board. Similarly, the outcomes of Prevost Rao and Hossain (2002) demonstrate that based on a sample of listed companies in New Zealand, Chairman and CEO separation of the board or other management divisions has a positive impact on the independent director's existence on the board. Thus, this study proposes the fourth hypothesis as:

H4: *The separation of CEO and chairman of the board has a positive impact on the independent director's existence on the board.*

2.9.5 CEO tenure

From an agency theory perspective, a board of directors comprising of independent directors tends to be effective in making more exhaustive and significant evaluation of strategic decisions and administration conduct (Luo, 2007).

However, appointing more independent directors on board may help and enhance the monitoring of CEO, by ensuring that they embrace risky, but productive improvement activities. The boards which have a large proportion of independent directors present on their boards are heterogeneous in terms of experience, background and skills of their counterparts (Castro, De La Concha, Gravel and Perinan, 2009). Such boards convey a more extensive range of perspectives, improve strategic collection, and improve access information and resources; it creates a greater variety of interpretations of the environment and produces a greater range of decision making and strategic plans (Kim, Burns and Prescott, 2009).

All of this does not only give the independent directors the ability to effectively report strategic implementation and give guidance and counsel to CEOs, but it also improves CEOs' power in getting insight into specific strategic opportunities in the environment and in gathering and arranging resources effectively. Osman (2008) reported that independent directors have sufficient technical skills and knowledge to fulfill his duties. Few investigations have utilized the CEO term as a substitute degree of the CEO power, dictating and command of the board. Bathala & Rao (1995) and Prevost et al. (2002) applied the theory of the impact of the CEO's tenure on independent director's existence on the board. They find that there is a highly significant negative association between the ratio of independent directors and CEO tenure, based on US companies. It is hypothesized that:

H6: *CEO's tenure has a negative impact on the proportions of independent directors on the board.*

2.9.6 Company size

Company size has long been accepted in corporate governance studies as a control variable that affects many different relationships. This study utilizes the natural logarithm of total assets as a proxy for the company size (as in Chen, (2001), Barnhart et al. (1998) and Hermalin et al. (1991). It has been found that, the larger the size of the firm, the more impetuses there would be for improving systems for controlling agency conflicts, through the utilization of independent directors or other systems of control according to the agency theory. Himmelberg, Hubbard and Palia (1999) propose that larger companies suffer higher monitoring and agency costs of conflict. However, larger companies are able to turn to employ high skillful managers, who could eventually become rich. This shows a greater level of managerial ownership.

Large firms can also have the potential for large economies of scale and scope (Bonn, 2004). Lehn et al. (2003) show that the size of the company is directly linked to the size of the company size, and directed to the proxy for growth opportunities. They further contend that the size of the company and growth are significant factors of the size and composition of the boards. Therefore the company size has an influence on the independent director's existence on the board. In addition, O'sullivan (2000); Prevost et al. (2002); Whdbee (1997); Bathala and Rao (1995); and Li (1994) all find a positive association between the size of the firm and independent director's presence. Thus, the results from these previous studies are used to test the next hypothesis.

H7: *There is a positive correlation between the proportion of independent directors and company's size.*

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

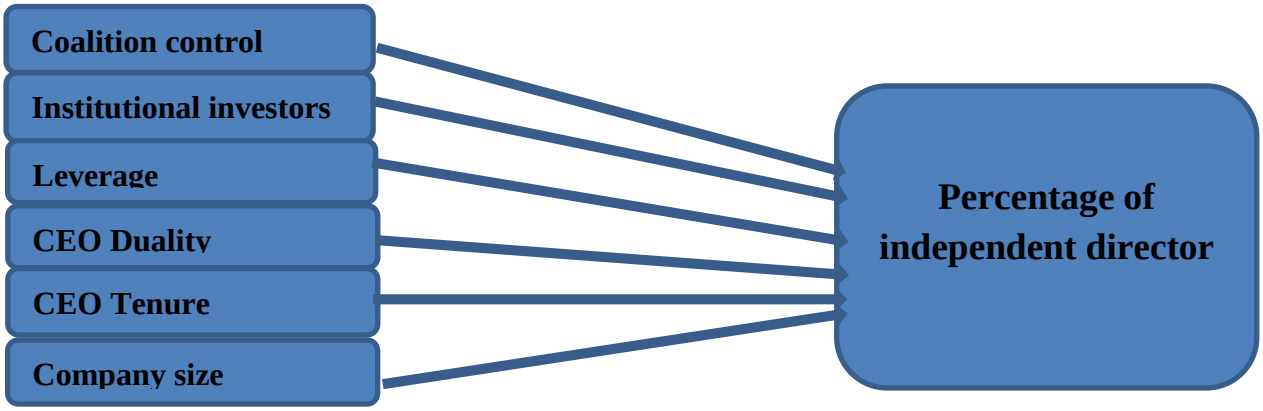
3.1 INTRODUCTION

Chapter three discusses the data and their collection process which is used in this study. This chapter deliberates the methods employed in this study in order to get the result of the elements influence the independent director's existence on the board of directors. In general, this study was led by the below theoretical framework to understand more about the independent variables and dependent variable and as well as their relationship.

3.2 THEORITICAL FRAMEWORK

The theoretical framework of this research paper is shown in Figure 2.1. The study suggests that the coalition, institutional investors, leverage, CEO duality, CEO tenure, and company size will influence the proportion of independent directors present on the board. In addition, the study also tests whether the interaction between the independent variables will have an influence the proportion of the independent directors on the board.

Figure 3.1.



3.3 HYPOTHESES

H1: There is a positive association between institutional investors and independent director's existence on the board.

H2: The capital held by the coalition control has a negative impact on the existence of independent directors present on the board.

H3: The leverage has a negative impact on the existence of independent directors.

H4: The separation of CEO and chairman of the board has a positive impact on the independent director's existence on the board.

H5: CEO's tenure has a negative impact on the proportions of independent directors on the board.

H6: There is a positive correlation between the proportion of independent directors and company's size.

3.4 RESEARCH DESIGN

This research paper is designed to investigate the relationship among the independent variables and the dependent variable. More specifically, it is how independent variables can influence the dependent variable; thus, this study will explore the relationship between the proportion of independent directors (dependent variable) on the board of directors and coalition control, institutional investors, leverage, CEO tenure, company size and duality (Independent variables). In this research paper, certain significant relationship between independent and dependent variables are discussed.

3.5 DATA COLLECTION

Secondary data were employed in this study. Secondary data is categorized as data that are obtained by other person which is not only for the needs of a study but also for other objectives. It related to the statistical material which is not originated by the researcher himself, but collected from someone else's report, which also can be a primary data that utilized for any other objective at some subsequent inquiry. The data of this research were collected from the annual reports of 71 companies for the years of 2007, 2008 and 2009 which were retrieved from Bursa Malaysia (Malaysia Stock Exchange) website[5]. The data collected from the annual reports were the proportion of independent directors on the board, coalition control (the highest inside director's

[5] http://www.bursamalaysia.com/market/

shares of the board of directors), institutional investors (the percentage of institutional investors listed in the annual report)[6], the level of debt, CEO tenure, CEO duality, and company size.

3.6 SAMPLING FRAME

The sample frame of this study contained the list of the sample utilized in this study. The sample consists of firms listed under the main market of Bursa Malaysia. There are main boards, the secondary board and MESDAQ (recently called ACE Market). The main market is where this study is being retrieved. The main market is where larger firms are listed which mostly high technology and growth firms. The firms on the main market Board and the Secondary Board had together called main market. The sizes of stocks listed on main market are larger than the stock listed on the ACE market. In addition, this study employed a sample of top 200 companies based on market capitalization listed on bursa Malaysia in 2007-2009. In order to get the final sample and accurate sample of this study, there were some requirements and criteria were set to filter the sample by excluding below companies:

1. The companies which have been subjected to merger and acquisition duration of the study period.
2. The insurance and banking firms are excluded the study due to the specific rules.
3. Utility companies and government link companies (GLC) were also excluded from this study due to the government support and subsidiary.
4. Companies that their data are not available and companies which their annual reports are not available from the year 2003 to 2012.
5. Companies which are under the PN17 on Bursa Malaysia are also excluded from this sample.

[6] This institutions are listed the annual report specifically among 30 largest shareholders

After filtering the sample in 2007 only 22 companies out of 200 has met the requirements above, 2008 there were only 24 companies out of the 200 has fulfilled the requirements and finally in 2009 there were only 25 companies which has fully met the requirements. Therefore, the final sample found was only 71 companies out of the top 200 companies listed on the main market of Bursa Malaysia in 2007-2009. The smaller size of the sample is due the market capitalization where the highest market capitalization companies did not meet the requirements set on this and the most companies turn to be finance sector or GLC companies which are excluded from the sample criteria. Thus, this sample is consistent with past studies, Chouchene, I., (2010) which tested only 79 companies listed on the French stock exchange.

3.7 VARIABLES AND MEASUREMENT

To measure any type of relationship, there must be types of variable that usually examined. These are the dependent variables and independent variables. Basically, the dependent variable depends on the independent variables, more specifically; it means the independent variable influences the dependent variable. Thus, the list and the types of the all variables (dependent and independent) employed in this study are as follows:

3.7.1 DEPENDENT VARIABLE

The dependent variable used in this research paper is the proportion of independent directors, which is retrieved from the annual reports of listed companies in Bursa Malaysia four years of 2007 to 2009. This variable is being used for a number of studies, such as, Cotter, J., & Silvester, M., 2003; Chouchene, I., 2010 and Lee, L. P. (2013). It measured by the percentage of

independent directors present on the board of directors. The proportion is being done by the total of directors divided by the number of independent directors.

Table 3.1 Dependent variable.

Variable	Acronym
Percentage of Independent Directors	PINDEP

3.7.2 INDEPENDENT VARIABLES

The independent variables of this study are Coalition control, institutional investors, debt, CEO tenure, company size and CEO duality. All these seven variables were discussed and mentioned in the literature review as these variables influence the independent director's percentages which are existence on the board of directors. These independent variables are employed in various studies to evaluate how independent directors are appointed with in board of directors. Since the existence of independent directors is measured in percentage, similarly the institutional investors are also measured as percentage. However, the following independent variables are commonly used many studies, such as, (Rahid Ameer, Fairuz Ramli & Husein Zakaria, 2010; Cotter, J., & Silvester, M., 2003; Chouchene, I., 2010; Bhagat & Black, 2000; Jackling and Johl, 2009). Thus, the independent directors used for this study are as follows:

Table 3.2 Independent variables.

Variable	Acronym
Coalition Control	COALITION
Institutional Investors	INSTIT
Leverage	LEV
CEO Tenure	TENURE
Company Size	LOG SIZE
CEO Duality	DUALITY

Dependent variable

Dependent variable	Definition	Measurement
The percentage of independent directors **(PINDEP)**	The number independent directors on the board of the total number of directors on the board	Total number of independent directors on the board x 100 Total number of directors on the board. (Rahid Ameer, Fairuz Ramli & Husein Zakaria, 2010).

T**able 3.3 Independent variables**

Independent variables	**Definition**	**Measurement**
Coalition **(COALITION)**	It is measured with the part of capital represent by the coalition of control.	Inside directors highest shares in the company. (Cotter, J., & Silvester, M., 2003).
Institutional investors **(INSTIT)**	It is measured by the percentage of capital represent by institutional investors.	The proportion of the 30 largest shareholders list held by institutional investors. (Chouchene, I., 2010).
Leverage **(LEV)**	It is measured by the ratio between the total financial debt and shareholder's equity.	Total liability/shareholder's equity. (Chouchene, I., 2010).
Tenure **(TENURE)**	It is measured by the length of time the CEO has held that position.	By the year appointed the CEO (Chouchene, I., 2010).
Duality **(DUALITY)**	It is measured by a dichotomous variable that takes the value 1, if there is separation between the functions of CEO and chairman of the board and 0 otherwise.	By a dichotomous variable that takes the value 1, if there is separation between the functions of CEO and chairman of the board and 0 otherwise. (Chouchene, I., 2010).
Log size **(LOG SIZE)**	It is measured by the logarithm of the total consolidated assets of the company. (ratio of total liabilities to total assets)	Log (Total assets) (Bhagat & Black, 2000)

3.8 DATA ANALYSIS AND USAGE

There are three types of analysis examined in this research paper which are: Descriptive analysis, ordinary least squares (OLS) regression model and as well as correlation analysis. Therefore, this study used to analyze the data which is collected in utilizing IBM SPSS statistics 2.0.

3.8.1 DESCRIPTIVE ANALYSIS

Descriptive analysis used in order to produce a descriptive statistical analysis. In other words, descriptive statistics are also used when a study is to summarize the sample to describe the main elements of the data collected. In addition, in this study descriptive statistics summarized and described the data collected for all the firms sampled in the Main Market.

3.8.2 ORDINARY LEAST SQUARE (OLS) REGRESSION MODEL

Ordinary least squares (OLS) is used in this study to examine element that influence the proportion of independent directors on the board of directors, which mainly focused on the proportion of independent directors, OLS tests the simultaneous effects of numerous independent variables on the dependent variables that interval scale. Furthermore, OLS also can explain the correlation between dependent variable and independent variables.

REGRESSION MODEL1

PIND=a0+aCOALITION+a2INSTIT+a3LEV+a4TENURE+a5DUALITY+a6LOGSIZ + ε

Where:

PINDEP=	Percentage of independent directors
a=	Constant number for the equation
COALITION=	Coalition Control
INSTIT=	Institutional investors
LEV=	Leverage
TENURE=	CEO tenure
DUALITY=	CEO duality
LOGSIZE=	Company size
ε =	Error term

3.8 CORRELATION ANALYSIS

Correlation analysis is utilized to better describe how the model suits the data. Correlation analysis determines the significant correlation and how solid independent variables influence dependent variable. However, for this study correlation indicated the significant correlation and more importantly, how strong, Coalition Control, Institutional investors, Leverage, CEO tenure, Company size and CEO duality influence the proportion of independent directors present on the board of directors.

3.9 CHAPTER SUMMARY

In summary, this chapter three discussed all the methodologies used in this study. It consists of the theoretical framework which indicated the research design in explored the relationship between the percentage of independent directors, Coalition control, Institutional investors, Leverage, CEO tenure, Company size and CEO duality. This chapter also includes the sources of the data that is being collected from the annual reports of companies listed the Main Market on Bursa Malaysia. The tables are shown the dependent and independent variables following the definition and measurement of all variables. Therefore, this chapter discusses the analysis employed in this study, which are the descriptive statistics, the Ordinary Least Square (OLS) and the correlation analysis

CHAPTER FOUR

4.0 RESUTLTS AND DISCUSSIONS

4.1 INTRODUTION

Chapter four discusses the findings of data collected; they were arranged, calculated and regressed employing the SPSS 2.0 which is the statistical package for social sciences. Chapter 4 however, consisting of the data collected and the discussion of the output from the SPSS. The discussion is arranged into four categories

Firstly, the descriptive analyses of the results are discussed by each year and then summarized it by in combination of all the three different years' together and comparing year and as well as past studies.[7] Secondly, the correlations of dependent and independent variables are discussed year to year where each variable will be looked individually by its relationship with other variable. Mainly the discussion will focus on the correlation between the independent and dependent variables. Thirdly, the results of the multiple linear regressions (MLR) are elaborated comparing year by year to see how independent variables can influence the amount of independent directors, which is present in the board of directors following the combination of the three years together to see how the independent variables significantly or insignificantly affect the proportion of independent directors on the board. Lastly, the hypotheses, we set of previous chapters were also discussed in this chapter 4 based on the results obtained from the SPSS whether the hypothesis has been accepted or rejected after they been tested.

[7] The years selected for this study are, 2007, 2008 and 2009 respectively.

4.2 DECRIPTIVE RESULTS

Table 4.1 Descriptive Statistics for 2007 Data.

Variables	Mean	Std. Deviation
PINDEP	.400	.115
Institutional	.607	.211
Coalition	.250	.292
Leverage	.827	.769
Tenure	7.831	7.089
LogSize	7.192	1.284
Duality	.141	.350

PINDEP: Percentage of independent directors on the board

Table 4.1 shows the mean and standard deviation of each variable for the year of 2007; however, the result indicated the year 2007 the average of independent directors on the board of Malaysian listed companies on Bursa Malaysia for a sample of 71 companies is 40%.

The standard deviation ranged to 11.5%. The average proportion of capital represents by institutional investors is 60.7% where the standard deviation reaches to 21.1% for the year of 2007. The average of years that CEO holds the position is 8 years on average. Finally the result complements on past studies.

Table 4.2. Descriptive Statistics for 2008 Data.

Variables	Mean	Std. Deviation
PINDEP	.424	.131
Institutional	.611	.217
Coalition	.285	.400
Leverage	.793	.645
Tenure	8.817	7.102
LogSize	7.061	1.491
Duality	.155	.364

PINDEP: Percentage of independent directors on the board

The above mentioned table 4.2 is the descriptive statistics for the year 2008. As shown the table the table the average proportion of independent directors on the board over the year of 2008 is respectively 42.4%, which indicates that there is a good number of independent directors on Malaysian listed companies comparing to many other studies done by overseas for example, Chouchene, I. (2010), which measured the existence of independent directors on the board of directors on 79 listed French firms which is found that there are only 28.7% of independent directors and standard deviation of 11% for the French listed companies. It's also found that the standard deviation of independent directors of this study is 13.1%. The average percentage capital held by institutional investors (INSTIT) is reaches to 61%, which shows that it increase compared to the year of 2007.

Table 4.3 Descriptive Statistics for 2009 Data.

Variables	Mean	Std. Deviation
PINDEP	0.425	0.116
Institutional	0.611	0.224
Coalition	0.26	0.316
Leverage	0.779	0.711
Tenure	9.775	7.148
LogSize	7.163	1.307
Duality	0.169	0.377

PINDEP: Percentage of independent directors on the board

The above Table 4.3 illustrates, in 2009 the average proportion of independent directors (PINDEP) on the selected company's board of directors is 42.5% and a standard deviation ranged to 11.6%. This shows that each year after the appointment of independent directors is increasing after another year.

However, the existence of independent directors is an important factor as many studies have found. The average percentage of capital represents by institutional investors (INSTIT) is 61.1% with standard deviation ranged 22.4%. CEO term (TENURE) has an average standard deviation of 7.148 and a mean of 9.77.

Table 4.4 Descriptive Statistics for the Pool Data.

Variables	Mean	Std. Deviation
PINDEP	.416	.121
Institutional	.610	.216
Coalition	.265	.338
Leverage	.800	.707
Tenure	8.808	7.124
LogSize	7.139	1.358
Duality	.155	.363

PINDEP: Percentage of independent directors on the board

Table 4.4 shows that the result of years 2007, 2008, and 2009. The result indicated that the average proportion of independent directors (PINDEP) on the board of directors of selected firms is 41.6%, which in fact gives a good implication that Malaysian firms has more independent directors on their board of directors comparing what other studies done by outside Malaysia found, for instance, the study done by Chouchene, I., (2010), found that the average board of directors of French listed companies varies 28.1% to 29.1%. The percentage capital represented by institutional investors (INSTIT) has a mean of 61% with a standard deviation of 21.6%. CEO term (TENURE) has a mean of 8.8 with a standard deviation of 7.124.

Table 4.5 Descriptive statistics of the variable PINDEP**.**

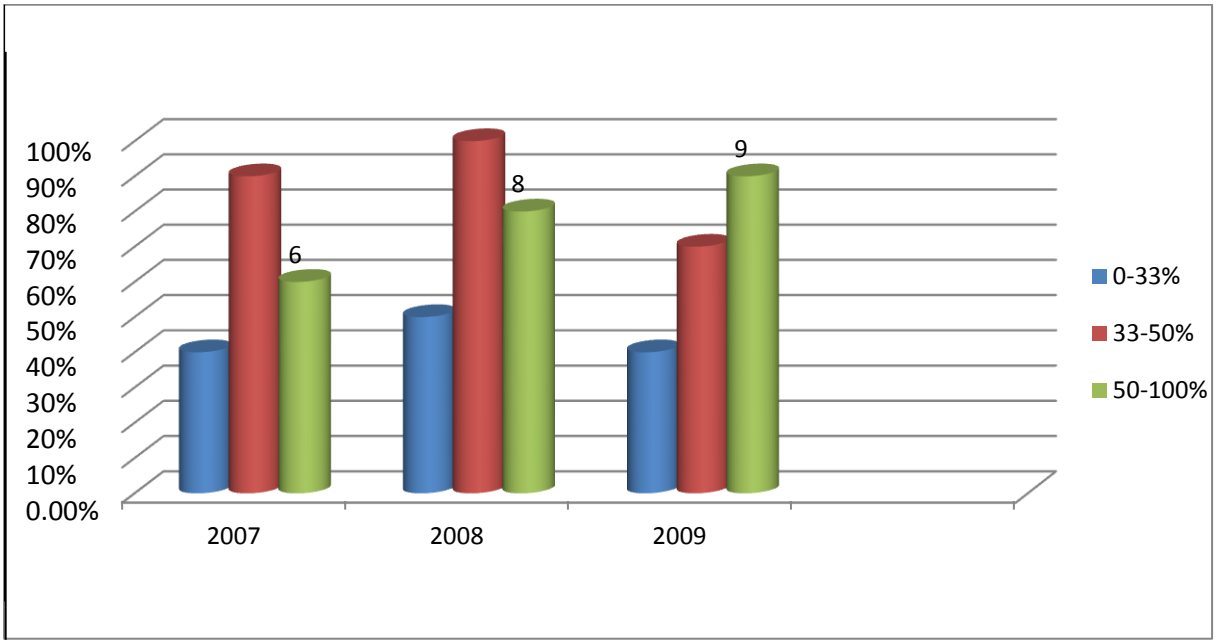
Year	**Minimum**	**Maximum**	**Mean**	**Standard deviation**
2007	.17	.8	.40	.116
2008	.09	.8	.42	.122
2009	.17	.75	.42	.115

PINDEP: Percentage of independent directors on the board

The analysis of variations in the proportion of independent directors as shown in above mentioned table 4.5, it shows that the boards of Malaysian companies are progressively independent from the management. In fact, the average increased from 40% to 42% between the years of 2007 to 2009. However, the minimum proportion of independent directors present in the board of selected companies are 17%, 9%, 17%, for the years of 2007,2008, and 2009 respectively. The maximum independent directors present in board of directors in this study area, 80%, 80%, and 75% for the years of 2007, 2008, and 2009 respectively.

Cotter, J., & Silvester, M. (2003) found in a sample of 109 firms evaluated, that the board of Australian companies is on average has 51% where the minimum is 0 and maximum is 90%. Another study investigated the factors of corporate ownership and board structure on Singapore stock exchange listed companies done by Mark, Y. T., & Li, Y. (2001) found the average proportion of independent directors on the board at 57% and a standard deviation of 21% where the minimum proportion of independent directors is 10% and the maximum ranges to 100%.

Figure 4.1 Independence on Malaysian Malaysian board from 2007 to 2009.



As shown figure 4.1 the percentage of independent directors on the sample increasing 40% to 42% between the years 2007, 2008 and 2009 respectively. Moreover, the overview of the results indicated that the average proportions of independent directors are above the lowest suggested the report of Vienot ÌÌ. The report recommended the existence a minimum of 33% of independent directors on the board. In order to categorize the proportion, we developed some classifications.

Firstly, the board of firms which their proportion of independent directors is below 33% is considered as non-independent. Secondly, between 33%, 50% is reflected as independent and lastly, more than 50% are measured as to be very independent. Thus, the analysis of this study over the period of 2007 to 2009 indicates that Malaysian firms incline to appoint a large number of independent directors as shown figure 4.1. The proportion of boards of directors measured independent and very independent rose over the time of the study. These outcomes can convey an

overview on the awareness by the firms in the interest of the implementation of standard involving to corporate governance.

4.3 CORRELATION RESULTS

Correlation matrix will shows how strong or weak the independent variables are correlated.

Table 4.6: Correlation matrix used in Model 1 (2007).

Variables	INSTIT	CAOLI	LEV	TENU	LOGS	DUAL
INSTIT	1					
COALITION	-.011**	1				
LEV	.012**	-0.163	1			
TENURE	.064*	0.214	-.030*	1		
LOGSIZE	-0.332	0.208	-.077*	0.151	1	
DUALITY	.058*	-.028**	-.059*	0.188	0.154	1

Note: ***, **, * significant at 1%, 5% and 10% respectively.

Table 4.6 explains the correlations of the independent variables. The institutional investors have a positive significance correlation with the level of debt at 0.012, CEO tenure 0.06 and CEO duality 0.58.

It also has significant negative relationship with the coalition control at -0.011 and CEO duality -0.028. Where level of debt, CEO tenure and company size have not shown any significant correlation with coalition control.

Level of debt has a negative correlation with other independent variables were, CEO Tenure is -0.030, company size -0.077 and CEO duality -0.59 respectively. Lastly, the result shows insignificance relationship with CEO tenure, company size and CEO duality.

Table 4.7: Correlation matrix used in Model 1 (2008).

Variables	INSTIT	COALI	LEV	TENU	LOGS	DUAL
INSTIT	1					
COALITION	-0.012**	1				
LEV	-.015**	-0.194	1			
TENURE	.058*	.094*	-0.136	1		
LOGSIZE	-0.311	.073*	-.036*	0.165	1	
DUALITY	.019**	-.081*	-.038**	0.144	.013**	1

Note: ***, **, * significant at 1%, 5% and 10% respectively.

Table 4.7 illustrates the correlations of independent variables for the year of 2008. The result indicated the determinant of institutional investors have significant negative relationship with coalition control, the level of debt and company size at -0.011, -0.015 and -0.036 respectively, where the CEO duality and CEO tenure has a positive significant relationship with the institutional investors at 0.058 and 0.019. Moreover, coalition control has a significant positive correlation with CEO tenure and company size at 0.094 and 0.073 where CEO duality has a significantly a negative correlation with the coalition control which is almost -0.081.

The level of debt has a significant negative association with company size and CEO duality at -0.036 and -0.038. The other independent variables have not shown any significant relationship with the CEO tenure. Company size has a significant positive association with CEO duality at 0.013.

Table 4.8: Correlation matrix used in Model 1 (2009)..

Variables	INSTIT	COALI	LEV	TENU	LOGS	DUAL
INSTIT	1					
COALITION	-0.011**	1				
LEV	0.007***	-0.126	1			
TENURE	0.076*	0.298	-0.181	1		
LOGSIZE	-0.298	0.06*	-0.094*	0.151	1	
DUALITY	0.013**	0***	0.018**	0.099*	0.194	1

Note: ***, **, * significant at 1%, 5% and 10% respectively.

Table 4.8 shows the correlations of independent variables for the year of 2009. Institutional investors have significant positive correlation with the level of debt and CEO duality at 0.007 and 0.013 respectively, where coalition control shown to have a significant negative relationship with institutional investors at -0.011. Coalition strong positive correlation with the CEO duality at 0.00 at the 1 % level of significant as the company size also showed to have significant positive correlations with the coalition control.

The level of debt it has only significant positive correlation with the CEO duality at 0.018 where company size has significant negative correlation with the level of the debt at -0.094 with CEO duality at 0.099.

4.4 REGRESSION RESULTS

Table 4.9 Regression Result

Explanatory Variables	2007			2008			2009		
	Beta	t-value	p-value	Beta	t-value	p-value	Beta	t-value	p-value
(Constant)	0.50	3.84	.000	.461	3.594	.001	.510	4.320	000
INSTIT	0.00	-0.02	.984	.051	.669	.506	-.027	-.434	.665
COALITION	-0.01	-1.73	.011**	-.012	-1.97	.014**	-0.016	-1.93	.010***
LEV	0.02	1.09	.280	.024	1.011	.316	.042	2.320	.010***
TENURE	0.00	0.13	.900	.002	.790	.432	.003	1.471	.070*
LOGSIZE	0.00	0.05	.961	.005	.423	.674	.008	.771	.443
DUALITY	-0.04	-0.83	.410	.081	1.871	.030**	.000	.010	.992
R^2		0.434			0.393			0.431	
R2 adjusted		0.375			0.349			0.370	
F		0.024			0.013			0.025	

\ Note: ***, **, * significant at 1%, 5% and 10% respectively. PINDEP: Percentage of independent directors on the board.

The above-mentioned table 4.9 illustrates the findings of the regression analysis. For comparing variables in different time of years, since the study period was three years of time this table indicates the three year comparison to understand how the independent variables influence the dependent variable in each year. Starting from the year of 2007, the only significant determinants that explain the existence of independent directors on the board is coalition control (COALITION) with the coefficient beta of -0.01, t-value of -1.73, p-value of 0.011 with 1% significance level. Moreover, the other variables have not shown any significant sign for that

specific year, but there are four independent variables (INSTIT, LEV, TENURE, and LOGSIZE) that have a weak positive relationship with dependent variable (PINDEP) where there is also two independent variable (CAOALITION and DUALITY) have a negative relationship with the dependent variable (PINDEP). The R square is very low it only showed that the independent variables can explain the dependent variable in 43.4% which is an average amount. Adjusted R Square is -37.5% and F Statistics is 0.024 for the year of 2007 which have both given a reasonable amount.

Based on the table 4.9, of regression results, specifically for the year 2008, the study found that there are five independent variable (INSTIT, LEV,TENURE, LOGSIZE, DUALITY) which are positively correlated with the dependent variable (PINDEP) were one independent variable (COALITION) is negatively correlated with the dependent variable (PINDEP). The result only found significant for one determinant significant for the year 2007, the (CAOALITON CONTROL) but did not find the other variables significant determinants.

As the result indicated previous year of 2007, at the same time the result found for the year 2008 that there are significant negative relationship between the coalition controlling (COALITION) and proportion of independent directors present on the board (PINDEP) as coalition control has the coefficient Beta ranged -0.012, t-value -1.97, p-value 0.014. Coalition control is found that its strong element of the existence of independent directors on the board but it influences negatively. The prior studies support this finding, such as (Li 1994; Prevost,Rao and Hossain 2002; and

Chouchene, I., (2010). Similarly, CEO duality (DUALITY) has also shown a significant element of independent director's existence on the board. However, it also impacts positively with proportion of independent directors on the board (PINDEP) with Coefficient Beta of 0.081, T Value 1.871 and P Value of 0.030 where P Value is less than 0.05.

Based on the table 4.9 the result of the regression analysis for the year 2009 showed that there are four independent variables (LEV, TENURE, LOGSIZE, DUALITY) which are positively correlated with the dependent variable (PINDEP) where two of the independent variables (INSTIT, COALITION) signified negative correlation with the dependent variable (PINDEP). According the result of last two years (2007 and 2009) the results seem different due the nature of the data and the improvement of corporate structure after 2008 global financial crises. In 2009 the result indicated three independent variables (COALITION CONTROL, LEV, and TENURE) which are significantly influence the existence of independent directors on the board.

The coalition control has a significant negative impact on the existence of independent directors on the board at the coefficient beta of -0.016, t-value -1.93 and p-value of 0.010. It explains that the more coalition controls the less independent directors on the board. if the inside shareholdings are greater there is no need for an independent directors on the board and this result complements with the past studies.

The level of debt has a significant positive relationship with the independent director's existence with a coefficient Beta of 0.042, t-value 2.320 and p-value of 0.010 where p-value is less than 0.05 (5%) this shows that the companies are more possibilities to employ independent directors when they incur higher levels of debt and as the debt rise the proportion of independent directors existence on the board increases.

In addition, the CEO tenure also indicated as significant element of independent director's existence on the boards of Malaysian listed firms. CEO tenure has a significant positive relationship with the proportion of independent directors on the board with a Coefficient Beta of 0.003, t-value of 1.471 and p-value of 0.070 where the p-value is less than 0.10 (10%). This shows that the as CEO holds the position there more likely higher number of independent directors on the board.

Table 4.10: Regression result for for Pool Data**.**

Explanatory Variables	**Beta**	**t-value**	**p-value**
(Constant)	0.50	7.06	0.00
INSTIT	0.00	0.02	0.98
COALITION	-0.04	-2.89	0.01***
LEV	0.03	2.40	0.01***
TENURE	0.00	1.46	0.07*
LOGSIZE	0.00	0.52	0.60
DUALITY	0.02	0.77	0.44
R^2		0.41	
R2 adjusted		0.37	
F		0.024	

Note: ***, **, * significant at 1%, 5% and 10% respectively.

As shown table 4.10, among the six independent variables five of them are positively correlated with dependent variable where one of them has a negative relationship with the dependent variable. The institutional investors (INSTIT), level of debt (LEV), CEO tenure (TENURE), company size (LOGSIZE) and CEO duality (DUALITY) have positive relationship with the proportion of independent directors on the board (PINDEP), where coalition control (COALITION) has negative associations with proportion of independent directors on the board.

On the other hand, among the six independent variables three of them are found significant relationships with the proportion of independent directors on the board (PINDEP). The result showed that the level of debt (LEV) and CEO tenure (TENURE) have a positive impact on the proportion of independent directors on the board (PINDEP), where the coalition controlling

(COALITION) has negative influence on the proportion of independent directors present on the board of directors.

As shown Table 4.0, we see at the institutional investors (INSTIT) where the value of the correlation is positive, but it has a weak relationship with the proportion of independent directors on the board (PINDEP). It shows that the more Institutional investors, the more demand of higher number of independent directors to be present on the board, but the percentage is very low since they have a weak relationship which is not significant. Therefore, the result compliments with Bathala and Rao (1995) which have done a study sampled 261 U.S firms indicated that the activism of institutional investors has a positive influence on the existence of independent directors.

Coalition control (COALITION) has significant negative impact on the existence of independent directors on the boards at the coefficient beta of -0.04, t-value -2.89 and p-value of 0.012 which is less than 5% significant level. That shows as the coalition control increases the proportion of independent directors present on the board decreases or vice versa. The coalition has negative influence on the independent director's existence on the board as found the past studies. In addition, according to Cotter and Silvester (2003) analyzed the determinants of the independent directors of the board of directors and supervisory committee structured by it (the compensation and audit committee) of large Australian firms. They suggested that the companies which the coalition controls are the large shareholders then there is less percentage of independent directors.

The result also complements the study conducted by Chouchene, I. (2010). The negative influence comes from the ownership structure where in coaliton control stuation the inside directors and coalition controllings have higher percentage of ownership which neglects the independent director's presence on the board.

As the result indicated the level of debt (LEV) have a significant positive relationship with the independent director's existence on the board (PINDEP). The level of debt strongly impacts positively the existence of independent directors on the board, since investors oversee the company management structure before they invest such whether the board is independent of the management and to identify the proportion of independent directors on the board and to have disclosed information, as the debt has a positive relationship with a proportion of independent directors, the lenders (institutions) demands more independent directors. This means when the management wants to borrow funds from the institution they likely appoint more independent directors to enhance the board structure and management efficiency to lure the institutions (lenders) as well as the investors.

CEO tenure (TENURE) and present of independent directors on the board (PINDEP) have a significant positive relationship. The CEO tenure positively influences the independent director's presence, the longer CEO tenure means that the CEO is able to exercise power based on the argument from information asymmetry or CEO might have an indirect control of the board of director as set-out by Kumar, N., & Singh, J. P. (2012). Studies found in mixed results according

to the impact of CEO tenure and independent director's existence on the board. Bathala and Rao (1995) showed that there is a significant negative correlation between the ratio of independent directors and the CEO's term on a sample of US companies. Similarly, Chouchene, I. (2010) also found a negative relationship between CEO tenure and independent director's existence on the board. Thus, the result of this study has found a significant positive relationship.

As the result indicated the company size (LOGSIZE) have a positive relationship with the existence of independent directors on the board (PINDEP). The impact is very weak and low, but the company size implicates insignificant positive relation to the existence of independent directors on the board since the p-value is more than 0.10 (0.60>0.10). This means as the company size increases the proportion of independent directors on the board increases. However, past studies found, according to Bathala and Rao (1995); Li (1994); O'sullivan (2000), Prevost et al. (2002) and Whidbee (1997) examined the theory of the existence of a positive relationship between the size and proportion of independent directors on the board.

Based on Table 4.10 the result indicated that there is a weak positive relationship between CEO duality (DUALITY) and the percentage of independent directors on the board (PINDEP). As the coefficient Beta is 0.02, the t-value is 0.77 and the p-value reaches higher range 0.44 which is more than 0.01. This shows that there is only low impact where CEO duality does not seem any strong factor of the existence of independent directors.

However, the result of this study gives a similar outcome of past studies since the previous studies did not show any significant influence, but found there is a positive relationship this study yet worthwhile and in line with the past studies; O'sullivan (2000) found that the separation power of the chairman and the CEO has a positive effect on the existence of independent directors on the board. The results of Prevost Rao and Hossain (2002) demonstrate on a sample of listed companies in New Zealand that the separation of the CEO and Chairman of the board or other management functions has a positive impact on the existence of the independent directors.

Furthermore, according to Table 4.10 the value of R Square is 0.41 (41%), meaning that the independent variables (Coalition control, Institutional investors, Level of debt, CEO tenure, Company size and CEO duality) explains 41% of the variation in the proportion of independent directors present on board. The value of 41% showed an average amount of R Square according to the past studies. This is due to the R Square shows how much the variance in the independent variables explained by the model. In addition, the value of an Adjusted R Square is 0.37 (37%). This value shows that only 37% of the variation in the proportion of independent directors present on the board is explained by the independent variables which are (Coalition control, Institutional investors, Level of debt, CEO tenure, Company size and CEO duality). The value of R Square and Adjusted R Square is an average range compared to the period studies.

According to Chouchene, I., (2010) conducted study for a sample of 79 French companies listed on the "Determinants of the existence of independent directors on the French board of directors" for the years of 1999 to 2001 and found R Square of 0.443 and Adjusted R Square of 0.381 her

single model analysis of proportion of independent directors on the French board of directors. Thus, for though independent variables together explain 41% of the variance (R Square) in the proportion of independent directors on the board (PINDEP), which is highly significant, as indicated by an F value of 0.024 on the table.

To see whether the dependent variable is predictable or not, it is utilized the value of significant F which is 0.00. It is in the right line of the value limit for significant F. This is due to the significance level of F Statistics should be less than 0.05 to show that how the whole regression is meaningful. Moreover, the value of 0.024 is in an excellent position and acceptable.

On the other hand, the variable institutional investors (INSTIT) is not significant predictor as well as the company size (LOGSIZE), CEO duality (DUALITY), but the result found only significant coalition control (COALITION), level of debt (LEV), and CEO tenure (TENURE) significantly predicts PINDEP. F statistics is 0.024, $P<0.05$.

4.5 MULTICOLLINEARITY

Table 4.11 **Coefficients[a]**

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
INSTIT	.782	1.279
COALITION	.821	1.218
LEV	.960	1.042
TENURE	.890	1.123
LOGSIZE	.856	1.168
DUALITY	.889	1.124

Table 4.13 shows the tolerance and VIF values. The values of VIF indicate whether the independent variables have multicollinearity or not. Since the VIF values for independent variables are less than 4, multicollinearity problem does not exist between the independent variables.

4.6 ACCEPTANCE/REJECTION OF HYPOTHESES

H1*: There is a positive association between institutional investors and independent director's existence on the board.*

Based on Table 4.10, the study indicated a positive association between the institutional investors and the existence of independent directors, which is 0.00 and it showed an insignificant relationship between institutional investors and the existence of independent directors on the board as the P-value is 0.98.

H2*: The capital held by the coalition control has a negative impact on the existence of independent directors present on the board.*

Based on Table 4.10, the study found negative relationship between coalition control, and the existence of independent directors on the board which is -0.04 but it showed a significant relationship between coalition control and the existence of independent directors as the p-value is 0.012.

H3: *The leverage has a negative impact on the existence of independent directors*.

As shown Table 4.10, the study obtained positive association between the level of debt and the existence of independent directors on the board which is 0.03 and it showed a significant positive relationship between the leverage and the existence of independent directors on the board as p-value is 0.01.

H4: *The separation of CEO and chairman of the board has a positive impact on the independent director's existence on the board.*

Based on Table 4.10, the result showed a positive association between CEO duality and the existence of independent directors on the board which is 0.02 but it indicated an insignificant relationship between the CEO duality and the existence of independent directors on the board as the p-value is 0.44.

H5: *CEO's tenure has a negative impact on the proportions of independent directors on the board.*

As shown in Table 4.10, the study obtained positive association between the CEO tenure and the existence of independent directors on the board which is 0.00 and it indicated a significant

relationship between the CEO tenure and the existence of independent directors on the board as the p-value is 0.07.

H6: *There is a positive correlation between the proportion of independent directors and company's size.*

Based on Table 4.10, the study found a positive association between the company size and the existence of independent directors on the board which is 0.00 and it showed an insignificant relationship between the company size and the existence of independent directors on the board as p-value is 0.60.

4.7 CHAPTER SUMMARY

This chapter consists of the descriptive statistics for all the independent and dependent variables in this study, which is based on the 71 companies listed on the Bursa Malaysia Main Market. There are also results of the correlation matrix for each year and the combination of the three years (2007 to 2009) as a proportion of independent directors on the board is dependent variable. In addition, there is also regression analysis for percentage of independent directors is dependent variable comparing year by year and then the combination of the result overall. Lastly, this chapter discusses the acceptance and rejection of hypotheses.

CHAPTER FIVE

5.0 CONCLUSION

5.1 INTRODUCTION

Chapter five represents the findings with discussions and suggestions for the future research. This last chapter is arranged with the summary of general findings, future research recommendations and the conclusion.

5.2 SUMMARY OF GENERAL FINDINGS

This research analyzes the presence of independent directors on the boards of Malaysian listed companies on the main market of Bursa Malaysia. In addition, to examine what influences the independent director's existence on the boards of Malaysian listed companies, we examined some determinants such as, Coalition control, institutional investors, leverage, CEO tenure, company size and CEO duality.

Moreover, these variables were employed by this study on the bases of previous studies such as, Li (1994); O'sullivan (2000); Prevost,Rao and Hossain (2002); and Chouchene, I., (2010). The total number of companies in the sample was 71 companies listed on the main market of Bursa Malaysia for the years from 2007 to 2009. According to the results of this study it indicated that the average number of independent directors on the board is 41.6% for those three years. The result also indicated that the average number of directors on the board is 8 members. The average

of a CEO's tenure is 9 years for those three consecutive years. However, the institutional investors have a large proportion of those assessed companies which they nearly cover 62% of the share of the companies.

For the result of a regression analysis, the proportion of independent directors on the board as a dependent variable shows that board, institutional investors, company size, and CEO duality have a positive relationship with the independent director's existence on the board but no significant relationship. Coalition control has a strong significant negative relationship with the dependent variable. The findings of this result are in line with past studies, but slightly different in terms of the level of significance. The coalition control is new typology which has been added recently and it has shown in various studies that coalition controlling influences negatively the presence of independent directors on the board as the coalition control increase the presence of independent directors is likely decreases due to the highly participation of inside directors and investors in the management.

The leverage and CEO tenure are also found a significant positive element that influences the independent director's existence on the board. The leverage gives positive influence for independent directors on the board, when the board is more independent and there are more independent directors the company turn to have a higher level of debt.

5.3 CONCLUSION

In business milieus and academic literature, the significance of independent directors in improving the efficiency of controlling mechanism of the company has been the main discussion recently. The aim of this research paper is to analyze the elements determine the independent director's existence on the boards of Malaysian listed companies. However, the results showed that the coalition control is strongly influences negatively on independent director's existence on the board. Empirical tests indicated the level of debt is positively influencing by independent director's existence as the firms have more debt they are usually to appoint independent directors on their board. The result also showed CEO tenure as a positive element to determine the independent director's existence on the board.

In addition, the outcomes support the existence of strong conflict of interest among the executives and shareholders explicate the independent director's existence on the boards of Malaysian companies. The proportion of independent directors is more essential in large firms which have more diluted capital. The nomination of independent directors has also signaled to the request of debt providers and institutional investors. Nevertheless, the firms are much inclined to employ independent directors in order to lure the debt providers and institutional investors to invest in their companies and bring them into the confidence of their management reliability. In fact, this research paper has numerous suggestions for the theory and practice. Thus, analyzing the elements that determine the independent director's existence on the board will allow recognizing the underlying reasons behind their appointments on the board.

This study provides experience on the structure of the Malaysian firm's board. It demonstrates that nomination of independent directors is a strong system to monitor agency theory. Finally, the study gives a good understanding for regulators and policy makers interested in commanding the independent director's presence. In this study, the author has assessed the independence of the directors, according to the definition written by the report of, Button (2002) and few elements might be introduced as contorted the board independence, for instance, the association between the leaders is eliminated of this investigation. Lastly, corporate governance codes attempted to offer the characteristics of independent directors by exclusion which could prevent its independence. The independence is more than a moral value to be fulfilled by the director nominated by the shareholder to represent on behalf of them. The independent directors are more likely to appoint from various aspects in corporate, government literature, but as we have found in this study, coalition controlling, CEO tenure and leverage are significantly influencing the independent director's existence on the board.

5.4 CONTRIBUTIONS

This research is regarded as one of the rare studies conducted to investigate the elements determine the independent director's existence on the board. Specially, to our knowledge, there are no similar studies conducted on this topic, but there are few studies done by the independent directors' roles and contribution on the board of directors. However, the significance of this research paper comes from its motivation on the firms listed on Bursa Malaysia to examine what influences the independent director's existence on the board of directors.

Thus, apart from being the few studies conducted in this specific area, this study offers academic and practitioners with a clear view about the limits determine the independent director's existence on the board of directors of Malaysian listed companies.

5.5 RECOMMENDATION ON FUTURE RESEARCH

Due to the time limitation, the sample of this study concentrated on the companies listed on the main market of Bursa Malaysia.

1. The future research should try to analyze the elements determine the independent director's existence on the boards on larger samples of firms listed on Bursa Malaysia. This study analyzed a sample of 71 companies only for the period of three years 2007, 2008, and 2009.
2. It is recommended that in the future research to be a longitudinal study which carries out to see the effect of a time period on the elements determine the independent director's existence on the boards of Malaysia.
3. This study is observed an average explanatory power of the regression model. It could suggest that there were other relevant variables that are not added in the models.

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APPENDIX A
DESCRIPTIVE STATISTICS

APPENDIX A1

Descriptive Statistics (2007)

	Mean	Std. Deviation	N
PINDEP	.399585	.1154041	71
INSTIT	.607214	.2111561	71
COALITION	.250024794694	.2921970830739	71
LEV	.827143370155	.7687297139793	71
TENURE	7.83	7.089	71
LOGSIZE	7.192359939	1.2835947992	71
DUALITY	.14	.350	71

Descriptive Statistics (2008)

	Mean	Std. Deviation	N
PINDEP	.423789	.1306421	71
INSTIT	.610908	.2170536	71
COALITION	.284907887882	.3997297402354	71
LEV	.793497577872	.6447837627104	71
TENURE	8.82	7.102	71
LOGSIZE	7.061131606	1.4912123689	71
DUALITY	.15	.364	71

Descriptive Statistics (2009)

	Mean	Std. Deviation	N
PINDEP	.425444	.1157116	71
INSTIT	.610976	.2240534	71
COALITION	.259795420589	.3159927985146	71
LEV	.779234794939	.7105991178918	71
TENURE	9.77	7.148	71
LOGSIZE	7.163345914	1.3069519321	71
DUALITY	.17	.377	71

APPENDIX A2

Descriptive Statistics (Pool Data)

	Mean	Std. Deviation	N
PINDEP	.416273	.1208067	213
INSTIT	.609699	.2164638	213
COALITION	.264909367721	.3378413309553	213
LEV	.799958580989	.7067761886142	213
TENURE	8.81	7.124	213
LOGSIZE	7.138945820	1.3584752790	213
DUALITY	.15	.363	213

APPENDIX B

CORRELATIONS MATRIX

APPENDIX B1(2007)

		PINDEP	INSTIT	COALITION	LEV	TENURE	LOGSIZE	DUALITY
PINDEP	Pearson Correlation	1	-.023	-.012	.143	.027	.015	-.036
	Sig. (1-tailed)		.425	.469	.117	.411	.452	.382
	N	71	71	71	71	71	71	71
INSTIT	Pearson Correlation	-.023	1	-.011	.012	.064	-.332**	.058
	Sig. (1-tailed)	.425		.000	.460	.297	.002	.315
	N	71	71	71	71	71	71	71
COALITION	Pearson Correlation	-.012	-.011	1	-.163	.214*	.208*	-.028
	Sig. (1-tailed)	.469	.000		.087	.037	.041	.409
	N	71	71	71	71	71	71	71
LEV	Pearson Correlation	.143	.012	-.163	1	-.030	-.077	-.059
	Sig. (1-tailed)	.117	.460	.087		.401	.261	.311
	N	71	71	71	71	71	71	71
TENURE	Pearson Correlation	.027	.064	.214*	-.030	1	.151	.188
	Sig. (1-tailed)	.411	.297	.037	.401		.105	.058
	N	71	71	71	71	71	71	71
LOGSIZE	Pearson Correlation	.015	-.332**	.208*	-.077	.151	1	.154
	Sig. (1-tailed)	.452	.002	.041	.261	.105		.099
	N	71	71	71	71	71	71	71
DUALITY	Pearson Correlation	-.036	.058	-.028	-.059	.188	.154	1
	Sig. (1-tailed)	.382	.315	.409	.311	.058	.099	
	N	71	71	71	71	71	71	71

CORRELATION

APPENDIXB2 (2008)

		PINDEP	INSTIT	COALITION	LEV	TENURE	LOGSIZE	DUALITY
PINDEP	Pearson Correlation	1	0.089	-0.011	0.094	0.138	0.039	.309**
	Sig. (1-tailed)		0.23	0.239	0.219	0.125	0.372	0.004
	N	71	71	71	71	71	71	71
INSTIT	Pearson Correlation	0.089	1	-.012**	-0.015	0.058	-.311**	0.019
	Sig. (1-tailed)	0.23		0.003	0.45	0.316	0.004	0.438
	N	71	71	71	71	71	71	71
COALITION	Pearson Correlation	-0.011	-.012	1	-0.194	0.094	0.073	-0.081
	Sig. (1-tailed)	0.239	0.003		0.053	0.217	0.271	0.25
	N	71	71	71	71	71	71	71
LEV	Pearson Correlation	0.094	-0.015	-0.194	1	-0.136	-0.036	-0.038
	Sig. (1-tailed)	0.219	0.45	0.053		0.129	0.382	0.376
	N	71	71	71	71	71	71	71
TENURE	Pearson Correlation	0.138	0.058	0.094	-0.136	1	0.165	0.144
	Sig. (1-tailed)	0.125	0.316	0.217	0.129		0.084	0.116
	N	71	71	71	71	71	71	71
LOGSIZE	Pearson Correlation	0.039	-.311**	0.073	-0.036	0.165	1	0.013
	Sig. (1-tailed)	0.372	0.004	0.271	0.382	0.084		0.456
	N	71	71	71	71	71	71	71
DUALITY	Pearson Correlation	.309**	0.019	-0.081	-0.038	0.144	0.013	1
	Sig. (1-tailed)	0.004	0.438	0.25	0.376	0.116	0.456	
	N	71	71	71	71	71	71	71

CORRELATION

APPENDIX B3 (2009)

		PINDEP	INSTIT	COALITION	LEV	TENURE	LOGSIZE	DUALITY
PINDEP	Pearson Correlation	1	-.060	-.012	.258*	.126	.166	.145
	Sig. (1-tailed)		.311	.319	.015	.148	.083	.113
	N	71	71	71	71	71	71	71
INSTIT	Pearson Correlation	-.060	1	-.011	.007	.076	-.298**	.013
	Sig. (1-tailed)	.311		.007	.477	.263	.006	.456
	N	71	71	71	71	71	71	71
COALITION	Pearson Correlation	-.012	-.011	1	-.126	.298**	.060	.000
	Sig. (1-tailed)	.319	.007		.148	.006	.310	.499
	N	71	71	71	71	71	71	71
LEV	Pearson Correlation	.258*	.007	-.126	1	-.181	-.094	.018
	Sig. (1-tailed)	.015	.477	.148		.066	.218	.442
	N	71	71	71	71	71	71	71
TENURE	Pearson Correlation	.126	.076	.298**	-.181	1	.151	.099
	Sig. (1-tailed)	.148	.263	.006	.066		.104	.206
	N	71	71	71	71	71	71	71
LOGSIZE	Pearson Correlation	.166	-.298**	.060	-.094	.151	1	.194
	Sig. (1-tailed)	.083	.006	.310	.218	.104		.052
	N	71	71	71	71	71	71	71
DUALITY	Pearson Correlation	.145	.013	.000	.018	.099	.194	1
	Sig. (1-tailed)	.113	.456	.499	.442	.206	.052	
	N	71	71	71	71	71	71	71

CORRELATION

APPENDIX B4 (POOL DATA)

		PINDEP	INSTIT	COALITION	LEV	TENURE	LOGSIZE	DUALITY
PINDEP	Pearson Correlation	1	0.006	-.010	.159*	0.107	0.068	.150*
	Sig. (1-tailed)		0.464	0.245	0.01	0.059	0.163	0.014
	N	213	213	213	213	213	213	213
INS TIT	Pearson Correlation	0.006	1	-.011	0.002	0.067	-.312**	0.029
	Sig. (1-tailed)	0.464		0	0.49	0.166	0	0.335
	N	213	213	213	213	213	213	213
COALITION	Pearson Correlation	-.010	-.011	1	-.159*	.191**	0.104	-0.039
	Sig. (1-tailed)	0.245	0		0.01	0.003	0.066	0.284
	N	213	213	213	213	213	213	213
LEV	Pearson Correlation	.159*	0.002	-.159*	1	-.115*	-0.068	-0.027
	Sig. (1-tailed)	0.01	0.49	0.01		0.047	0.162	0.348
	N	213	213	213	213	213	213	213
TENURE	Pearson Correlation	0.107	0.067	.191**	-.115*	1	.154*	.145*
	Sig. (1-tailed)	0.059	0.166	0.003	0.047		0.012	0.017
	N	213	213	213	213	213	213	213
LOGSIZE	Pearson Correlation	0.068	-.312**	0.104	-0.068	.154*	1	.115*
	Sig. (1-tailed)	0.163	0	0.066	0.162	0.012		0.047
	N	213	213	213	213	213	213	213
DUALITY	Pearson Correlation	.150*	0.029	-0.039	-0.027	.145*	.115*	1
	Sig. (1-tailed)	0.014	0.335	0.284	0.348	0.017	0.047	
	N	213	213	213	213	213	213	213

APPENDIX C

REGRESSION (2007)

APPENDIX C1

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	INSTIT, COALITION, LEV, LOGSIZE, TENURE, DUALITY,	.	Enter

a. All requested variables entered.

b. Dependent Variable: PINDEP

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.285[a]	.434	-.375	.1166117

a. Predictors: (Constant), Institutional, Coalition, Leverage, LogSize, Tenure, Duality

b. Dependent Variable: PINDEP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.076	7	.011	.024	.595[a]
	Residual	.857	63	.014		
	Total	.932	70			

a. Predictors: (Constant), INSTIT ,COALITION, LEV, LOGSIZE, TENURE, DUALITY

b. Dependent Variable: PINDEP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	0.496	0.129		3.837	0		
	INSTIT	-0.002	0.077	-0.003	-0.02	0.984	0.738	1.355
	COALITION	-0.011	0.055	0.018	-1.73	0.011	0.759	1.317
	LEV	0.02	0.019	0.134	1.089	0.28	0.96	1.041
	TENURE	0	0.002	0.016	0.126	0.9	0.873	1.146
	LOGSIZE	0.001	0.012	0.006	0.049	0.961	0.832	1.202
	DUALITY	-0.036	0.043	-0.108	-0.829	0.41	0.859	1.164

a. Dependent Variable: PINDEP

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions						
				(Constant)	INSTIT	COALITION	LEV	TENURE	LOGSIZE	DUALITY
1	1	5.647	1	0	0	0.01	0.01	0.01	0	0
	2	0.868	2.55	0	0	0	0.02	0.01	0	0.77
	3	0.654	2.939	0	0.01	0.42	0.17	0.04	0	0.01
	4	0.362	3.948	0	0.02	0.27	0.53	0.2	0	0.07
	5	0.341	4.069	0	0.01	0.01	0.22	0.7	0	0.03
	6	0.076	8.614	0	0.65	0.26	0.01	0.02	0.06	0
	7	0.008	26.204	0.98	0.3	0.03	0.03	0.01	0.72	0

a. Dependent Variable: PINDEP

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.317228	.464801	.399585	.0328582	71
Residual	-.2472435	.3641930	.0000000	.1106275	71
Std. Predicted Value	-2.506	1.985	.000	1.000	71
Std. Residual	-2.120	3.123	.000	.949	71

a. Dependent Variable: PINDEP

APPENDIX C2
REGRESSION (2008)

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	INSTIT, COALITION, LEV, LOGSIZE, TENURE, DUALITY,	.	Enter

a. All requested variables entered.

b. Dependent Variable: PINDEP

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.430[a]	.393	.349	.1242983

a. Predictors: (Constant), INSTIT,COALITION,LEV,LOGSIZE,TENURE,LOGSIZE,TENURE, DUALITY

b. Dependent Variable: PINDEP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.221	7	.032	2.047	.063[a]
	Residual	.973	63	.015		
	Total	1.195	70			

a. Predictors: (Constant), INSTIT,COALITION,LEV,LOGSIZE,TENURE,LOGSIZE,TENURE, DUALITY

b. Dependent Variable: PINDEP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	0.496	0.129		3.837	0		
	INSTIT	-0.002	0.077	-0.003	-0.02	0.984	0.738	1.355
	COALITION	-0.011	0.055	0.018	-1.73	0.011	0.759	1.317
	LEV	0.02	0.019	0.134	1.089	0.28	0.96	1.041
	TENURE	0	0.002	0.016	0.126	0.9	0.873	1.146
	LOGSIZE	0.001	0.012	0.006	0.049	0.961	0.832	1.202
	DUALITY	-0.036	0.043	-0.108	-0.829	0.41	0.859	1.164

a. Dependent Variable: PINDE

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions						
				(Constant)	INSTIT	COALITION	LEV	TENURE	LOGSIZE	DUALITY
1	1	5.653	1	0	0	0.01	0.01	0.01	0	0
	2	0.862	2.561	0	0	0.08	0	0	0	0
	3	0.693	2.855	0	0	0.52	0.1	0.01	0	0.075
	4	0.392	3.799	0	0	0.16	0.32	0.44	0	0.07
	5	0.256	4.703	0	0.04	0.01	0.5	0.5	0	0.08
	6	0.093	7.782	0	0.57	0.12	0.03	0	0.1	0
	7	0.01	23.819	0.99	0.33	0.1	0.03	0	0.55	0.05

a. Dependent Variable: PINDEP

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.317228	.464801	.399585	.0328582	71
Residual	-.2472435	.3641930	.0000000	.1106275	71
Std. Predicted Value	-2.506	1.985	.000	1.000	71
Std. Residual	-2.120	3.123	.000	.949	71

a. Dependent Variable: PINDEP

APPENDIX C3
REGRESSION (2009)

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	INSTIT, COALITION, LEV, LOGSIZE, TENURE, DUALITY,	.	Enter

a. All requested variables entered.

b. Dependent Variable: PINDEP

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.511[a]	.431	.370	.1048757

a. Predictors: (Constant), Duality, Coalition, Leverage, LogSize, Tenure, Institutional

b. Dependent Variable: PINDEP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.244	7	.035	.025	.006[a]
	Residual	.693	63	.011		
	Total	.937	70			

a. Predictors: (Constant), Duality, Coalition, Leverage, LogSize, Tenure, Institutional

b. Dependent Variable: PINDEP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	0.51	0.118		4.32	0		
	INSTIT	-0.027	0.063	-0.053	-0.434	0.665	0.788	1.269
	COALITION	-0.016	0.044	-0.1	-1.93	0.01	0.801	1.249
	LEV	0.042	0.018	0.258	2.32	0.024	0.946	1.057
	TENURE	0.003	0.002	0.175	1.471	0.146	0.827	1.21
	LOGSIZE	0.008	0.011	0.092	0.771	0.443	0.825	1.213
	DUALITY	0	0.035	0.001	0.01	0.992	0.884	1.131

a. Dependent Variable: PINDEP

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions						
				(Constant)	INSTIT	COALITION	LEV	TENURE	LOGSIZE	DUALITY
1	1	5.758	1	0	0	0.01	0.01	0.01	0	0.01
	2	0.813	2.662	0	0	0.01	0	0	0	0.85
	3	0.662	2.95	0	0.01	0.41	0.18	0.04	0	0
	4	0.399	3.798	0	0.02	0.3	0.53	0.08	0	0.01
	5	0.228	5.022	0	0.01	0.07	0.22	0.82	0	0.01
	6	0.091	7.948	0	0.67	0.15	0	0.01	0.07	0
	7	0.008	26.785	0.99	0.25	0.04	0.05	0.01	0.72	0

a. Dependent Variable: PINDEP

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	0.273565	0.592229	0.425444	0.059077	71
Residual	-0.26287	0.311711	0	0.099494	71
Std. Predicted Value	-2.571	2.823	0	1	71
Std. Residual	-2.506	2.972	0	0.949	71

a. Dependent Variable: PINDEP

APPENDIX C4
REGRESSION (POOL DATA)

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	Duality, Leverage, Institutional, Tenure, LogSize, Coalition	.	Enter

a. All requested variables entered.

b. Dependent Variable: PINDEP

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.368[a]	.41	.37	.1142136

a. Predictors: (Constant), INSTIT,COALITION,LEV,TENURE,LOGSIZE, DUALITY

b. Dependent Variable: PINDEP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.420	7	.060	.024	.000[a]
	Residual	2.674	205	.013		
	Total	3.094	212			

a. Predictors: (Constant), INSTIT,CAOLITION,LEV,TENURE,LOGSIZE, DUALITY

b. Dependent Variable: PINDEP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	0.5	0.071		7.056	0		
	INSTIT	0.001	0.041	0.002	0.021	0.984	0.782	1.279
	COALITION	-0.04	0.026	-0.059	-2.89	0.012	0.821	1.218
	LEV	0.027	0.011	0.159	2.404	0.017	0.96	1.042
	TENURE	0.002	0.001	0.101	1.461	0.146	0.89	1.123
	LOGSIZE	0.003	0.006	0.036	0.52	0.604	0.856	1.168
	DUALITY	0.018	0.023	0.053	0.774	0.44	0.889	1.124

a. Dependent Variable: PINDEP

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions						
				(Constant)	INSTIT	COALITION	LEV	TENURE	LOGSIZE	DUALITY
1	1	5.673	1	0	0	0.01	0.01	0.01	0	0
	2	0.843	2.595	0	0	0.02	0.01	0	0	0.82
	3	0.676	2.897	0	0.01	0.49	0.14	0.03	0	0.01
	4	0.389	3.82	0	0.01	0.26	0.46	0.25	0	0.05
	5	0.279	4.506	0	0.02	0	0.33	0.68	0	0.02
	6	0.088	8.008	0	0.63	0.16	0.01	0	0.08	0
	7	0.009	25.185	0.99	0.3	0.05	0.04	0.01	0.66	0.01

a. Dependent Variable: PINDEP

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.300066	.553122	.416273	.0444997	213
Residual	-.3120472	.3567866	.0000000	.1123122	213
Std. Predicted Value	-2.611	3.075	.000	1.000	213
Std. Residual	-2.732	3.124	.000	.983	213

a. Dependent Variable: PINDEP

APPENDIX D
LIST OF COMPANIES

No:	Name
1	AMTEK HOLDINGS BERHAD
2	APEX HEALTHCARE BERHAD
3	APOLLO FOOD HOLDINGS BERHAD
4	APP INDUSTRIES BERHAD
5	ASIA FILE CORPORATION BHD
6	BIOSIS GROUP BERHAD
7	BONIA CORPORATION BERHAD
8	CAB CAKARAN CORPORATION BERHAD
9	HING YIAP KNITTING INDUSTRIES BERHAD
10	JOHN MASTER INDUSTRIES BERHAD
11	ORIENTAL FOOD INDUSTRIES
12	PADIBERAS NASIONAL BERHAD
13	PAN MALAYSIA CORPORATION BERHAD
14	PANASONIC MANUFACTURING MALAYSIA BHD
15	PARAGON UNION BERHAD
16	PELIKAN INTERNATIONAL CORPORATION BERHAD
17	POH HUAT RESOURCES HOLDINGS BERHAD
18	POH KONG HOLDINGS BERHAD
19	PROLEXUS BERHAD
20	REX INDUSTRY BERHAD
21	SERN KOU RESOURCES BERHAD
22	SHH RESOURCES HOLDINGS BERHAD
23	SIN HENG CHAN (MALAYA) BERHAD
24	SPRITZER BERHAD
25	SYF RESOURCES BERHAD
26	TAFI INDUSTRIES BERHAD
27	TAKASO RESOURCES BERHAD
28	TAN CHONG MOTOR HOLDINGS BERHAD
29	TEO GUAN LEE CORPORATION BERHAD
30	TPC PLUS BERHAD
31	UPA CORPORATION BHD
32	XIAN LENG HOLDINGS BERHAD
33	YEE LEE CORPORATION BHD
34	YEN GLOBAL BERHAD
35	BRITISH AMERICAN TUBACO
36	CARLSBERG COMPANY
37	DUTCH LADY BERHAD
38	AMWAY (MALAYSIA)
39	NESTLE MALAYSIA BERHAD
40	QL RESOURCE BERHAD

41	UMW HOLDINGS BERHAD
42	ZHULIAN BERHAD
43	JT INTERNATIONAL BERHAD
44	CHOO BEE METALINDUSTRIES BERHAD
45	FRASER & NEAVE HOLDINGS BHD
46	ECO WORLD DEVELOPMENT GROUP BHD (ECW)
47	HUNZA PROPERTIES BERHA
48	IGB BERHAD
49	IJM LAND BERHAD (IJMLD)
50	IOI PROPERTY BERHAD
51	KUMPULAN EUROPLUS BHD (KEUR)
52	LIEN HOE CORP BERHAD (LHC)
53	KAWAN FOOD BERHAD
54	KBB RESOURCES BERHAD
56	KHEE SAN BERHAD
57	LEE SWEE KIAT GROUP BERHAD
58	FORMOSA PROSONIC INDUSTRIES
59	ENG KAH CORPORATIONS BERHAD
60	LATITUDE TREE HOLDING BERHAD
61	NAIM HOLDINGS BERHAD (NHB)
62	MALAYSIA PACIFIC CORPORATION BERHAD
63	IREKA CORPORATION BERHAD
64	PASDEC HOLDING BERHAD (PSD)
65	MAH SING GROUP BERHAD
66	PARAMOUNT CORPORATION BERHAD'S
67	MITHRIL BERHAD
68	PLENITUDE
69	SYMPHONY IIFE BERHAD (SYML)
70	TAHBS
71	YNH PROPERTY BHD