MODERATION EFFECT OF CEO CHOICE ON THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FAMILY FIRM PERFORMANCE

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ABSTRACT

Mandatory imposition of Malaysian Code of Corporate Governance (MCCG) since 31st December 2012 seems to be associated with serious endeavours done by the regulators and policy makers to enhance the stakeholder's value for public listed companies in Bursa Malaysia. Besides establishing the code that involved independent non-executive directors, the world's trend for choosing outsiders as CEOs becomes familiar amongst family controlled-firms (FCFs) in Malaysia. In terms of shareholder and stewardship theories, this latest trend frequently happens in FCF with opportunity for expropriation due to the highly persuasive cash flow rights. The failure of Minority Shareholder Watchdog Group's (MSWG) roles in establishing stakeholder theory motivates this study to investigate the moderation effects of CEO choice on corporate governance and FCF performance relationship by using ROA, EVA, and Tobin's Q with the application of signalling theory. FCF population for the financial year of 2010 and 2011 were consecutively rated accordingly using the MCCG index scores issued by MSWG in 2009. The study reveals that CEO choice has moderating positive effects towards the board of directors' structure and FCF's performance relationship that are significant to Tobin's Q model. After further analysis, it was found that the positive effect comes from insider CEOs. Inevitably, the transformation of negative magnitude seems to have a synergic impact which combining both CEOs of FCF as a new trend for its corporate value and investors' wealth. Eventually, the present study suggests the regulators and policy makers to reconsider specific governance codes for FCF in order to lessen the dominance of agency theory.

Keywords: Corporate governance, CEO choice moderator, MSWG, Family-Controlled Firm's performance.

ABSTRAK

Pengenaan mandatori Kod Tadbir Urus Korporat Malaysia sejak 31 Disember 2012 memperlihatkan keseriusan penggubal undang-undang dan pembuat dasar dalam meningkatkan nilai tambah pemegang taruh untuk syarikat senaraian awam. Selain pengukuhan kod ini terutamanya melibatkan pengarah bebas yang bukan eksekutif, terdapat juga kecenderungan untuk memilih orang luar sebagai Ketua Pegawai Eksekutif di beberapa buah negara di dunia. Hal ini semakin popular di firma yang bersifat ekspropriasi dalam kalangan firma milik keluarga di Malaysia. Hala tuju ini yang berpaksikan teori pemegang saham dan teori kebersamaan sememangnya berlaku kepada firma milik keluarga yang pemegang saham terbesarnya berupaya menghalalkan cara pengambilan aset syarikat yang merugikan pemilik saham minoriti. Kegagalan teori pemegang taruh yang dimainkan oleh Badan Pengawas Pemegang Saham Minoriti dalam mengimbangi ekspropriasi tersebut menjadi motivasi kajian ini. Ini terutamanya bagi menyiasat kesan moderator daripada pemilihan Ketua Pegawai Eksekutif terhadap hubungan di antara tadbir urus korporat dan prestasi firma milik keluarga yang menggunakan pengukuran 'ROA, EVA', dan 'Tobin's Q' melalui pengaplikasian teori isyarat. Populasi firma milik keluarga bagi tahun kewangan 2010 dan 2011 diukur berdasarkan penarafan indek Kod Tadbir Urus Korporat yang dikeluarkan oleh Badan Pengawas Saham Minoriti pada 2009. Kajian mendedahkan bahawa pemilihan Ketua Pegawai Eksekutif mengimbangi hubungan secara positif ke atas struktur ahli lembaga pengarah dan prestasi firma milik keluarga yang signifikan dengan model Tobin's Q sahaja. Dalam analisa tambahan, pemilihan Ketua Pegawai Eksekutif dalam kalangan orang dalam mempunyai kesan positif. Selain itu, transformasi hubungan langsung bersignifikan secara negatif di antara struktur ahli lembaga pengarah dan prestasi firma milik keluarga menjadi hubungan bersignifikan positif yang diimbangi dengan kehadiran pemilihan Ketua Pegawai Eksekutif sebagai moderator. Ini membuktikan gandingan kedua-dua Ketua Pegawai Eksekutif sebagai suatu trend terbaharu yang dapat mempertingkatkan lagi nilai korporat firma dan kekayaaan para pelabur firma milik keluarga. Penemuan kajian ini mencadangkan agar penggubal undang-undang dan pembuat dasar menimbangkan semula aspek Kod Tadbir Urus Korporat Malaysia yang lebih spesifik disebabkan kurangnya kesesuaian pengaplikasian teori agensi untuk firma milik keluarga.

Kata-kunci: Tadbir-urus korporat, pemilihan ketua pegawai eksekutif, badan pengawas pemegang saham minoriti, prestasi firma milik keluarga.

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LIST OF ABBREVIATIONS

Abbreviations	Full Conversion
ACE	Access Certainty Efficiency
AMOS	Analysis of Moment Structure
AOB	Audit Oversight Board
ASEAN	Association of South East Asia Nations
BMLR	Bursa Malaysia Listing Rules
BNM	Bank Negara Malaysia
BOD	Board of Directors
CACG	Commonwealth Association for Corporate Governance
CALPERS	California Public Employees’ Retirement System
CCM	Companies Commission of Malaysia
CD	Controlling Directors
CEO	Chief Executive Officer
CG	Corporate Governance
CIC	Capital Issues Committee
CS	Controlling Supervisors
EAT	Earnings after Tax
EBIT	Earnings before Interest and Tax
EPF	Employee Provident Fund
EPS	Earnings per Shares
ESOS	Employees’ Scheme of Shares

EVA	Economic Value Added
FCF	Family-Controlled Firm
FFP	Family Firms' Performance
FCCG	Finance Committee on Corporate Governance
FOREX	Foreign Exchange
GAAP	General Accepted Accounting Principles
GDP	Gross Domestic Product
GLC	Government Linked Companies
IBRD	International Bank for Reconstruction and Development
ICGN	International Corporate Governance Network
IMF	International Monetary Fund
INEDs	Independent Non-Executive Directors
KLSE	Kuala Lumpur Stock Exchange
MCCG	Malaysian Code of Corporate Governance
MCGT	Malaysia Corporate Governance and Transparency
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation
MICG	Malaysia Institute of Corporate Governance
MOF	Ministry of Finance
MSWG	Minority Shareholders Watchdog Group
MVA	Market Value Added
NEP	National Economic Plan
NGO	Non-Government Organisations

NUBS	Nottingham University Business School
OD	Outside Directors
OECD	Organisation for Economic Cooperation Development
OS	Outside Supervisors
PE	Price per Earnings
PLCs	Public Listed Companies
PM	Profit Margin
RAM	Rating Agency Malaysia Berhad
ROA	Return on Assets
RM	Ringgit Malaysia
ROE	Return on Equity
R&D	Research and Development
SCM	Securities Commission of Malaysia
SEM	Structural Equation Method
SES	Singapore Stock Exchange
SEW	Socio Emotional Wealth
SIA	Securities Industrial Act
SME	Small and Medium Enterprise
UiTM	Universiti Teknologi Mara
VBM	Value Base Management
WACC	Weighted Average Cost of Capital
WTO	World Trade Organisation
YPO	Young Presidents Organisation

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Corporate governance has become an important agenda for listed companies in any capital market worldwide. The importance can be seen through its evolution in several events. Bolton and Rosell (2002) identified the events due to corporate governance effects such as the worldwide wave of privatization of the past two decades, the pension fund reform and the growth of private savings, the takeover wave of the 1980s, the deregulation and integration of capital markets, the 1997 East Asia Crisis and the series of recent corporate scandals in the US and worldwide.

The cause of corporate governance effects comes from a stiff competition globally as well as rapid changes in technology due to technological advances (Yoshikawa & Phan, 2001). Nevertheless, Yoshikawa & Phan (2001) further claimed that price war among bigger firms especially public-listed firms requires technological advances in order to reduce transaction costs and the costs of information research, rendering global competition between capital markets and the evolution of corporate governance around the world.

Dynamically, public listed firms in a capital market rely on the evolution of corporate governance in order to be more competitive in its respective industry. Basically, public listed firms are governed by the law of a country. Internal governance structure starts with the board of directors (BOD) of the firm. They are selected by the nomination committee empowered by the shareholders, while the selected directors then appoint the management team headed by the chief executive officer (CEO), to run the overall operations of a firm (Company Act 1965).

Corporate governance comprises of four interacted parties that includes the shareholders, board of directors (BOD), chief executive officer (CEO), and stakeholders (Vladu & Matis, 2010). A good governance structure is one that selects the most able CEO as a manager who is accountable to investors (Tirole, 2001). A corporate governance issue appears when managers who are not closely monitored, pursue goals that are not in the shareholders' interest (Bertrand & Mullainathan, 2003). Ofek and Yermark (2000) reported that out of the 90% of a large sample of large public firms in the US, less than 5% of the shareholdings are owned by the CEOs that can create an agency problem because they bear much lesser financial costs, or have a tendency to pursue selfish goals. The liability CEOs are intended to choose adverse selection due to the advantages in *information asymmetry*.

However, Malaysia typifies the insider-dominated controller with concentrated-shareholdings (Abdul Rahman, 2006). In publicly family listed firms with concentrated and strong governance, *moral hazard* is the conflict that dominates the cause of failure, whilst *agency costs* is dominant as a cause of failure in public listed firms with diffuse (disperse) ownership and weaker governance (Desrochers & Fischer, 2002).

Specifically, in Asia, the prevalence of family ownership, government interference, relationship-based transactions and weak legal systems and law enforcement have resulted in agency problems such as large deviations between control and cash flow rights and a low degree of minority rights protection. For example, expropriation of firm's assets, Rohim and Abdul Rahman (2012, August 16) reported that despite the instability and uncertain global economy, a well-known Malaysian family's public listed firm, Genting Bhd has given the most lucrative remuneration of RM 117.69 million to the board of directors. Hence, common corporate governance mechanisms such as takeovers and new board of directors are not sufficient to relieve agency problems (Claessens, Djankov, Fan, & Lang, 2002b).

Despite having moral hazard problems, family firms have received upturned attention in the last few years due to its essential contribution in economic activity worldwide (Lin & Hu, 2007). Family firms that support the wealthy generation in most countries globally with almost all of the country's great corporations in Continental Europe, Asia and Latin America are in a handful of immensely wealthy families (Amran, 2011; Morck, 2005; La Porta et al., 1999; Claessens et al., 2000; Europe Corporate Governance Network, 2001; Faccio and Lang, 2002). Family businesses make up more than 60% of all European companies and a large number of them are small and medium enterprises (SMEs) with over 1 trillion euros in aggregate turnover (Austrian Institute for SME Research, 2008).

The World Bank (1999) studied on the sample of more than 50% of Bursa Malaysia market capitalization, corroborates that 62.2% shares are owned by families or even more with the exception of both institutional and foreign ownerships' firms, in which family business sector contributes half of the Malaysian Gross Domestic Product (GDP) (Ngui, 2002; Choe and Lee, 2003). However, they mostly have a low survival rate in less than two generations that lead to acquisitions by larger firms (Kets de Vires, 1993; Gilbert, 1989). Moreover, Morck, Percy, Tian, and Yeung (2004) discovered that large pyramidal corporate groups controlled by wealthy families or individuals are plagued by governance problems. The governance problems lead to under-investment in worthy projects as well as negative effects on the long-term economic growth. According to Morck et al. (2004), these effects are in excessive especially when there is automatic inheritance of corporate control by family heirs.

In Asia, this phenomenon was studied by several researchers (Filatotchev, Lien, & Piesse, 2005; LaPorta, Lopez-De-Silanes, & Shleifer, 1999) who discovered that family could still contribute high performance in Taiwan, Australia, Hong Kong, Singapore and China due to the reduce in value gaps with *socio-emotional wealth* (SEW) among family members. Amongst the well-known Asia family group companies are the Ayala family (Philippines), Li Ka-Shing (Hong Kong), and Kyuk Ho Shin (South Korea). In Malaysia, some of the prominent Malaysian family businessmen are Robert Kuok (Kuok Brothers) or more well-known as 'Sugar-King', Quek Leng Chan (Public Bank Group), Tuanku Abdullah Tuanku Abdul Rahman

(Melewar Group), Tan Sri Shamsuddin Abdul Kadir (Sapura Holdings Berhad), and T. Ananda Krishnan (Tanjong Berhad).

Remarkably, in the early millennium - lately, a switch in trend from having insider CEOs to choosing outsider CEOs (professional) is becoming more popular amongst family-controlled firms. In Bursa Malaysia, the phenomenon is indicated at 24% (Amran & Ahmad, 2010). The trend also occurs in several countries, such as Taiwan which is indicated at 47.74% in 2000 (Lin & Yu, 2007), whereas in UK and Germany the average percentage are at 34% and 32% respectively (Spenserstuart, 2009). The rationale for the trend is because they do not plan to employ someone from outside the family unless they have no option, such as the family members are not competent or the younger generation often being more highly educated, they lack the interest to take over the business or may have other plans for their career (KPMG, 2012).

The study by Sraer and Thesmar (2007) studied on the sample of family firms and evidenced that even though represents only less than 25%, outside CEO has contributed significantly in outperforming widely held corporations because they are more financially literate and efficient in the use of capital. Thus, appropriate professional management headed by the CEO should include individuals with proper qualifications and experienced background so that the firms might not turn into a welfare institution if a number of family members contribute almost no value towards the firms' performance (Kets de Vries, 1993). He also stresses that this governance problem is exacerbated when the family firms have problems in accepting professional managers from the job market that are capable in responding to new technology and boost competition, due to family members' tendency in expropriating assets by way of misuse corporate decision making to the minority shareholders for their own benefit.

At this juncture, the present study has taken into consideration the chosen CEO preferred by the family firm as the moderating effect on the relationship between corporate governance and family firm's performance. Despite the moderating effect in the choice of CEO by a family firm, CEO can also give more effect towards a family firm's performance from the stewardship point of view, when the CEO also discharges the role of a chairman (Hsu, Wang, & Hsu, 2012).

1.1.1 Background

Many of the listed firms in Malaysia are family owned or controlled (Abdul Rahman, 2006). Morck, et al. (2004) discovered that large pyramidal corporate groups are cause for moral hazard problem in agency problem type II. This agency problems and weak corporate governance not only lead to poor performance and risky financing patterns, they are also prone to macroeconomic crises (Claessens et al., 2002b), for instance the 1997 East Asia Crisis. The East Asia economies experienced a surge in capital inflow to financial productive investments that made them vulnerable to financial panic.

These weaknesses were caused largely by the lack of incentives for effective risk management created by implicit and explicit government guarantees against failure of “over-borrowing” (Moreno, Pasadilla, and Remolona, 1998). Thus, corporate governance is a long lasting issue that warrants urgent attention in Asia. Over the past several decades, many researchers have conducted investigative measures on the relationship between ownership structure and corporate performance but the findings have not revealed a clear out outcome (Jong, Gispert, Kabir, & Renneboog, 2002; Anderson & Reeb, 2003; McConaughy, Matthews, & Fialko, 2001; Miller & Le Breton-Miller, 2005).

In the local context, investigative measure on the relationship between corporate governance and public listed company performance in Bursa Malaysia was done by Kamardin, Abdul Latif, Taufil Mohd, and Che Adam (2012), specifically on multiple directorships benefits or costs to Malaysian listed companies. They found that multiple directorships including independent non-executive directors (INEDs) have the likelihood to attend less board meetings with the presence of associated variables such as the increase in age, tenure, and director cash flow rights.

There is another recent study on this relationship that was also done locally by Daud (2012). He found that the level of corporate governance practices is very low for directors’ remuneration, low for board of directors’ structure, and moderate for accountability and audit as well as communication with shareholders. He also found positive relationships between several corporate governance elements that comprise of board size, CEO duality, disclosure of senior independent director, mixed use of executive directors' remuneration and disclosure of the top 5 executive remuneration, and firm's performance among public listed firms in Bursa Malaysia. However, there is no in-depth research specifically meant for public listed family firms in Bursa Malaysia which definitely require more specific governance rather than the existing MCCG.

Besides the new trend of CEO choice, the recent trend of investors are more demanding on shareholder value than just high returns (Thenmozhi, 2000). Previous researchers have also given less attention to Tobin's Q in evaluating the family firms' performance rather than the common method, such as return on assets (ROA) that is mostly applied by Malaysian accountants, consultants and economic analyst. In this study, apart from the CEO choice by the family boardroom which is hypothesized to be a moderator towards the relationship between corporate governance and family firms' performances, the application of ROA model is effective method in motivating the firm's managers headed by the CEO (Fang & Jacobs, 1999, August 19). However, ROA is also counterproductive in some instances. Vladu and Matis (2010) noticed that the accuracy of a firm's performance is much more reliable in Tobin-q model due to the intangible assets is also considered in calculation.

Empirically, corporate governance variable is associated with firm performance positively (Bai, Liu, Lu, Song, & Zhang, 2004; Peng, Zhang, & Li, 2007). However, studies have rarely been extended to the family firms' board of director together with the issue of the choice of a CEO or in other words, "does the chosen CEO matter in maximizing their stakeholders' values?" A few local studies have investigated the chosen of outsider CEO but unfortunately none of them has examines the area of high-skill industry.

1.2 Problem Statement

In the Malaysia perspective, Kamardin et al. (2012) found that even though multiple directorships including independent non-executive directors (INEDs) have costs that are insignificant for listed firms, the likelihood to attend less board meetings is shown to be associated with the increase in age, tenure, and director ownership. Majority of the director ownership in family-controlled listed firms are evolve from traditional family-owned enterprises, whereby these firms "do not embrace openness" in the firm's practices and continue to be managed as if they are still owned by their founders (Ow-Yong & Cheah, 2000).

In this context, the government has to realize that publicly listed family firms should be treated with "specific governance" (Austrian Institute for SME Research, 2008). This is due to several reasons: (1) inconsistency in their performance findings in relation to corporate governance components (Amran, 2011); (2) application of more combination theories to explain the firm's performance: stewardship ('socio-emotional wealth (SEW)' perspective as social motive in group strategic decision) within family members (who should be motivated in stakeholders' objectives as principal), and shareholder theory (economic self-interest maximizing-oriented) rather than agency theory (who are motivated in individual goals), as suggested by Abdullah and Valentine (2009); (3) low survival rate (up to the second generation) due to its failure (Gilbert, 1989); (4) executing the mandatory MCCG 2011 practices by 31st December 2012 may actually be detrimental to them, damaging unity or exposing excessively complex requirement on private firms (Astrachan, Keyt, Lane, & Mcmillan, 2006).

Hence, Malaysian family firms are presumed to be secretive and have been giving reasons for noncompliance during the disclosure regime in Bursa Malaysia Listing Requirement (Abdul Rahman, 2006). Hence, they have to be evolved by specific codes of corporate governance rather than the existing MCCG in order to overcome the problem of having "do not embrace openness" by heir-managed firms.

Unpredictably, the governance problem for publicly listed family firms can also come from external factors such as speculations in the currencies market (Nam & Nam, 2004). Chee (2000, May) claimed that large transaction costs like buying an excessive amount of Ringgit Malaysia (RM) by speculators in 1997 could make the Malaysian capital market inefficient. The weakening of the Malaysian currency (RM) against other major currencies: USD and pound sterling in foreign exchange had boosted up the existing firm's debts and jeopardized the ability of the 'going concern entity' of listed firms. Finally, the Malaysian government decided to overcome this problem by introducing the capital control measure rather than financial package fund from the International Monetary Fund (IMF).

Thus, poor corporate governance in terms of implicit and explicit government guarantees against failure has been widely associated with "over-borrowing" and has been identified as the main weaknesses that had caused the 1997 Asian financial crisis (Nam & Nam, 2004). The weaknesses were caused largely by the lack of incentives for effective risk management (Moreno, Pasadilla, and Remolona, 1998). In addition, the Asia Financial Crisis in 1997 was associated with eight contributory factors for ineffective corporate governance during the crisis.

These include: (1) weak financial structure of many companies; (2) over-leveraging by companies; (3) lack of transparency, disclosure and accountability, particularly inadequate disclosure of risk exposures (because of weaknesses in the disclosure regime); (4) existence of a complex system of family control companies; (5) little or no effective laws to ensure that controlling shareholders and management treat small investors fairly and equitably; (6) assets shifting; (7) conglomerate structures that were perceived to be given preferential treatment; and (8) allegations of cronyism (Boo (2003); Oh (2003, January 11)).

Young, Peng, Ahlstrom, Bruton, and Jiang (2008) argued that the tension of conflict between controlling shareholders and minority shareholders may occur during times of economic crisis whenever the higher excess control rights over cash flow rights suffer major losses where family CEO strongly motivated to expropriate minority shareholders. Young et al. (2008) further investigates principal-principal conflicts: controlling versus minority shareholders in family-owned business that focus on which governance mechanism can best protect minority shareholders externally and internally during the 1997 Asian financial crisis.

Peng and Jiang (2010) have proven empirically that legal institution and multiple block-holders practice as the external and internal governance mechanism respectively can be applied in constraining the agency problem type II during crisis. Unlike the developed countries, they suggested that the drawback findings resulted from the choice of insider CEO by family-owned business and this is common in countries with poor legal institution in protecting minority shareholders including Malaysia as a developing country.

As far as a reactive measure to the 1997 crisis is concerned, the Malaysian government has involved the establishment of high Level Finance Committee on Corporate Governance (FCCG, 1998). This committee was formed on 24 March 1998 and its main priority is to establish a framework and examine the Corporate Governance Code in the US and UK for the best practice Codes. Finally, the MCCG was drawn up in March 2000, which was duly incorporated into the listing rules of the Bursa Malaysia Listing Requirements. The change of MCCG from voluntary in 2007 to mandatory on 31st December 2012 sees the years 2010 and 2011 as pre-mandatory for them to adapt their current practice to the codes. Basically, the MCCG Blueprint 2011 supports the urgency of best practice among corporate governance to enhance the family firms' performances.

According to a survey by Mercer Investment Consulting (2006), more than 50 per cent Investment managers worldwide believe that corporate governance factors can significantly impact shareholder's wealth which means that neither company directors nor institutional investment community can ignore the key corporate governance issues. As a proactive measure, the current study adopts the joint-research between Nottingham University Business School (NUBS) UK & Minority Shareholders Watchdog Group (MSWG), in developing Corporate Governance Scorecard (Aziz, 2006).

However, besides the urgency of the specific governance for a complex system of family control companies that has been indicated by the inconsistency in evidences on the relationship between corporate governance and firm's performance, it would make the board of directors of family-controlled firms to think of changing the insider CEOs to outsider CEOs, especially in high skilled-firms (Lin & Yu, 2007). The existence of this chosen trend in Bursa Malaysia is indicated at 24% (Amran & Ahmad, 2010). This indicator is lower than in Taiwan which is at 47.74% in 2000 (Lin & Yu, 2007), whilst in developed countries such as UK and Germany, the average percentage of outsiders appointed to the post of CEO is accounted for 34%, and 32% respectively (Spenserstuart, 2009), which is higher than Malaysia.

1.3 Research Objectives

The aim of this study is concentrated on five targeted objectives as follows:

1) To examine the current best practice for corporate governance by family controlled firms before the mandatory date.

2) To examine the significant relationship between corporate governance and family-controlled firm performance.

3) To examine the recent trend for outsider CEO choice amongst family-controlled firms with the effect of its non-existence in high-skilled firms.

4) To examine the moderating effect of choice of CEO on the relationship between corporate governance and family-controlled firm performance.

1.4 Research Questions

In order to fulfill the five objectives as above, this study addresses the following research questions:

1) What is the current practice of corporate governance among family-controlled firms before the mandatory date?

2) What is the relationship between corporate governance and family-controlled firm performance?

3) What is the recent trend for outsider CEO choice amongst family-controlled firms with the effect of its non-existence in high-skilled firms?

4) Does the choice of CEO moderate the relationships between corporate governance and family-controlled firm performance?

1.5 Scope of the Study

The Current study is meant for public listed firms in Bursa Malaysia that fall under family controlled firms in the Main Board, and the ACE (Alternative Certainty Efficiency) markets(formally known as Malaysian Exchange of Securities Dealing and Automated Quotation- MESDAQ) for 2010 and 2011. It does not cover multinational or foreign based companies that may demonstrate different a level of corporate governance practices depending on its country of origin (Jong, Gispert, Kabir, Renneboong, 2003). The finance firms (i.e. banks, insurance, and trusts) are excluded from the present study due to the different regulatory requirements and material difference in the type of operations (Ahmad & Courtis, 1999; Cheng & Courtenay, 2006).

1.6 Motivation for the Study

This study is pursued to justify the highlighted requirement by examining corporate governance as well as CEO chosen practice in the ownership concentrated of Malaysian firms with regards to the agency problem type II. Although past studies documented various governance mechanisms that have been implemented to deter the opportunistic behavior of the controlling shareholders, the applications are still ineffective. Malaysia is ranked relatively high on anti-director rights, which can be measured on the strength of its legal system in favor to minority shareholders against managers or dominant shareholders in the decision making process as reported by La Porta, Lopez-De-Silanes, Shleifer and Vishny (1998).

Minority Shareholders Watchdog Group (MSWG) has been established as a channel for the minority shareholders to report their concern but its effectiveness is questionable (Satkunasingam & Shanmugam, 2006). Thus, the existence of strong legal protection for shareholders does not relieve the moral hazard problem due to poor enforcement system (Krishnamurti, Sevic, &Sevic, 2005). The ineffective governance mechanism to relieve the agency problem motivates this dissertation to investigate whether the choice of outsider CEO by concentrated ownership is useful to reduce the agency conflict in Malaysian firms.

Thus, the present study extends the above study findings by investigating additional dimensions: (1) specific population; (2) shareholders' value in wealth demand oriented; and (3) combined theoretical framework. The main focus of the present study is to examine the moderating effect of the CEO chosen by the family firms in Malaysia. The choice of CEO has been investigated by Amran and Ahmad (2010) but they fail to uncover the trend of hiring outsiders CEO as well as exercise the study in time series.

A chosen outsider CEO as oppose to a family member CEO is an additional governance variable in this study and it has significant effects on a family firms' performance especially in high-skilled firms, in which CEO power, CEO tenure, and research & development investments are very critical and crucial when there is a high technological changes (Combs, Ketchen Jr., Perryman, & Donahue, 2007; Lee, 2007). Corporate governance mechanisms such as takeover threats, large shareholders, or an effective board that chooses an effective CEO may reduce this moral hazard problem (Shleifer & Vishny, 1997). However, the intellectual capital development of a knowledge firms' added value is rested on both CEOs and the members of corporate boards who are recognized as influential leaders (Boeker, 1992; Hambrick, 1981; Pettigrew, 1992).

1.7 Significance of Study

The significance of the study can be seen in its importance to theory, policy makers and regulatory agencies and users of the financial statements in different ways to improve governance practices as the following:

1.7.1 Importance to Theory

In spite of a few studies on family firms in Malaysia (Amran, 2011), the studies which are still centered solely on agency theory, could not find conclusive evidence to support agency theory (Mohamed Yunos, 2011). Hence, the study suggests that family-controlled firms are dominated with stewardship, shareholders and signaling which are more influential than agency and stakeholders theories (Abdullah &

Valentine, 2009) for two reasons. Firstly, family members have shared their lives together as early as they were born and brought up together under one roof, bound together emotionally with specific trust value. Secondly, they are the ones who controlled governance interacted parties that include the shareholders (investors), board of directors, CEO, and stakeholders. They are dominated mostly by family members who intend to make a decision on the firm's assets provision that best suits their expropriation agenda.

1.7.2 Importance to Policy Makers and Regulatory Agencies

The voluntarily basis of MCCG Index 2007 (revised 2009) provided by MSWG after an in-depth joint-study in governance transparency index with Nottingham University, United Kingdom, had given investors guidance for premium family listed firms. However, its mandatory imposition on 31st December 2012 has made the controlling principal in family-listed firms difficult to operate effectively as they are normally reluctant to delegate power to outsider CEOs (Sheehy, 2005). Presumably, a tight control by these firms' principals will hamper a professional CEO in bringing all available expertise into play, which dilutes the benefits of using a professional expertise.

The presumption for unprofessional family member CEO can be harmful to the firm's synergy performance whenever the CEO's expertise is crucial to one of the most important investment of the firm's intellectual capital. This is totally wrong for Malaysia's business scenario. The trend of changing CEO from family members to professional outsiders which has been proven to be the best practice in other countries (Lin & Hu, 2007; Sraer & Thesmar, 2007; Spenserstuart, 2009), brought grave consequences due to the wrong decisions made by Malaysian family-controlled firms in certain instance. Since the board of director's structure element is the only significant one for the current MCCG best practice, the present study finding offers the FCCG and MSWG the possibility to rethink the specific governance best practice codes for family expropriation firms in Bursa Malaysia.

1.7.3 Importance to Industry and Financial Report's Users

There are few studies done on family companies in Malaysia (Amran, 2011). Besides considering the population of all family-controlled firms in Bursa Malaysia the current study also compares the three type of values for financial performance measures namely the intrinsic value (ROA in accounting), market value (Tobin's Q in financial), and value added (EVA in financial economic). The common performance measurements that had already been applied by previous studies are the return on assets (ROA), earning per share (EPS), return on equity (ROE), and Tobin's Q. ROA is found to be the most famous measurement amongst them.

For instance, a study by Samad, Amir and Ibrahim (2008) used return on equity (ROE) and ROA, whereas Amran (2011) applied Tobin's Q and ROA as the measurement for family firm's performance. However, this finding considers Jong et al. (2003) who discovered that Tobin's q performance model is more significant and relevant than return on assets model. In the aspect of firm's value, investors are given more weight or priority to firms which highly complied with the MCCG best practice. Instead of unavailability of this premium, they still can have the 'premium' family-controlled firms by way of seeking their positive economic value added.

1.8 Organization of Dissertation

In addition to the objectives of the study, this chapter provides the problem definition which serves to give a picture of why CEOs really matter in Malaysian business environment in terms of the choice of a CEO in family firms. This study is divided into five chapters, which covers the introduction in chapter one, the literature review in chapter two, followed by the research framework and methodology in chapter three. The fourth chapter is the results and findings, and the current study ends with chapter five, which is the discussion and conclusions.

1.9 Chapter Summary

This chapter briefly explains the overview of corporate governance in family-business in the context of family firms' performance, problem statement, the research objectives and questions of the current study, the scope of the study and the motivation and significance of the present study for the contribution of knowledge. The next chapter provides a review of previous literature in relation to the context of this study, the agency theory, and the combining theories as the related theoretical underpinning.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The previous chapter reviews the introduction, the phenomena of interest in research's questions and its objectives, the scope and significance of the present study. This chapter begins with section two which covers, the history of Bursa Malaysia. Section three explains the corporate governance landscape in Malaysia, and section four will provide an overview of the current mechanism of Malaysia's corporate governance. Section five portrays the corporate governance best practices in family firm in detail. Subsequently section six creates values in economic value added (EVA), followed by section seven discusses the relevant theoretical underpinning. Section eight is regarding corporate governance best practice and family firm's performance that cover the choice of CEO as the governance mechanism. Finally, this chapter end with a summary as per section nine.

2.2 Background of Malaysian Capital Market

The history of Bursa Malaysia as Malaysian Capital Market is taken from Bank Negara Malaysia (1994) which covered for the period as early as 1870's to the millennium era of the establishment of Bursa Malaysia. During the 1870s, Malaysian Capital Market was initiated informally from the emerging securities on pure commodities like rubber, cocoa and pork belly that were traded at colonial clubs and coffee shops. Mining and plantation industries were the two most commonly traded shares at that time with the presence of the British Colonial controlled companies such as Sime Darby & Co Ltd, Guthrie & Co, Fraser & Co, and Malakoff Plantation Co Ltd. In 1930, the Singapore Stockbrokers Association was formed followed by the formation of the first formal stock exchange in Malaysia, the Malayan Stockbrokers Association. These formations were the evidence to the requirements for some new form of regulation and market integrity that resulted from the crash of Wall Street in 1929.

The establishment of the first national employees' provident fund, the Employee Provident Fund (EPF) in the world in 1951, was considered the first national institutional investor, contributing towards the development of the Malaysian Capital Market. This movement has given impact to the British Colonial for setting up a formal body, the International Bank for Reconstruction and Development (IBRD) to oversee the financial market in 1954. The reason behind the formation of IBRD was a need to replace the currency board system and also the need to have a central bank to foster a favorable climate as well as for further domestic enterprise development (IBRD, 1955).

Malaya's economic development has shown the tremendous performance from the independence-day on the 31^{st} August 1957 with better infrastructure like the establishment of the Stock Exchange, the Central Bank ("Bank Negara Malaysia") and also the Capital Issues Committee (CIC); the entity that had eventually made the first move to the establishment of the Securities Commission of Malaysia (SCM).

The important development of the external corporate governance was the establishment of the SCM as the Malaysia Capital Market Regulator in 1993.

The Malayan Stock Exchange was established on May 1960 with four stockbrokers gathering in the Central Bank of Malaya's clearing house in Kuala Lumpur following the establishment of the Central of Malaya in 1959. Since then, it was conducted the first ever call and price marking session (BNM, 1989). In order to facilitate the development of the first Malaysian Capital market, the Central Bank of Malaya provided clerical assistance and telephone facilities and as a result, in 1961, the first three initial public offerings were successfully done raising a total of RM 15.6 million and two trading rooms were set-up, they were in Kuala Lumpur and Singapore. This has enabled trading to be done from both Singapore as well as Kuala Lumpur and since both trading rooms were conducted via telephone lines, investors would get hold of the best and latest price available (BNM, 1964).

The exchange was renamed to Stock Exchange of Malaysia and Singapore in 1965, after the separation of Singapore from Malaysia. However, the stock exchange remained operating as a single entity. In those early years, the securities regulations were governed through the Companies Act, 1965 and thereafter the Securities Industry Act, 1973. As aforementioned, in June 1968, the government decided to set up the Capital Issues Committee (CIC) under the purview of the Central Bank to oversee the capital market as well as the exchange. However, the CIC was abandoned for several years and it was not until July 1983 that the CIC was formed when bill on the Securities Industries Act (SIA) 1983 was passed in Parliament.

In May 1973, following the termination of currency interchangeability between Malaysia and Singapore, the Singapore Stock Exchange (SES) was established, and two months later, Kuala Lumpur Stock Exchange (KLSE) was formed as a formal role country's stock exchange but the act only came into effect in 1976. Pan-El crisis in 1989 has resulted in the announcement by the Malaysian Minister of Finance, Tun Daim Zainuddin on the de-list of 182 Malaysian companies of dual listing as well as 53 Singaporean companies from KLSE before the end of 1989. Lastly, in 2004, the KLSE's function was taken over by Bursa Malaysia Berhad, as a demutualization exercise in responding towards the global trend that places more focus in customer-driven and market-orientation (Bank Negara Malaysia, 1989).

2.3 Corporate Governance Landscape in Malaysia

Rajan and Zingales (2003) noted that Malaysia is a particularly interesting country for the study of the relationship between CEO choice, corporate governance best practice and family firms' performance for three reasons. Firstly, in spite of a mixture of many ethnic groups (or multi-racial): Malay, Chinese, Indian, and other partial races, the process of claiming independence from the British was solely a political liberalization which was handled in highly diplomatic way. However, during colonial time, the British had applied the 'divide and rule' strategy in their ruling system in which Malay were known as farmers or fishermen, Chinese were known as businessmen, whilst the Indian community were located in rubber estates as laborers. Thus, the National Economic Plan (NEP) has changed this scenario (Gomes, 1994), in which allowing Malaysia to offers useful variation in the type of CEO background that can be exploited to identify the relationship of interest.

Secondly, Malaysia's World Trade Organization (WTO) accession stipulates several government relationships, including the absence of discriminatory economic policy. In this respect, Bushman, Piotroski, and smith (2004) identified the importance of determining the extent to which nepotism practice is distorting market mechanisms due to suppressing firm specific information by family members and cronies to hide their expropriation activities. If the business environment in this country is not providing a level playing field for all market participants, firms in Malaysia's trading partner countries likes ASEAN would also face unfair competition in light of the common tariff's ever-deeper integration into the world economy. Thus, liberalization of the Malaysian capital market in term of "1-Malaysia" equity or foreign equity has wider implications beyond the narrow confines of the domestic economy sphere or normally known as the effect of globalization.

Thirdly, the market characteristics that can serve to enhance corporate governance are not found in Malaysia (Guan 2005). This is due to the large number of shareholders who do not work towards the maximization of shareholder value and can easily engage in wrongdoings without punishment. In order to reduce this threat, Bursa Malaysia Listing Requirements requires that at least one-third of a board should be independent, However, several studies have found no significant relationship between board independence and firm performance (Abdullah, 2004; Che Haat, Abdul Rahman & Mahenthiran, 2008), and board independence has no effect in mitigating the earning of management in Malaysia (Abdul Rahman & Mohamed, 2006).

Corporate governance in Public Listed Companies in Bursa Malaysia can be divided into two control mechanisms: external corporate governance and internal corporate governance. In earlier concept, family controlled firms are external-quasi control due to their obligation to the Security Commission’s regulation and guidelines, whereas, internal corporate governance is about mechanism for the accountability, monitoring, and control of a firm’s management with respect to the use of resources and risk taking (Llewellyn and Sinha 2000).

The principal authorities involved in regulating the capital market are the Bank Negara Malaysia (the Central Bank), the Companies Commission of Malaysia (CCM), Bursa Malaysia (formerly known as the Kuala Lumpur Stock Exchange (KLSE), and the Securities Commission. These agencies regulate the capital control measure during the Asian economic crisis. The effect from the 1997, Asian economic crisis, was that, the Malaysia government began strengthening the best practice of good corporate governance (Abdul Rahman, 2006). The above mentioned factors led to the evolution of the Malaysian Code of Corporate Governance from the economic crisis in 1997, recovery period up to 2001, voluntarily period up to 2007, pre mandatory (reconciliation) period that is prior to the mandatory date of applying the Malaysian Code of Corporate Governance due on 31st December 2012.

Since then, corporate governance (CG) has become of critical importance to investors, insurers, regulators, creditors, customers, employees, and other stakeholders such as taxpayers. McKinsey (2002) found that investors who place a premium on CG and companies with favorably rated CG practices have high market valuations. Hence, a pioneer survey study examining the CG reporting via CG score checklist of the top 100 companies (blue-chips counters) in KLSE was done by the Consortium of Universiti Teknologi Mara (UiTM), Malaysia Institute of Corporate Governance (MICG), BizAid Technologies Sdn Bhd (BizAid), and Rating Agency Malaysia Berhad (RAM). Ranking was made according to their market capitalization values as of 23 December 2003.

McKinsey's (2002) survey is due to the conformance to the Malaysian Code of Corporate Governance (MCCG) had only been made a listing requirement on 1st January 2001, thus the only reports available as at the end of 2002 have been examined. The findings of the survey on eight CG attributes are as follow: (1) Strategic Planning & Performance 39%; (2) Board, Committee and management 67.8%; (3) Risk Management & Internal Control 48.8%; (4) Ownership Structure & Concentration 67.2%; (5) Accountability & Transparency 51.9%; (6) Stakeholders' Relationships 63.2%; (7) Business Ethics & Responsibility 25.1%; (8) Intellectual Capital 25.9%.

The study reveals that CG reporting has been lacking mainly in areas of strategic planning and performance, risk management and internal control, accountability and transparency, business ethics and responsibility, and intellectual capital. These findings is a wakeup call on the firm directors to further improve the level of companies' governance structure so as to attract the potential investors specifically to individual firm and generally for better economic growth.

2.3.1 Emergence of Corporate Governance in Malaysian Capital Market

The emergence of corporate governance (CG) in Malaysian Capital Market was caused by the 1997 Asia financial crisis due to speculative in the Asia currency market (Claessens et al., 2002; Nam & Nam, 2004). Government intervention is in the form of introducing the first Malaysian Code of Corporate Governance (MCCG), that was set up as early as in March 2000 by the Malaysian High Level Finance Committee of Ministry of Finance (MOF) as a reactive measure but the application of MCCG (2001) was in voluntarily basis. Formation of the watchdog agencies like Malaysia Audit Oversight Board (AOB) and Minority Shareholders Watchdog Group (MSWG) are the examples that supported the stakeholder theory (Wang & Dewhirst, 1992). This stakeholder theory will be elaborated in section 2.6.3 below. The formation of Minority Shareholders Watchdog Group (MSWG) on 30 August 2000 was another episode to foster the best practice of MCCG amongst Public Listed Companies (PLCs) in Bursa Malaysia. MSWG is participating in the establishment of CG components as well as the measurement of best practice of corporate governance by using CG's Index.

2.3.2 MCCG 2007 (Revised 2009) for 33 elements of CG measurement

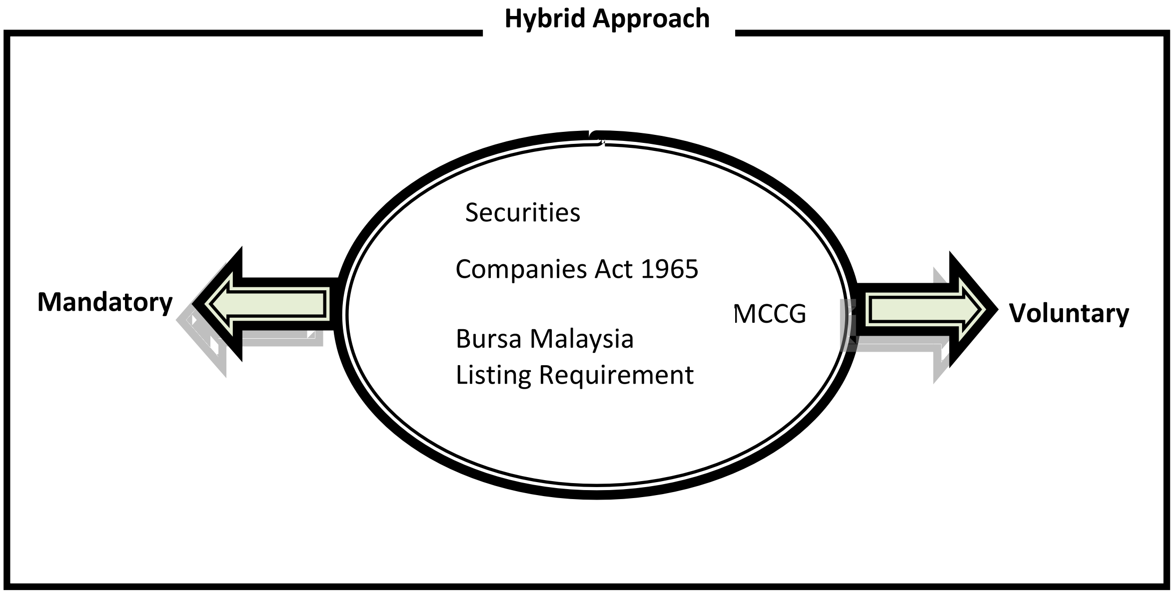
The Malaysia Code of Corporate Governance (MCCG) 2007 code is established to further improve the listing requirement by Bursa Malaysia that came into force since 1st January 2001. The revised principles in the code list are: (1) relationship of the board to management, (2) the board, principal responsibilities of the board, (3)supply of information, (4) access to information, (5) access to advice, (6) appointments to the board, (7) directors' training , (8) the level and make-up of remuneration, procedure, (9) disclosure, (10) remuneration committees, (11) chairman and chief executive officer, (12) internal control, (13) shareholder voting, (14) dialogue between companies and investors, (15) the relationship between the board and shareholders, and (16) dialogue between companies and investors. The revision of 2007 code took place in 2009 in order to strengthen the roles and responsibilities of the board of directors, the audit committee and the internal audit function.

Besides the current study in Malaysian corporate governance best practices, the main principles focused are on the strengthened composition as well as reinforced independence. Two principles which are relevant to the variables under study: (1) board of director who chooses the chief executive officer (CEO), (2) the choice of CEO which affects the family firm performance. The dimension of the strengthening composition are in the three roles of Nominating Committee namely: (1) appointment to the board that is exclusively of non-executive directors and majority must be independent directors, (2) criteria used on the recruitment process and annual assessment of directors, and (3) attracting and retaining directors by having formal as well as transparent remuneration policies and procedures.

The dimension of the reinforcing independence are in the three board's mandates namely: (1) assess independent directors annually upon re-admission or self-interest of directors, (2) limit independent directors of up to a cumulative term of nine years otherwise non-independent directors, and (3) separate the chairman and CEO, where both positions should be held by different individuals that is not only be not an independent director but must also be a non-executive member (MSWG, 2011-MCG Index Report).

2.4 Current Mechanism of Malaysia's Corporate Governance

Malaysia's Corporate Governance mechanism in nature comprises of voluntary as well as mandatory by virtue of the requirements under the various legislations that was covered by the Securities Commission Act 1993, Companies Act 1965 as well as the Bursa Malaysia Listing Requirements. These legislations require to a certain extend companies to comply with the requirements spelled out in the respective bills and / or requirements (see Figure 2.1).



Source: Bursa Malaysia, 2010

Figure 2.1:

Malaysian Corporate Governance Mechanism

Under the Bursa Malaysia Listing Rules (BMLR) 2009, a separate section is dedicated to corporate governance, which is Chapter 15 of the rules. Chapter 15 of the BMLR 2009 amongst other, states that the requirements spelled out in Chapter 15 must be complied with by the listed issuer and its directors, as follows:

- At least 2 directors or 1/3 of the board of directors of a listed issuer (whichever is higher) are independent directors;

- A person appointed as a director must submit an undertaking form to the exchange not later than 14 days after his appointment;

- Listed issuer must ensure that every director has the right to the resources, whenever necessary to perform his duties;

- No person appointed as a director be involved or convicted in court with Malaysia or elsewhere involving fraud, dishonesty, convicted of an offence under the securities law;

- The person appointed as director must have a sound mind, not a bankrupt, not absent from more than 50% of the total board of directors meetings;

- An appointed director of a listed issuer must not hold more than 25 directorships consisting of not more than 10 directorship in listed issuers and not more than 15 in other companies other than listed issuers;

- An appointed director must attend training programs as prescribed by the Exchange;

- The composition of audit committee must not be less than 3 members with a specific condition that at least one member must be a member of the Malaysian Institute of Accountants or possess the necessary working experience and have passed the examinations specified in the First Schedule of the Accountants Act 1967;

- Chairman of the Audit Committee must be an independent director;

- The listed issuer must ensure that the audit committee discharges its functions properly as prescribed by the listing rule;

- An audit committee report must be prepared at the end of each of the financial year;

- A listed issuer must appoint a suitable accounting firm to act as its external auditor and any resignation of the external auditor must be made known to the Exchange;
- A corporate governance disclosure in relation to the Malaysian Code for Corporate Governance (MCCG) must be made by the board of directors stating how the listed issuer has applied the principles of corporate governance spelled out in Part 1 of the MCCG and statement on the extent of compliance with the Best Practices in Corporate Governance as prescribed in Part 2 of the MCCG;
- A listed issued must ensure that a statement describing the directors' responsibility for the preparation of the audited financial statements and the statement of internal control of the listed company; and
- An internal audit function must be established independently and reported directly to the audit committee.

Apart from the aforementioned, Bursa Malaysia had also laid several key initiatives to increase awareness of good corporate governance. This include performing compliance reviews of corporate governance disclosures in annual reports of all listed issuers, engaging listed companies of any shortcomings in corporate governance disclosures. Further to that, Bursa Malaysia would perform examination on listed companies on corporate governance related matters and suggest remedial or recourse actions where it deemed necessary.

Based on Bursa Malaysia’s corporate governance framework, there are several benefits that will be deserved by the public listed companies resulted from implementing good corporate governance, amongst them are as follows:

- Companies with excellent corporate governance have the tendency to be regarded or rated as premium brands.
- Investors would classify the companies who are practicing good corporate governance as companies that are favorable, valuable and appealing insofar their investments are concerned.
- Good corporate governance practices could instill investors’ confidence level thus could open doors to a better cross boarders business/investment activities.

2.4.1 MCCG of 2012 from Transformation of CG “Blue Print” of 2011

In July 2011, the Securities Commission Malaysia issued the Corporate Governance Blueprint 2011 which outlines recommendation strategic initiatives aimed at reinforcing self and market discipline. The Corporate Governance Blueprint 2011 is later transformed to the Malaysian Code on Corporate Governance 2012 (MCCG 2012) in order to grant mandate for boards to focus on substance rather than form in meeting corporate governance requirements that focuses on strengthening board structure and composition recognizing the roles of directors as active and responsible fiduciaries.

Board of directors have a duty to effective stewards and guardians of the company, not just in setting strategic direction and overseeing the conduct of business, but also in ensuring that the company conducts itself in compliance with laws and ethical values, and maintains an effective governance structure to ensure appropriate management of risks and level of internal controls. The transformed principles in the code list are establishing clear roles and responsibilities of a board, strengthening composition, reinforcing independence, fostering commitment, upholding integrity in financial reporting, recognizing and managing risks, ensuring timely and high quality disclosure, and strengthening relationship between company and shareholders.

The initial MCCG was further improved with rebranding in 2007 (Revised 2009) before another proactive measure was taken by the Malaysian government in term of MCCG 2012 (consistent with the "Corporate Governance Blueprint 2011") in which it was launched in March 2012 and would be mandatory to put into effect on 31 December 2012. Hence, while a few companies have already applied this MCCG best practice, others have taken the year 2012 as the pre-mandatory year for all public listed companies (PLCs) in Bursa Malaysia to make reconciliation on these guidelines of MCCG 2012.

2.4.2 Malaysian CG and Transparency Index 2007 (Revised 2009)

Earlier research has examined subsets of governance mechanisms, usually one or two variable only. This study uses the scorecard that was developed by a research team at Nottingham University Business School (NUBS) Malaysia Campus in collaboration with the Minority Shareholders Watchdog Group (MSWG) for evaluating the corporate governance ranking purpose to 100 samples of public listed firms in Bursa Malaysia. The joint research was done in 2007 on the level of compliance with recommendations of the Malaysian codes of CG under four main components after taking into consideration the additional global best practices incorporated into the scorecard. Finally, the ranking results in MCCG score has been applied to a multi regression model to attest comparison whether the value added-base is a better predictor than accounting-base in terms of financial performance measures (Aziz, 2006).

These codes were then had been revised by MSWG in 2009 (Daud, 2012). The Malaysian codes corporate governance (MCCG) Index was produced as the finding from the joint research by NUBS and MSWG. This index comprises of two components: three dimensions of governance, and one dimension of transparency. The three dimensions of governance consists of twelve elements of board of directors' structure, eight elements of directors' remuneration, and five elements of accountability and audit, while one dimension of transparency consists of eight elements of communication with shareholders. The checklist of MCG and transparency index is considered the overall total of 33 elements of Malaysian best practice of corporate governance. This checklist will be broken down into 25 elements of governance and eight elements of transparency as shown in Figure 2.2.

2.5 Corporate Governance in Family Firm

Moral hazard for example is the expropriating (misuse corporate decision making) assets, especially in agency problem type II that only can happen in family business firms. According to Villaloga and Amit (2004), the agency problem type II is a situation where the founding family, being a large and controlling shareholder, may choose to pursue its own interest at the cost of other shareholders when their interests are not well aligned.

Astrachan., Keyt, Lane, and Mcmillan (2006) pointed out that the difference with the family-controlled firm is that, the family's presence in ownership and management leads to a low goal divergence between owners and managers (consistent with Huse, 2000; Corbetta & Salvato, 2004; Lipman & Lipman, 2006). Astrachan et al. (2006) asserted that most highly recommended corporate governance practices may actually be detrimental to family businesses, damaging unity or imposing excessively complex requirement on private firms.

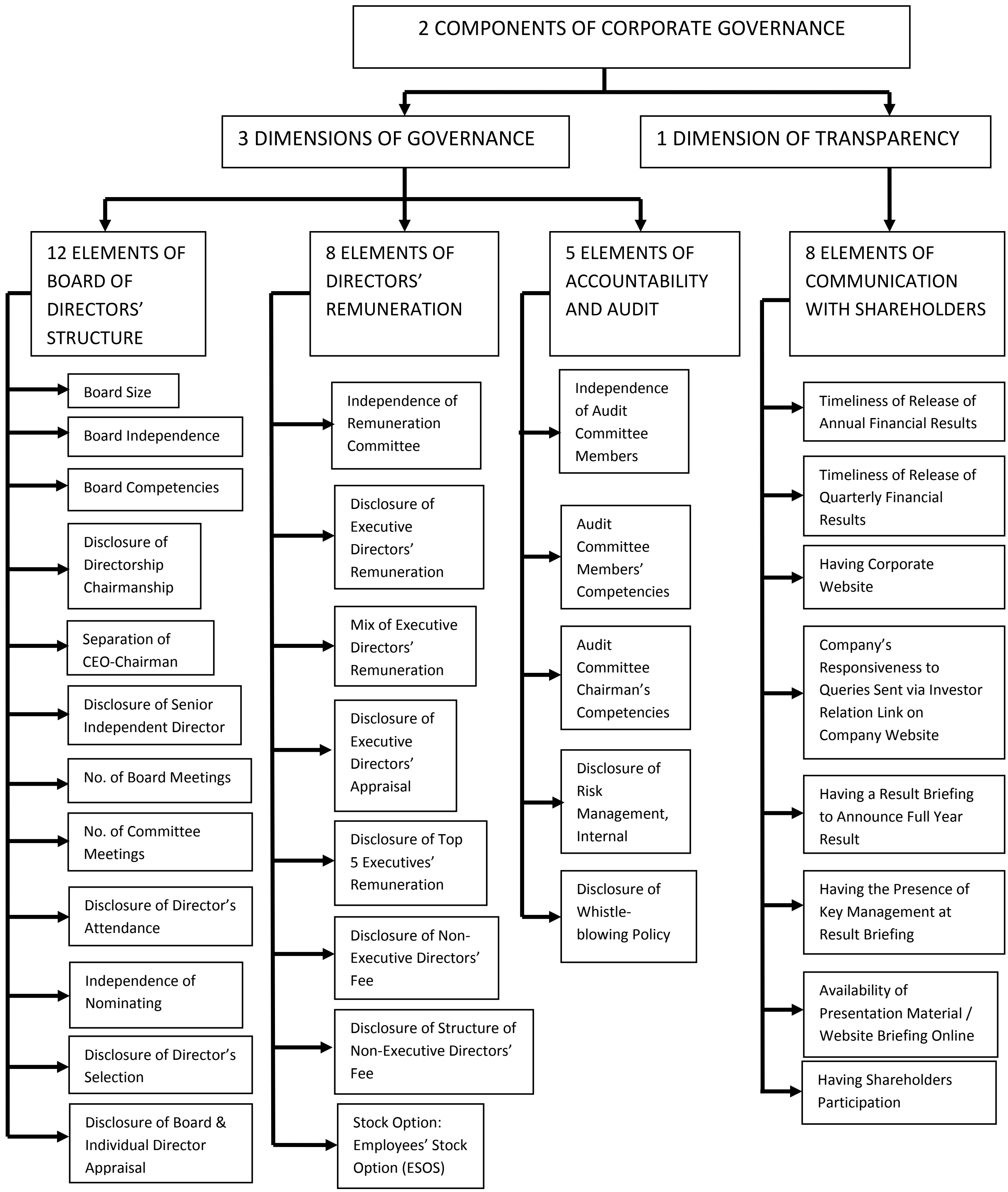


Figure 2.2

Checklist of Malaysian Corporate Governance and Transparency Index

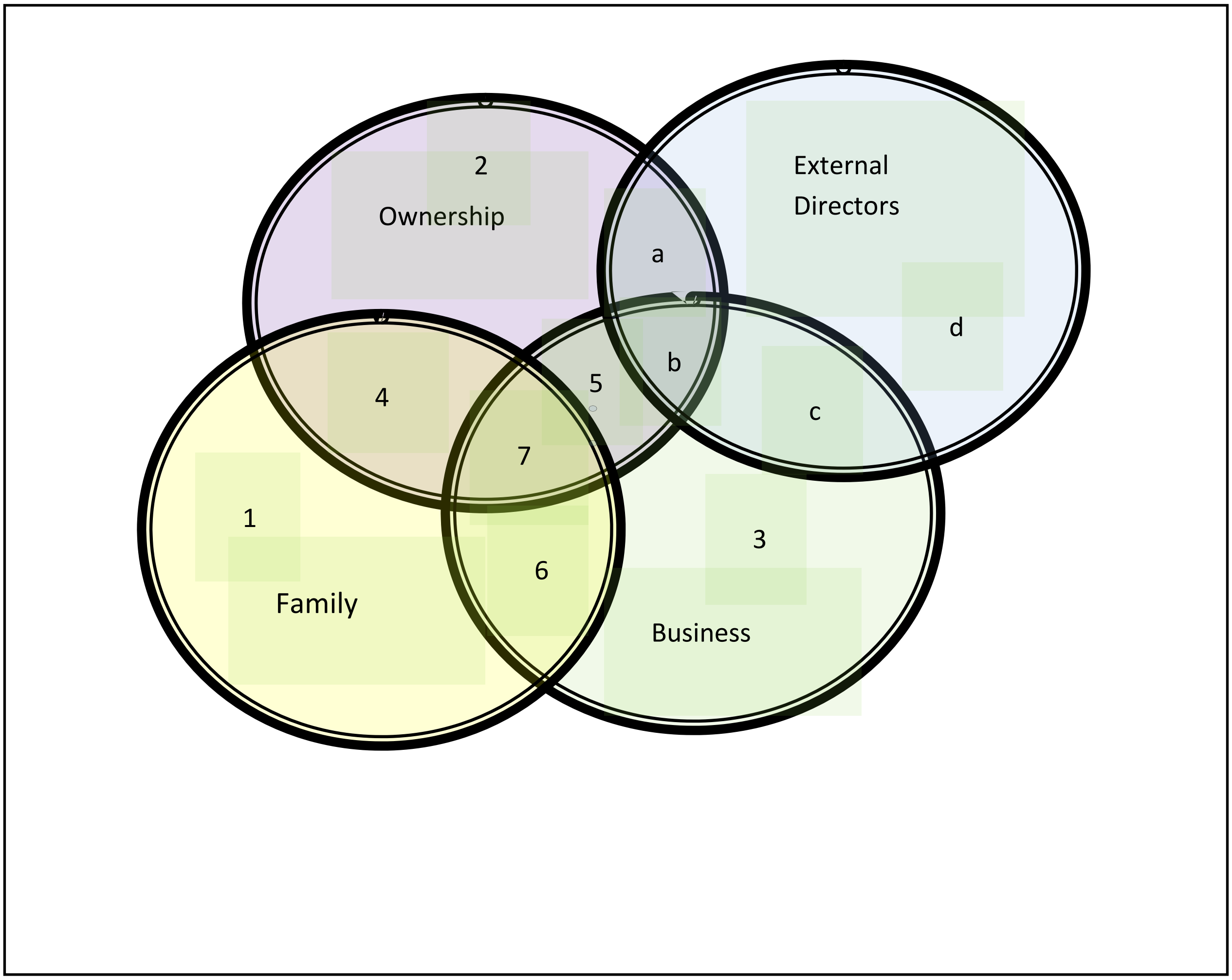


Figure 2.3

Re-interpretation of Tagiuri and Davis (1982)

The family business system model by Tagiuri and Davis (1982) illustrated in Figure 2.3, presents the family business system as three independent but overlapping subsystems: (1) business; (2) ownership; and (3) family. The overlap must be rationally managed in such a way the family should not be managed like a business, and the business should not be managed like a family. Since the needs and objectives of the three subsystems are interdependent, the management and governance of these three groups must be coordinated. Apart from the overlapping of the three circles, seven sectors emerge. Any individual in a family business system, fall in one of the seven sectors created by the three overlapping circles.

According to Tagiuri and Davis (1982), in the business circle, section 3 consists of the internal directors who are employees of the company but neither family members nor owners; section 5 consists of internal directors who are both employed by the company and owners; internal directors who are employees and also family members fall in section 6; besides being employed by the company, internal directors who are both owners and members of the families fall in section 7. Tagiuri and Davis (1982) also suggest focusing on a circle representing all the individuals that could be defined as ‘non-family directors’ due to the fact that even if they are part of the board, they are not part of the controlling family. This distinction (whether the directors are part of the family or otherwise) could fall into four variants as following:

a) External directors who are not part of the business in the sense that they are not employees but are owners because of they receive stock options or others forms of ownership fall under sector a;

b) Sector b represents external directors who are both employees and owners;

c) External directors who are employees but not owners fall under sector c;

d) Finally, sector d covers external directors who are neither employees nor owners (Independent Directors).

Thus, Tagiuri and Davis (1982) discovered that as far as family business is concerned, the board of directors will be represented as an 'integrated device' to deal with both internal and external conflicts and to manage the different perspectives of the family, the owners and the business. Blair (1995) defines corporate governance should be regarded as the set of institutional arrangement for governing the relationship among all of the internal as well as external stakeholders that contribute firm specific assets.

In defining family enterprises and distinguishing them from other organizational forms, Chua, Charisma, and Sharma (1999) refer to two approaches namely components and essence. Chua et al. (1999) defined the earlier approach as referred to Miller, Le Breton-Miller, Lester, and Cannella, (2007), as well as, Sciascia and Mazzola (2008) as the nature and extent of family involvement in business, whereas, the later approach is referred by Holt, Rutherford, and Kuratko (2010) as well as Klein, Shapiro, and Young (2005) as the more focused of family aspiration besides family involvement. According to Ward (2001) the important particularities ways mainly are:

a) The family business owners are identifiable since they are limited in number, besides business, they are bound to have lifelong, interpersonal relationships and apply a long-term view in their actions.

b) Besides purely economic goals, ownership also has non-economic meanings and accounts at a large degree to an individual's net worth.

c) The ownership position cannot be easily left, both financially and emotionally.

Hence, does the relevant of the dominant agency theory for independent directors in choosing professional CEO is really benefited family firms?, does the moderation effect of choice of CEO support the significant of stewardship theory, as the corporate governance mechanism best practice for the family firm's differences?. The answer to these will be determined in this study.

Two dependent variables that have gained significant momentum in the last few years are the governance and financial performance of family firms (Yu, Lumpkin, Sorenson, & Brigham, 2012). In term of the governance, while there has been a huge written report available at large in volume, only the tip of the iceberg has been revealed as to the finer nuances related to governance structures and institutions (Gersick & Feliu, in press). Steward and Hitt (2012) stated that family involvement generally has a positive effect for public firms and insignificant or negative effect for private firms. These findings are similar to the recent meta-analytic study on financial performance that finds a small positive effect of family involvement on firm performance (Van Essen, Carney, Gedajlovic, & Heugens, 2011).

The above findings overviews are an important step forward in which, McKenny, Short, Zachary, and Payne (2012) viewed that future research will need to take a more nuanced view of subjects such as succession, *professionalization, governance, and performance* owing to the heterogeneity of the nature of family involvement in a firm and the variations in the espoused goals of the dominant coalition of these enterprises.

Astrachan, et al. (2006) asserted that most highly recommended corporate governance practices may actually be detrimental to family businesses, damaging unity or imposing excessively complex requirements on private firms. On the theorist's argument of whether duality function (incumbency of roles of board chair and CEO) could maximize shareholder interests because it is not complied to shareholder theory, Donaldson and Davis (1991) found that an empirical test fail to support agency theory and provide some support for stewardship theory.

2.5.1 Corporate Governance Structure in Family Firm

The Cadbury Committee (2003) has defined corporate governance in a far broader perspective. They view this social issue as a matter which is concerned with holding and balancing between economic and social goals and between communal goals and individual desires. The governance framework exists to encourage the efficient consumption of resources and equally to require accountability for the stewardship of those resources. The aim is to align as closely as possible the interests of individuals, corporation and society. Nam & Nam (2004) suggests some aspects that should be concerned in the internal mechanism of corporate governance, including its independency and structure, function and activity, compensation and other relevant responsibilities of the board of directors.

Astrachan., et al. (2006) pointed that the difference with the family-controlled firm is that, the family's presence in ownership and management leads to a low goal divergence between owners and managers (consistent with Huse, 2000; Corbetta & Salvato, 2004; Lipman & Lipman, 2006). Agency problem theory type II started when the founder's family who is also the owner of the business began expropriating company's assets at the expense of minority shareholder. This expropriation is due to the duality function of CEO-Chairman by the same person which is normally known as a norm in family firm, it is against the requirement of MCCG 2007 (Revised 2009).

In Chinese listed companies, a dual board structure is mandatory and both boards are parallel under their shareholders. Besides examining the company's financial affairs, board of directors and supervisory board are also responsible for checking the legal compliance of directors and managers such as in determining corporate strategies, merger, acquisition decisions, and appointing board directors as well as selecting company CEOs. A study by Hu, Tam, and Tan (2009) suggested that concentrated ownership has the most significant governance effect and has impacted negatively on firm performance.

The underlying theories are determined by the cash flow rights that impacted from the structure of equity ownership such as family controlled-firm and CEO background. Corporate value for a firm is mainly consistent with its financial performance model whilst the firm's corporate value is a function of the structure of equity ownership. McConnell and Servaes (1990) investigated the relationship between Tobin's Q and cash flow rights by examining a sample of 1,173 firms for 1976 and 1,093 firms for 1986. They uncovered that slope upward relationship until insider ownership has reached 40 per cent to 50 per cent. They also found significant positive relationship between Tobin's Q and Institutional investors.

Thus, the current study considers block-holder as the controlled variable in order to balance the family-controlled power when the process of choosing a CEO takes place. Hu et al. (2009) also discovered that the role of the board of directors and supervisory boards is found to have been hindered by concentrated ownership, rendering them unable to improve firm performance at present. They defined concentrated ownership as the percentage of company shares owned by controlling shareholder (referring to the largest shareholder) of the listed company, whereby the researchers defined the dummies for the board of directors and supervisory boards roles as: controlling directors (CD), outside directors (OD), controlling supervisors (CS), and outside supervisors (OS). Besides their distinguish definition, these roles can be quantified as the following:

a) CD defined as the directors who are full-time employees of the controlling shareholder of the listed company and the percentage (CD %) can be measured by the proportion of controlling directors on the board of directors.

b) OD defined as the directors who are neither employees of the listed company and of the controlling shareholder, nor the independent directors and the percentage (OD %) can be measured by the proportion of outside directors on the board of directors.

c) CS defined as the supervisors who are full-time employees of the controlling shareholder of the listed company and the percentage (CS %) can be measured by the proportion of controlling supervisors on the supervisory board.

d) OS defined as the supervisors who are not employees of the listed company and of the controlling shareholders and the percentage (OS %) can be measured by the proportion of outside supervisor on the supervisory board.

Mallin (2010) proposed the governance development for a formal governance structure for a family firm as illustrated in figure 2.4. The Management Council consists of management and non-management family members acting as facilitator to smoothen the succession planning conflicts from first generation (senior) to second generation (junior) since many companies had failed inheritance within the first two generations. Tricker (2009) recognized the challenge incorporated in gaining the best practice of corporate governance for family-controlled business, which on the one hand, ensures continuous professional management whilst, on the other hand, preserving family unity. Many successful family-controlled businesses fail to cater to this challenge.

2.5.2 Background of the Family Member CEO

As suggested by Berle and Means (1932) when firms grow and their shareholders become more diverse, the agency relationships in public firms become more complex due to the impact from the arrival of joint stock, limited liabilities firms as well as the increased number of principal (shareholders) and their agents (directors and CEOs). A potential dilemma for agents is whether they are the stewards of interests for long term traditional shareholders, or a short term activist that represent institutional block holders.. Their roles and interests are unlikely to be the same (Tricker, 2009).

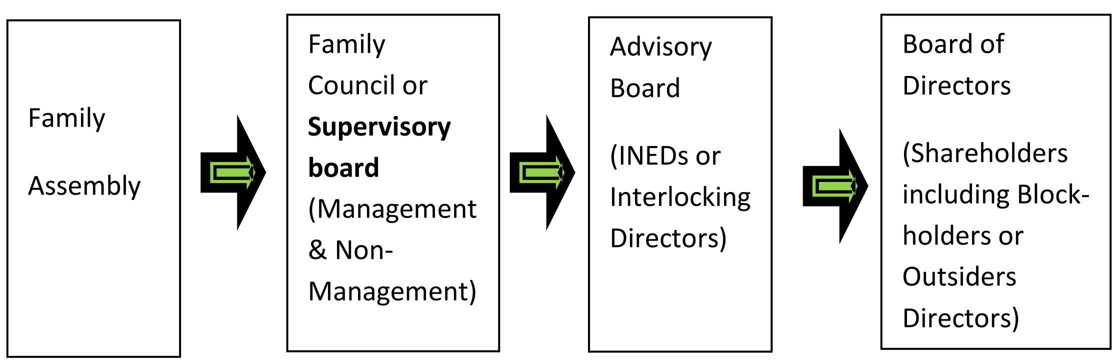


Figure 2.4

Illustrates the Possible Stages in a Family's Governance by Malin (2010)

Family firms represent the predominant form of business organizations in the world (LaPorta, Lopez-de-Silanes, & Shleifer, 1999). Ghanem (2010) claimed that majority of all listed companies from all over the world started as or from family business entities (founders). A survey by Spenserstuart (2009) discovered that within a period of four years, from 2004 to 2008, UK had the highest percentage of outsiders appointed to the post of CEO which accounted for 34 percent, compared to 32 percent, 22 percent, 21 percent and 20 percent in German, Netherland, France, and the US respectively.

2.5.3 CEO Succession Planning

In any family organization, succession planning is critical to be sustained successfully. Further, a joint survey by Thornton and the Malaysian Institute of Management (2002) indicated that most of the businesses in Malaysia are run by the founders (59 percent), while 30 percent are run by the second generation, the majority of whom are children of the founders. The survey also found that the main activity of family business lies in manufacturing (35 percent), followed by retailing (12.9 percent) and construction (10 percent). However, as mentioned earlier, despite its significant roles, family firms have a low survival rate and this survival rate is universal and independent of cultural context or economic environment (Lank et al., 1994).

Sraer and Thesmar (2007) evidenced that outside (expertise) CEOs in family firms are hired until they are more likely to be taken over by the capable heir-CEOs who may smooth out industry shocks in terms of full commitment without fear by heir-CEOs due to their families ownership of the firm and manage to honor implicit labor contracts in terms of full commitment for long-term lower wages-employment by sustaining reputational contracts. In another study of family firm in Denmark, Bennedsen, Nielsen, Perez-Gonzalez, and Wolfenzon (2006) reported that professional outsider CEOs provide extremely valuable service to their organizations. Unlike in Malaysia, Denmark's insider CEO displays under-performance, particularly in fast-growing industries, industries with a highly skilled labor force and relatively large firms.

One of the critical issues in strategic leadership research is the extent to which CEOs influence the directors to whom they report (Mace, 1997; Vancil, 1987; Pettigrew, 1992). In the agency theory type I involving *agency cost*, one of the chief criteria employed by CEOs during the director nomination process is selecting directors with whom they would be most comfortable working (Fredrickson, Hambrick, & Baumrin, 1988). However, the applied criterion is different in agency theory type II that involves *moral hazard* in which nepotism (the norm in choosing family member CEO) is one of the elements that exist in family corporations that leads to the tolerance of inexpert family members as managers might affect the performance of the firms (Kets de Vries, 1993).

2.6 Creating Value in Economic Value Added

Weissenrieder (1998) suggests that corporate managers require more efficient capital allocation within companies due to the increased efficiency at the capital market. He proposed that a new economic framework, a Value Based Management (VBM) framework that better reflects value and profitability must be implemented to replace the insufficient accounting system in companies. One of the major frameworks within VBM is Economic Value Added (EVA).

Stern & Chew (2001) argue that the development of EVA coincides with the increased “empowerment” of managers as decision makers, and is a tool that meets the potential agency issues created when ownership and manager are separated. This situation can be seen in the following illustration:-

2.6.1 Illustration of EVA in Motivating CEO

For example, there are two valued projects A and B under a CEO named Mr. Q. In project A, the existing earnings after tax (EAT) is RM 2,000,000 and has assets of RM 2,000,000, therefore, the ROA is 100% or RM (2,000,000/2,000,000).

However, in project B the new ROA is 50% that comprises of RM 1,000,000 EAT and has assets the same as project A which is RM 2,000,000. The cost of capital for both projects is also at 20%. Thus, the combined ROA can be calculated as the following:-

$$\frac{\text{RM } 2{,}000{,}000 + \text{RM } 1{,}000{,}000}{\text{RM } 2{,}000{,}000 + \text{RM } 2{,}000{,}000} = 75\%$$

Firm performance result: fall from 100% to 75%. Therefore, there is the tendency for Mr. Q as a CEO to forgo the new project B. However, if that ROA calculation is replaced by the formulation of EVA, the result would be much different as the following:-

Formula of EVA = (ROA-Weighted Average Cost of Capital) x Total Capital

EVA = (ROA – WACC) x Total Capital

a) Without new project B: (100% - Required Minimum Return) x RM 2,000,000

= (100% - 20%) x RM 2,000,000 = RM 1,600,000

b) With new project B: (75% - 20%) x (RM 2,000,000 + RM 2,000,000)

= 55% x RM 4,000,000 = RM 2,200,000

Firm performance result: increment of 72.7% or increased from RM 1.6 million to RM 2.2 million. The big difference is that, ROA is a percentage number whereas EVA is a "Ringgit Malaysia" value.

Stern & Chew (2001) are convinced that a steady increase in EVA will precipitate an increment in market value of an organization. They further suggest that the adoption of an EVA resolution has proven to be effective in almost all types of organization, from the emergence of growth companies to those entities involved in "turnaround positions". Despite all of EVA advantage, this approach has three drawbacks. First, economic depreciation is hard to estimate and conflicts with General Accepted Accounting Principles (GAAP) may hinder its acceptance by financial managers.

Second, the main problem is associated with the use of estimates of economic income to evaluate performance which lacks precision and objectivity. Obviously and very often for instance, the person who is best placed to provide the cash flow estimates is the one whose performance is being ‘measured’ in which this could exposed for bias estimates. Lastly, EVA is for the short-term that only deal with the current reporting rather than future result. Ideally, divisional performance evaluation is recommended to be measured on the basis of economic income by estimating future cash flows and discounting them to their Net Present Value (NPV).

Other firm’s performance measurement method involved in this study is Tobin’s Q. This dependent variable dimension is defined as the market value of common equity plus book value of preferred shares and debt dividend by book value of total assets (Yeh et al., 2001; Wiwattanakantang, 2001; Chu & Cheah, 2004; Chen et al., 2005; Maury, 2006; Vilalonga & Amit, 2006; Martinez et al., 2007; Ibrahim et al., 2008).

2.7 Theoretical Underpinning

Before considering any theoretical underpinning regarding the different of family firms’ corporate governance, it is important to mention clearly the two criteria in corporate governance definition by Pieper (2003). After breakdowns the scope of the definition into (narrow or broad) and its orientation (task or goal oriented), Pieper span a two-by-two matrix that allows the classification of corporate governance definition into four main groups, as shown in Table 2.1.

Mainstream research on corporate governance is based on agency theory which explained the separation of ownership and control in large, publicly traded firm where ownership is distributed among extremely large number of anonymous shareholders (Berle & Means, 1932). In reality, this phenomena of the widely held by dispersed ownership can be seen in the United States and the United Kingdom.

However, most economies around the world in which most companies, in most cases even listed firms, have a family holds such as a dominant stake due to their control power as the majority shareholders. In shareholders theory, family members as major shareholders often occupy key executive management positions within the affair (LaPorta, Lopez-de-Silanes, & Shleifer, 1999b; Barca & Becht, 1999; LaPorta, Lopez-de-Silanes, & Shleifer, 1999a; Berglof & Thadden, 1999).

Tirole (1999) asserted that besides shareholders theory, stakeholder theory is imperative especially when the managerial decisions could also exert external related parties, who had an innate relationship with the corporation. Since the majority of all firms (publicly listed or private ones) in any economies are characterized by concentrated ownership (mostly by family-controlled firms), therefore, agency, shareholder, and stakeholder theories could inevitably fails to describe the governance system in these firms. Thus, a narrow definition of this distinctive form of organization is basically based on the role of trust as governance mechanism and its importance in family firms (Ward, 2003b). This mechanism is obviously existed in stewardship theory.

Table 2.1

Classification of Governance Definition According to Scope and Orientation

Orientation \ Scope	Narrow	Broad
Goal-Oriented	"Corporate Governance can be defined as how the owners' interest is organized and exercised in order to influence in the strategy processes." (Merlin & Nordqvist, 2002)	"Corporate Governance is a system of structure to secure the economic viability as well as the legitimacy of the corporation." (Neubauer & Lank, 1998)
Task-Oriented	"A good governance structure is one that selects the most able managers and makes them accountable to investors." (Tirole, 2001)	"Corporate Governance is the system by which companies are directed and controlled." (Cadbury, 1999)

Due to the limitation of a single theory for overall support in the corporate governance distinctiveness in the family firms (Abdullah & Valentine, 2009; Bordean, Crisn, and Pop, 2012; Htay, Salman, and Meera, 2013), the current study considers five approaches to corporate governance that can be combined or that support each other, or as the alternative complementary model to the earlier theories, namely: (1) agency theory, (2) shareholder theory, (3) stakeholder theory, and (4) stewardship theory (5) signaling theory as following:

2.7.1 Agency Theory

Theoretical underpinning for corporate governance research was first introduced by Berle and Means (1932) in their thesis, "The Modern Corporation and Private Property". In this thesis they described a separation of ownership and control in a fundamental agency problem as follows:

"It has often been said that the owner of a horse is responsible. If the horse lives he must feed it. If the horse died he must bury it. No such responsibility attaches to the share of stock. The owner is practically powerless through his own efforts to affect the underlying property. The spiritual values that formerly went with ownership have been separated from it…the responsibility and the substance which have been an integral part of ownership in the past are being transferred to a separate group in whose hands lies control." (Berle & Means, 1931a, pp. 37)

Reference to the separation of ownership and control, and concern over its effect is referred at least to Adam Smith. In The Wealth of Nations, Smith (1776) wrote about joint stock companies, stated:

"The directors of such companies, however, being the managers of other people's money than their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private co-partner frequently watch over them…negligence and profusion, therefore, must always prevail more or less, in the management of the affair of such a company." (Smith, 1776, pp. 333)

Chronologically, the effort of Smith has been continued by Stephen Ross and Barry Mitnick in 1973. While Ross was responsible for the development of economic theory of the agency, Mitnick was came out with the idea of institutional theory of agency as though both theories have shared the same underlying basic concept (Mitnick, 2006). Mitnick evolved the imperfection of agency relationship by introducing the idea of institutional theory, whereas, Ross had come out the idea of agency in term of compensation contracting. Although Ross and Mitnick (1973) were the first scholars who had come out with the idea of agency theory, Jensen and

Meckling (1976) work was widely cited and dominated in the literature (Mitnick, 2006).

Jensen and Meckling (1976) are among the pioneer of agency theory that is theoretical postulates concerning the relationship between the firm's ownership structure and firm performance were then further defined the theory as "one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent". Conflict of interests between managers or controlling shareholder, and outside or minority shareholders refer to the tendency that the former may extract "perquisites" (or perks) out of a firm's resources and less interested to pursue new profitable ventures.

According to them, agency problems arise when the holding of common stock in the firm by managers is less than 10 per cent**.** They explained about the conflicts that arise between shareholders and managers. This theory is widely used to explain why closely-held firms have better economic performance than do publicly owned firms. Shareholders / owners of the firms empowering managers to run the firms and make decisions on behalf of them may create potential conflicts of interest.

The linkage between corporate governance and corporate performance is viewed by Fama (1980). He comments that separation of ownership and control can be explained as a result of "efficient form of economic organization". This conditional concept is explaining the conflict between owners (shareholders) and managers (CEO) or it is referred to as Type I agency problem, whereas, in the family controlled firm, the conflict is between the large shareholder and minority shareholders or it is known as Type II agency problem. The drawback of the latter practice is that, there is also opportunity for dominant shareholders to act that benefited the family members but at the expense of minority shareholder (Villalongan & Amit, 2006).

Basically, an agency problem arises from two factors: (1) adverse selection (intention) and (2) moral hazard (behaviour), due to asymmetric information in which managers are better informed regarding what are best alternative uses for the investors' fund. The first factor is related to uncertainty and the prohibitive transaction costs required in selecting the right transacting parties in the face of limitless contingencies in the business environment. Moral hazard on the other hand describes opportunism or self-interest that includes subtle and devious behaviour known as self-interest seeking in guile or duplicity (Williamson 1985).

The principal-agent problem is also an essential element of the "incomplete contracts" view of the firm developed by Coase (1937) (supported by Jensen & Meckling, 1976; Fama & Jensen, 1983a, b; Williamson, 1975, 1985; Aghion & Bolton, 1992; Hart, 1995). If the realisation of the "complete contract" is possible, then the agency problem would not arise. However, complete contract is unfeasible in reality, since inability to foresee future's uncertainty and unforeseen risks or describe all future contingencies. The incompleteness of contracts means that investors and managers will have to allocate “residual control rights” in some way, where residual control rights are the rights to make decisions neither in unforeseen circumstances nor in circumstances not covered legally by the contract. Therefore, Hart (1995) stated that governance structure can be seen as a mechanism for making decisions that have not been specified in the initial contract.

Despite of the dominant perspective in corporate governance studies, principal-agent relationship approach has been criticised due to ‘limited ability to explain sociological and psychological mechanisms inherent of the principal-agent interactions (Davis & Thompson, 1994; Davis at al., 1997). For example this theory cannot justify the situation whereby outside directors as emphasized by agency theory, with only legal power, may not possess sufficient expert and seldom have close social ties with top managers. Phan (2001) suggested that whether the assumption of agency theory can be generalized to emerging markets, with their different sociological, economic, and development fundamentals, remains an important question.

2.7.2 Shareholder Theory

According to Clarke (2004) viewed the shareholder approach is quite similar to the agency theory. The only difference is the view that corporation as the property of its owners (shareholders) who may dispose of property whenever they see fit as long as they can receive maximum return on investment. Hobbies (1968) assumed that shareholders are also self-interest oriented along with agency theory that based on the same belief that egoistic view of human nature and humans are rational. Shareholders as owners should integrate procedures and controls that channel the corporation's manager and employees in the right direction of owner's self-interest. This narrow role of owner has been expanded into overseeing the firm's operation is subject to the compliance with ethical and legal standards set by the government.

Clarke (2004) suggested that managers are responsible and accountable for getting maximum return on the shareholder's investment by exercising good business judgement and avoiding conflict of interest and violation of confidence. Similar to agency theory in the aspect of this model is also focuses on compliance strategies to monitor managers and ensure managers remain faithful agents. However, besides monitoring cost such as incentive, owners are also taken seriously oversight responsibility which includes ensuring corporate decisions are complied with the relevant law.

On the whole, the shareholders' value based corporate governance mainly deals with mechanisms and arrangements to protect shareholders' interests. According to Llewellyn (2001), corporate governance arrangements include issues of corporate structure, the power of shareholders to exercise accountability of managers, the transparency of corporate structure, the authority and power of directors, internal audit arrangements and lines of accountability of managers.

2.7.3 Stakeholder Theory

Agency theory and stewardship theory were criticised because both theories had limited ability to explain the mutual trust and cooperation between firm and stakeholders. For instance, Quan and Xu (2011) found that the variability of firm performance caused by CEO power can be reduced by the increase of disclosure quality. Policymakers of Organisation for Economic Cooperation Development (OECD) have adopted stakeholders' value in constructing best practice of corporate governance codes from popular shareholder theory perspective to more broader-stakeholders' model in which, OECD (2004) proposed the definition of corporate governance as a set of relationship between a company's management, its board, its shareholders and other stakeholders.

Donaldson (1992) traced that the term "stakeholder" has been used as early as 1950 by Robert K. Merton. Freeman (1984) widened the definition to *"any group or individual who can affect or is affected by the achievement of the organization's objectives"*. Freeman (1984) breakdown stakeholders into primary (owners, management, local community, customers, employees and suppliers), or identified parties who continuing participation is necessary for firm's survival, whereas, secondary stakeholders comprises of government and communities that provide infrastructure and markets, as well as, trade unions and environmentalists, who are not essential to the firm's survival.

The redefinition of the stakeholder model is also consistent with both the transaction cost and incomplete contract theories in which the firm can be viewed as a "nexus of contracts" (Coase, 1937; Williamson, 1975, 1985; Jensen & Meckling, 1976; Aoki, Gustafsson, & Williamson, 1990). The shareholders have the interest to take account of other stakeholders, and to promote the development of long term relations, trust, and commitment amongst various stakeholders (Mayer, 1996; Jones, 1995; Murray & Vogel, 1997; Ruf, Muralidhar et al., 2001) assert that if firms contract in corporate social responsibility with stakeholders on the basis of mutual trust and cooperation, firms will have a competitive advantage over firms that not applied for it.

However, Maher and Andersson (1999) found that opportunistic behaviour problems arise whenever contract is incomplete and firm specific investment has to be made. The consequence of opportunistic behaviour is that, it leads to *underinvestment*. Thus, underinvestment in the stakeholder model would include investments by employees, suppliers, and others. For instance, employees may unwilling to invest in firm specific human capital if they are unable to share in the returns for their investment, but have to bear the opportunity costs associated with making those investments, but have to bear the opportunity costs with making those investments.

Alternatively, firms may be unwilling to expend resources in training employees if once they have incurred the costs they are unable to reap the benefits if employees, once endowed with value-added in intellectual capital, choose to leave the firm. Suppliers and distributors can also be under-invest in firm-specific investments such as customised components and distribution networks. In the broader context, corporate governance becomes a problem of finding mechanisms that reduce the scope for expropriation and opportunism, and lead to more efficient level of investment and resource allocation (Maher and Andersson 1999).

Donaldson and Preston (1995) stated that management literature has been advanced and justified the concept of stakeholder theory on the basis of its descriptive accuracy, instrumental power, and normative validity. Descriptive justification is referring to attempt in order to show the concepts embedded in theory correspond to observed reality or to describe or explain specific corporate characteristics and behaviour, such as to describe (a) the nature of the firm (Brenner & Cochran 1991), (b) the way managers think about managing (Brenner & Molander 1977), (c) how board members think about the interests of corporate constituencies (Wang & Dewhirst 1992), and (d) how some corporations are actually managed (Clarkson 1991; Halal 1990; Kreiner & Bhambri 1991).

Instrumental is referring to identify evidences of the connections, or lack of connections between stakeholder management and firm's profitability or growth (traditional corporate objectives) from the availability of the descriptive / empirical data. The last justification is the normative validity, whereby the theory is used to interpret the function of the corporation, including the identification of moral or philosophical guidelines for the operation and management of corporations.

Donaldson and Preston (1995) viewed that, the three aspects of the stakeholder theory are nested within each other, as visualized in Figure 2.5. Donaldson & Preston (1995) concluded that the three aspects of stakeholder theory are mutually supportive and that normative base of the theory which includes the modern theory of property rights is fundamental. Maher & Andersson (1999) discovered that one of the critics of the stakeholder model is fear of management team or boardroom participants in the reform process could lead managers or directors to use 'stakeholder' reasons such as MSWG as minority shareholders' competing interest to justify the cause of having poor firm performance.

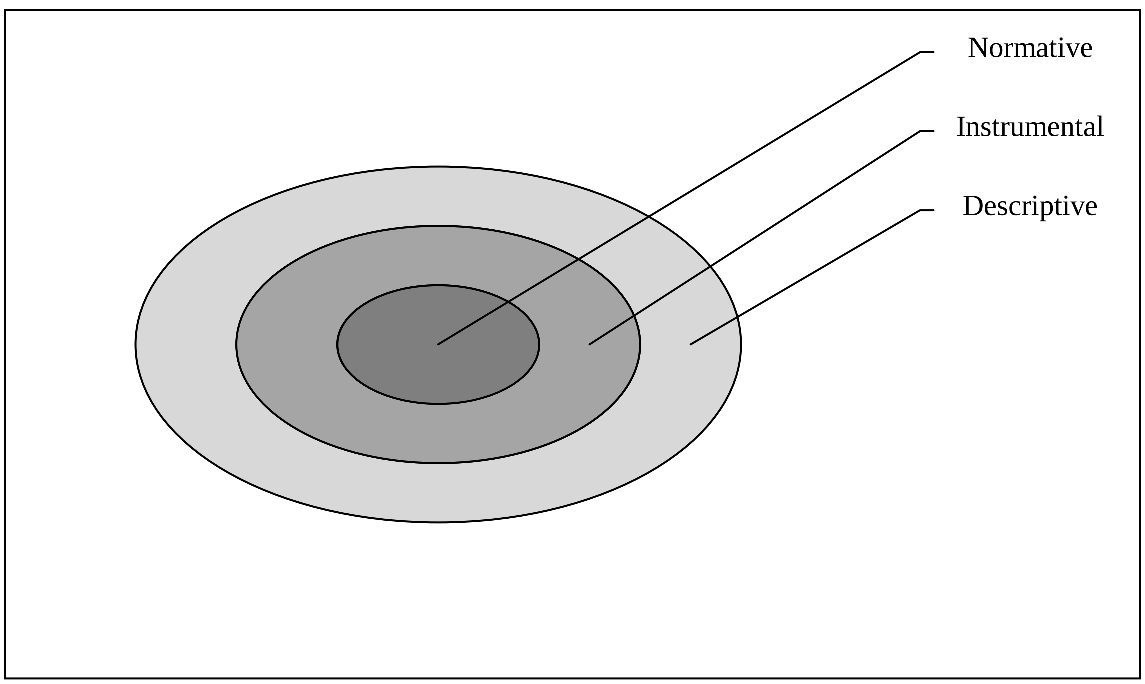


Figure 2.5

Three Aspects of Stakeholder Theory

Hanousek, Kocenda, and Shamshur, (2015) have studied corporate governance in Europe by employing more than three million observations from two distinguished periods of a pre-crisis (2001-2008) as well as a post-crisis (2009-2011), and found that firm's efficiency increased when a majority shareholders have made a deal with minority shareholders.

2.7.4 Stewardship Theory

The debatable on agency theory is raised by Silverman (1970) who proposed organizational sociologist's view on what motivates individual calculative action by managers is their personal perception. Unlike of incomplete contract due to asymmetric information in agency theory, there is possible complete contract in stewardship theory whenever an executive feels their future fortunes are bound to their current corporate employers through an expectation of future employment or pension rights, then he / she may perceive their interest as aligned with that of the corporation and its owners, even in the absence of shareholding (Donaldson 1985).

Donaldson (1985) added that stewardship theory holds that performance variations arise from whether the organization structure helps executive in formulating and implementing plans for high corporate performance, in which, they will be facilitated with clear, consistent role expectation and authorize and empower senior management towards this goal. Stewardship theory is also proposed by Fan (2004) as an alternative perspective to agency theory, whereby in this model, theorists assume managers are good steward of the firm. They are trustworthy and work diligently to attain high corporate profit and shareholders' returns (Donaldson & Davis 1994). The stewards' spirit can make managers not only operate and work closely with the principal to achieve a "goal alignment" but also behave as a caretaker who looks after the owner's property and interest even though the owner is absent (Davis et al. 1997).

In studying the family firm goals owner benefit stakeholders internally and externally which involving 524 participants (86% CEOs, nearly 60% founders) in Smaller Company Management Program at Harvard Business School, six most important goals of family firms are having a company where employees can be happy, productive, and proud; financial security and benefits for the owner; developing new and quality products; a vehicle for personal growth, social advancement, and autonomy; good corporate citizenship; and job security.

At methodological level, Tian and Lau (2001) use two different board composition measures as dummies namely, independent directors and affiliated directors, to highlight their differences in motivation, firm-specific knowledge, information advantage, interpersonal relationship and mutual trust with the managers, along which dimensions that agency and stewardship theories diverge from each other. Empirically, Tian and Lau (2001) found that stewardship theory hypothesis received stronger support than agency theory. They had also proven that CEO duality (the role of chairman of the board and CEO is held by one person normally happen in family-controlled firms) is also seen as supportive attribute to the stewardship theory in term of firm performance due to altruistic motives. This finding also was supported by Donaldson and Davis (1991) study finding.

Clarke (2004) emphasized this theory as primary value-based in three approaches as they: (1) identify and formulate common aspirations and values as standards of excellence, (2) develop training programmes conducive to the pursuit of excellence, and (3) respond to values “gaps” by providing moral support. Clarke briefly made comparison on these four theories as per Table 2.2. Stewardship theory has its roots from psychology and sociology commensurate with the definition by Davis, Schoorman, and Donaldson (1997) as stewards protect and maximizes shareholders wealth through firm performance, because by so doing, the steward’s utility functions are maximized. Unlike of agency theory, the stewardship theory stress not on the perspective of individualism but rather, on the role of top management for being as steward (Donalson & David, 1991).

Daily, Dalton, and Cannella (2003) argued that in spite of being empowered employees and executives in term of offering maximum autonomy built on trust, executives and directors as decision maker should managing their career in order to be seen as effective stewards of their organization. Duality function in family firm and resemblance in countries like Japan, where Japanese worker assumes the role of stewards and takes ownership of their jobs and work diligently and trustworthy are the examples how the stewardship theory could reduce agency cost and at the same time could also establish a good for future reputation (Fama 1980; Shleifer & Vishny 1997).

Dominant perspective of corporate governance is a straightforward agency perspective, sometimes referred to as separation of ownership and control of public listed firms (Shleifer & Vishny, 1997). Unlike this agency type I, in family firm normally, owner is also the controller (discharging the duality function) will lead to the agency type II. Agency type II will happen when the same person of family member’s tendency as majority shareholders expropriate (misuse corporate decision making) assets to the minority shareholders for their own benefit due to family business dimensions, in which consist of: (1) block-holder or family ownership concentration; (2) Family management; and (3) Family control of board.

However, agency problem type II could also contributes for family firm’s value, whereby study by Donaldson and Davis (1991) resulted in the positive relationship between CEO duality and family firm performance that provides some support for stewardship theory and empirical test fail to support agency theory. This evidence is supported by Ibrahim and Samad (2008) found that the family ownership experiences less agency conflicts when duality role exists. In shareholders theory perspective, most studies on family ownership concentrated were also found to be positively related to family firm’s performance (Dalton, Daily, Certo & Roengpitya, 2003; Shakir, 2008; Amran & Ahmad, 2010; Van Essen, Carney, Gedajlovic, & Heugens, 2011; Gul, Sajid, Razzaq, & Afzal, 2012).

Table 2.2

Summary Table for Introduction on Theories of Governance by Clarke (2004) provides a Taxonomy of Four Different Approaches to Corporate Governance

Approaches Corporate Governance	Description	Theory of Human Nature	Owner Role	Manager Role	Corporate Ethics Focus
(1) Agency Theory	Managers act as agents of the corporation fulfilling the ***goals*** established by the owners /directors as principal	Managers are *rational*, but self-interested beings who must be controlled from the outside	Owners are *principals*, that is, they originate the action and bear primary moral responsibility	Managers are *agents* that is, responsible for *acting* in the interest of the principals who hire them. Faithful agency implies avoiding conflicts of interest and maintaining confidences	Compliance focus uses *rule-based codes*, systems of monitoring and punishments and rewards to motivate compliance from outside
(2) Share-holder Theory	Corporation is *property of shareholders* who dispose of it as they see fit	Shareholders pursue self-interest. They are rational (instrumental), *economic self-interest maximizing-oriented*	Owners invest in corporation and seek a *return* (profit) on their investment	Managers are responsible for *ensuring* that owners get maximum return on investment	Shareholders direst (urgency) / causing *compliance* toward manager control and external conformity to laws
(3) Stake-holder Theory	Owners drop *out of centre focus*. Corporation is run for the sake of its stakeholders	Groups have special interests but recognize the need to *integrate* these. Humans possess capacity for procedural reasoning	Owners drop to one of a group of equal stakeholders. *Still advocate* their financial interests but not to exclusion of other stakeholders	Managers are meta role& become *referees* stakeholders. They treat stakeholders and stake equally and integrate these to the fullest	Instead of what constitute a stakeholders, they participated on the basis of *mutual trust* and cooperation in long terms for seeking competitive

				extent possible	advantage due to the fact they could contributed firm's specific assets
(4) Steward-ship Theory	Managers act as stewards for *absentee* owners; oversee the operations of corporation and exercise care over them. Emotion (care) plays an equal role with instrumental rationality in *Socio-Emotional Wealth*	Desire and self-interest are *balance out by social motives* in group strategic decision freely as Rousseau's pity and Aristotle's virtues	Owners *still set cardinal / prime important **objective*** but they also are responsible for providing managers with a meaningful work environment	Managers are *stewards* exercising care over the property of the owners in their absence. Stewardship is based on *internally generated and self-imposed motives toward care.*	*Value-based:* (1) identify and formulate *common standards* of excellence, (2) develop *training* programs to foster pursuit of these excellences, and (3) develop support structures to help *reduce value "gaps"*

Institutional stakeholders of family firms include Bursa Malaysia, Security Commission, Bank Negara Malaysia, and the Ministry of Finance. Besides these watchdog agencies, Non-Government Organizations (NGOs) such as Minority Shareholders Watchdog Group (MSWG) as well as Audit Oversight Board (AOB) have proven that voluntarily adopting the Malaysian Corporate Governance Codes (MCCG) among family firms in Bursa Malaysia will lead them to be high sustainability companies for stakeholder engagement (Eccless, Ioannou, & Serafeim, 2012).

Khan (2003) claimed that due to the duality function of family CEO, the disclosure of non-financial information is classified as highly confidential to minority shareholders. When making crucial decisions, family members in family firms try to adapt the compulsory imposition of corporate governance best practice. However, it is found to be unsuitable for their different governance structure. Although, the voluntary adoption of the MCCG application is still low, the duality function in family managed firms actually allows them to deliver excellent performance (Liu, Yang, & Zhang, 2010).

Abdullah and Valentine (2009) suggest that a *combination of various theories* is best to describe an effective and good governance practice rather than theorizing corporate governance based on a single theory. This combination of theories is also supported by the previous scholars: Bordean, Crisan, and Pop (2012) and Htay, Salman, and Meera (2013) on multi-theory approach towards boards and universal corporate governance theory, respectively. However, findings from a study by Liu, Yang, and Zhang (2010) supported the fact that those theories namely (1) principle-agent, (2) shareholders, (3) stewardship, and (4) stakeholders, seem to be inadequate in explaining completely the successes and failures of family based corporate governance system (Khan, 2003).

2.7.5 Signalling Theory

Corporations with superior information transparency signal better corporate governance since it could be predicted that healthy firms are most likely to disclose more information than the distressed firms (Chiang, 2005; Norita & Shamsul Nahar, 2004). Signalling is another relevance theoretical approach that is applicable to the definition of voluntary disclosure process. In order to explain the behaviour in the labour markets, voluntary disclosure information such as the scoring level of Malaysian code of corporate governance as well as more comprehensive firm's performance like Tobin's Q model measurement, are useful indicators for investor's premium recognition with regards to signalling theory development (Eccles, Hertz, Keegan, and Phillips, 2001). In this case, managers of higher premium firms will wish to distinguish themselves from lower premium firms through voluntary disclosures. Signaling is one of the common motives that could be linked to shared repurchases and the strategy of a firm's management in order to gain their shareholders' confidence from its strength capacity (Baker, Powel, and Veit, 2003).

Signalling is a reaction to informational asymmetry in markets where firms have had hidden important information from their investors. In the pyramidal of firms, it is common to have information asymmetry between managers and its investors, since investors cannot fully monitor a firm (Eccles, et al., 2001; Spence, 2002). Asymmetries can be reduced if the internal party of the firm such as the manager, that has more information signals than its external party, can transmit a signal conveying information about the firm's current status to the investors by way of giving and using successful and credible signals respectively (Eccles, et al., 2001).

The reactive investor's response to these signals is dependent on the signal's reliability. All convinced investors could be attracted to signaling sincerity since a shared repurchase announcement is a costly signal (Grullon & Michaely, 2004). Investors are not only given a strength signal in return for their commitments but the firm should also announce its readiness to invest in itself, which is viewed as a signal of undervaluation (Jagannathan & Stephens, 2003). A survey from 194 managers of repurchasing firms also found that, the undervaluation signaling hypothesis is the main reason for firms to initiate repurchases (Baker et al., 2003).

Vermaelen (1981) shows that the observation for abnormal returns in the capital market following a repurchase announcement can be explained by the undervaluation signaling hypothesis. Vermaelen (1981) also found the same abnormal returns trend even in the largest volume experienced by the small firms, since they are less followed by analysts and thus have the highest information asymmetry between management and investors. Lie (2005) mentions that whether or not the management intends to repurchase announcement as a signal, the payout conveys information about the state of announcement made by the respective firms within their limited trading funds.

2.8 Corporate Governance and Firm's Performance

Abundance of studies are been conducted in examining corporate governance in relation to firm's performance. LaPorta, Lopez-de-Silanes, Shleifer, and Vishny (2002) reveal the findings that higher firm performance in countries with better protection of minority shareholders. Shahin & Zairi (2007) suggested that corporate governance is a critical element for driving excellence in corporate social responsibility in which can be a source of competitive advantage for firms operating in business environment.

However, there are mixed evidences on the relationship between corporate governance and performances. Better corporate governance is highly correlated with better performance. This is the evidence found by Klapper and Love (2003). Positive correlation is also found by Drobetz (2004). However, a more in-depth research was done by Drobetz, Schillhofer, and Zimmermann (2003) on the causal relationships between firm-level corporate governance and firm performance, where they found that investors are willing to pay a premium for higher firm performance, and CEO is punished in terms of valuation discount.

In terms of good governance, Zinkin (2010) suggests that investor's perception can be divided into three categories when they think of benefits by achieving a premium firm status:

a) They believe in higher stock prices over the long term
b) They see at the angle of risk-reduction and the likelihood that it will happen is low, however, should it be possible, the premium firm will recover faster because of its good corporate governance.

c) They recognize the importance of happening prediction whereby they perceive that CG matters and thus it will reflect the share prices.

Mokhtar et al. (2009) found no relationship between good corporate governance and firm's performance. This study is performed using a report by Standard & Poor in Malaysia, in which their finding is supported by Chidambaran, Palia and Zheng (2007). In the study, they discovered that firms with good corporate governance did not demonstrate better performance than firms which did not apply good corporate governance after studying on the relationships between corporate governance elements (board monitoring, pay-performance, shareholder rights) and performance measurements in return on assets (ROA), profit, stock return, and Fama-French-Carhart Alpha. In other words, good corporate governance may not necessarily lead to better firm performance.

Lee (2009) studied on corporate governance elements such as ownership variables, ownership concentration, foreign ownership, institutional ownership, size, and leverage and their relationships with firms' performance in term of both measurements namely net income to total assets ratio, and ordinary income to total asset ratio, however, disclosed that there is positive relationship between corporate governance and firm's performance. These inconsistencies in findings between corporate governance and firms' performance have motivated current study in examining the relationship between corporate governance and family firm performance.

2.8.1 Corporate Governance Components and Firm's Performance

One of the specific governance issues in family firm that have been widely debated is the duality of the chief executive officer (CEO). Hsu et al. (2012) argued that most current corporate governance best practice relies more on the agency theory and they believe that separating the two roles of CEO and chairman, the firm may outperform those firms who do not apply similar strategy. However, this statement has not been proven. On the contrary, Hsu et al. (2012) supported the study findings by Donaldson and Davis (1991). Donaldson & Davis (1991) claimed that the stewardship suggested the CEO duality (defined as one person serving both as a firm's CEO and board chairman), may establish a strong, unambiguous leadership and may make better and more efficient decisions.

In research by Rashid (2008), corporate governance elements are breakdown into two, first one known as internal corporate governance variables: chairman and CEO duality, board size, role of debt, role of majority shareholder, whereas the second one known as external corporate governance variable: judicial and regulatory authority efficiency. After taken into consideration the effect of independent variables, price to book ratio and market capital, as well as, the performance measurement in term of return on assets (ROA), price earnings (PE) ratio, net present value, and internal rate of return, Rashid (2008) provided that there is positive relationship between corporate governance and value of firm but nevertheless it differs between countries.

Jong et al. (2002) had undergone macro study in determining firms' performance relationship with corporate governance elements which consist of board structure, ownership structure, and board size across countries. By using performance measurements of return on assets (ROA), Tobin's Q, and stock return, they found that results varies depending on country (country specific), common corporate governance revealed that it does not have similar relationship with firm performance across countries.

2.8.1.1 Dimensions of Governance Elements and Firm's Performance

According to Bohren & Odegaard (2001), only for ownership structure and firms' performance relationship is inverse and very significant, whereas, the rest corporate elements namely board characteristics, financial policy, and security design, were insignificant in relationship with Tobin's Q as performance measurement. Relevant corporate governance structure mechanism variables such as board size, board composition, CEO duality, multiple directorship, ownership concentration, and managerial shareholdings were studied by Hanifa and Hudaib (2006) in order to determine its relationships with firms' performance measurements namely return on assets (ROA) and Tobin's Q. They noted only for both board size and ownership concentrated have positive relationship with firm's performance.

Amongst the studied governance elements: board size, board composition, CEO status, audit committee as well as ROE, and profit margin ratio as performance measurement, Sunday (2008) discovered that there is positive relationship between these corporate governance elements and firm's performance. Ehikioya (2009) studied on elements of governance namely board size, board skill, CEO duality, relative on board, outside director, age, director share, ownership, firm size, leverage as the independent variables and their relationships with firms' performance in term of return on assets (ROA), return on equity (ROE), price earnings (PE) ratio, and Tobin's Q. Ehikioya (2009) evidenced that the results inconclusive with ownership, CEO duality, firm size and leverage have positive relationship with firm performance.

Board size, frequency of board meeting, role of duality, non-executive directors, independent directors, directors with accounting or finance qualifications, family member as board members, audit committee meeting, audit committee size, women directors, bumiputera as directors, politician as directors, and auditors are those variables that were studied by Hamid (2008) in order to determine their relationships with sales, return on assets (ROA), and return on equity (ROE) in government linked companies (GLCs) as compared to non-GLCs. However he found that no empirical evidence found for differenced in the relationship between corporate governance and firm performance in both GLCs and non-GLCs.

Khan, Dost, and Mumtaz (2011) studied on corporate governance elements namely ownership structure, accountability, directors' remuneration, dividend policy, risk management, internal audit, and sustainability and their relationship with firms' performance that measured by return on equity (ROE), price earnings (PE) ratio, and earning per shares (EPS). Khan et al. (2011) uncovered that directors' remuneration has negative relationship with PE ratio; ownership structure has positive relationship with PE ratio; internal audit, risk management, sustainability, accountability has positive relationship with ROE; risk management has negative relationship with ROE; and dividend policy has negative relationship with EPS.

2.8.1.2 Dimension of Transparency Elements and Firm's Performance

Stanwick and Stanwick (2010) studied on board performance, accountability, board independence, disclosure in relation to profit. They revealed that only board performance, accountability have positive relation with profit. However, there is no relationship between board independence and disclosure with firms' performance. Haat et al. (2008) furnished that there is no relationship between level of disclosure in timeliness of reporting and greater corporate transparency and firms' performance. By using return on assets, Abdullah (2006) findings shown that ownership and Board of directors' structure has negative relationship with and firm's performance, whereas, there is positive relationship between remuneration and firm performance.

Abundance of independent variables in corporate governance elements, control varaiables, as well as, dependent variable in firms' performance measurements was studied by Bhagat and Bolton (2008). Hence, they were used GIM G-Index, BCF E-Index, board independence, median director dollar value ownership, median director percent value ownership, CEO-Chair duality, CEO ownership, leverage dummy variable, CEO as the Chairman, assets, expenses, board size, *CEO age, CEO tenure*, risk, ROA, stock return, Tobin's Q, last 2 years performance, and Industry performance.

Bhagat and Bolton (2008) exhibited that Gompers, Ishii, and Metrick (GIM), 2003 G-Index, Bebchuck, Cohen, and Ferrel (BCF), 2004 E-Index, stock ownership, CEO Chair duality were significantly positively correlated with firm performance. However, board independence is the only variable which is negatively correlated with firm performance, whereas, the rest of the corporate governance variables did not indicate any relationship (Bhagat & Bolton, 2008). Thus, based on Table 2.3, there are key findings that were done by prior researchers in the area of firms' corporate governance structure and measurement of non-family firms' performance.

2.8.2 Moderating CG Structure and Firm's Performance Relationship

On one hand, external corporate governance in term of the regulation and guidelines is concerned for governing risk management, in family firm performance. CEO that is appointed and delegated power by board of directors will attempt to moderate the effects of the external corporate governance on family firm performance. On the other hand, internally, CEO who acts as the agents for shareholders has agency conflict of interests and always justifying his pay for performance. This mechanism is called internal corporate governance. Hence, this study will provide evidence the role of family firm board of directors can play in corporate governance to serve the public interest in term of the new trend of choosing the professional CEO that responsible to implement these rule and regulation to form corporate governance as moderating factor of this relationship.

The conflict can be seen in moral hazard and adverse selection (risk-taking behavior) for asymmetric information. Keil (2005) defined adverse selection and moral hazard in principal-agent relationships (consistent with Aubert, Patry, & Rivard, 2005; Basu, & Lederer, 2004). According to them, adverse selection refers to the problem of the principal of properly representing the actual characteristics of the agent. In this case, the principal is not able or it is too expensive for him or her to determine if the properties, skills, and capabilities declared by the agents are truthful. The drawback will arise in term of the principal is likely to incur in high costs or in problems with other partners as if the agent does not have necessary skills to perform the required task.

Moral hazard addresses another problem that arises from information asymmetry between the principal and the agent. Moral hazard can take place during the contract enactment, after the principal has chosen the agent. Possible risk is that, the agent has the possibility to misbehave properly as he should do by following the rules of the contract. The agent can benefit from an information advantage due to the impossibility for the principal to perfectly monitor an agent's behavior. In reactive manner, monitoring could be costly or impossible to enact because of the nature of the task, or because of the prevalence of exogenous upon endogenous factors. Thus, agents have the freedom to behave in the way to maximize their own utility functions.

In a narrow task-oriented definition of corporate governance, Tirole (2001) defined good governance structure is one that selects the most able managers and makes them accountable to investors. Thus, Chief Executive Officer (CEO) succession is crucial to the success and the continuity of the firm (Miller, 1993; Ocasio, 1999). There are many studies that relate to the choice between an insider and an outsider (Fredrickson et al., 1988; Cannella & Lubatkin, 1993). Smith and Amoaka-Adu (1999) relying on CEO turnover events examine the factors that determine in family firms whether to appoint a CEO who is a member of the family or a CEO who is from outside the family.

This study was adopted the study of the choice of a CEO and firm performance of 375 listed non-financial firms in Taiwan by Lin and Hu (2007). Choice of CEO in family firm was studied in Taiwan due to the changing trend in choosing CEO by the board of director in family controlled firm from choosing a family member CEO to professional CEO. Statistically this nepotism practice up to year 2000 is reduced from 61.87% to 52.26% or in other words, the delegate management to professional CEO trend percentage is increasing from 38.13% to 47.74%. Moreover there are inconsistent evidence whether this trend can really benefited the family firm due to study by Anderson and Reeb (2003) found that using a family CEO has positive impact on firm performance, and Lee (2006) shows that the same in which management can generate a positive influence on business efficiency and stability. However, Barth et al. (2005) and Smith and Amoako-Adu (1999) show contradict findings.

Hsu, Wang, & Hsu (2012) found that CEO duality and independent directors are matter in firms' performance. This study is performed by using 4,229 publically listed firms in Taiwan for the period of 2006 – 2011. From the perspective of agency theory, CEO duality signals "absence of separation of decision management and decision control. However, according to Hsu, Wang, & Hsu (2012), resulted in indicating that the effect of CEO duality on firm performance shrinks upon the addition of independent directors or in other words, independent director mediated the relationship between CEO duality and firm performance. However, the choice of CEO was not covered by Hsu, Wang, and Hsu (2012) study.

Lin and Hu (2007) studying the choice of a CEO from different background: family member CEO (nepotism) or outsiders (Professional) CEO that involved in sampling of 375 firms in Taiwan consist of 232 family controlled firms and 143 non-family firms from 1991-2000 periods. Performance is measured by using ROA and Tobin's Q. Lin and Hu (2007) concluded that firms with low requirements in managerial skills and a high potential for expropriation are more likely to choose a CEO from the controlling family (nepotism). However, when a firm requires high managerial skills, using a professional CEO can help firm performance, especially if the family has low cash-flow rights and weak control. Contrarily, performance will be better if the CEO is family member (founder or descendant) when there is large opportunity for expropriation in family firm especially the family has highly persuasive cash-flow rights.

Chen, Cheng, and Dai (2006) studied on agency problems: type I and type II, that occurred by having family CEO or outsider CEO in family firms as compared to non-family firms. Samples were taken from S & P 500 and S & P 1500 firms in U.S. economy. Researchers hypothesize that the agency problem type II arising from the expropriation of small shareholders in family CEO firms and the agency problem type I arising from the separation of ownership and control in non-family firms lead to a lower CEO turnover-performance sensitivity, compared to outsider CEO in family firms. However, Chen, Cheng, and Dai (2006) discovered that outsider CEO in family firms are subject to less agency problems and valued at premium over both, established family CEO firm and non-family firm in firm's premium valuation after poor performance.

Shivdasani and Yermack (1999) uncovered that CEO involvement in selection for new board members with fewer independent outside directors in the Fortune 500 Companies for the year 1995. When the CEO serves on the nominating committee or no nominating committee exists, firms appoint fewer independent outside directors and more grey outsiders with conflicts of interest. Stock price reactions to independent director appointments are significantly lower when the CEO involved in director selection.

Daily (1994) had studied on CEO characteristics: age, tenure, education, and ownership, as well as board composition: outside director proposition, total numbers of directors, women director, and board of directors roles for 82 participants: comprises of members of Young Presidents Organization (YPO). Members (CEOs) are typically young, successful CEOs must maintain gross annual revenues of at least 4 million dollars, employ at least 50, and retain an average 80 million dollars in assets as well as must achieved the title of President/CEO prior to their 40th birthday. Relationship between CEO characteristics and board composition demonstrates strong support. However no support was found for the relationship between board composition and board roles. While CEOs are associated with the composition of the board, this relationship does not appear to be associated with the board's ability to discharge their service, resource, and control roles. Challenge for organizational observers to have much to learn about the interactions between board of directors and the CEOs who serve them.

By sampling 25 family businesses in 9 Latin American countries, Lansberg and Perrow (1991) found government competition on high skilled educated family member, in which, large family firms dominated Latin American economies. These groups are back-up by governments, lack of competition, generally have highly skilled and educated family members, and adopt socially responsibly policies. However they face challenge on lack of governance mechanisms.

In nepotism study by Ewing (1965) evidenced that of the samples taken from 918 executives with the response rate at 34%, Ewing (1965) found that nepotism not as prevalent as it is believed. Executive do not support it but do not dismiss it blindly, either. In the study on founder manager and professional manager of 20 firms in U.S., Europe, and Latin America, Liebtag (1984) divulged that timely withdrawal of founder from active management of the company and handing it over to professionals is the most critical factor in transforming a family firm to a professional company.

Family member and professional management of 250 large U.K. Financial institution firms were studied by Francis (1991) in which he revealed that stages of control can be seen through which the firms pass are member of family, transition to professional management, and control by financial institution. Holland and Oliver (1992) studied on owner-manager family member and professional-manager in 41 family businesses, whereby they discovered that the transition from family to professional management may not be as conflict ridden as it generally believed.

2.8.3 Corporate Governance and Family Firm's Performance

Jong et al. (2003) pursued more additional family scope in common corporate governance characteristics, namely board size, board fraction external, total block-holdings, financial block-holding, individual and family block-holdings, inside block-holdings, industrial block-holdings, country-specific corporate governance characteristics, CEO, structured regime, holding company block-holdings. For firms' performance measurements they applied return on asset (ROA), annual stock return (%), and Tobin's Q. They also found that finding was consistent in which corporate government elements was significant cross-country variation. As a result, Jong et al. (2003) concluded that corporate governance characteristics that have relationship with firm's performance was differs across countries, in which country specific corporate governance is crucial in determining firm's performance.

According to Amran (2011) revealed that unlike non-family controlled firms, whereby director's qualification helps to enhance firm performance, family controlled firms are evidenced to have smaller board size and practice duality function leadership in operationalizing their businesses. Amran & Ahmad (2009) found that family firms do have differences in corporate governance practices compared to non-family firms in term of board size, directors' expertise and duality function leadership.

Amran & Ahmad (2009) also evidenced that academic qualification of directors does not influence firm performance and also they discovered that a large board size, low directors' expertise as well as duality function leadership are matters in contributing family firms' performance. Both findings are shown that CEO-Chairmanship duality function leadership in family controlled firms differs to that of non-family controlled firm. However, contrastingly, the MCCG 2009 requiring the listed firms in Bursa Malaysia to separate this duality function as the best practice of corporate governance. Amran and Ahmad (2009) investigated two elements of corporate governance: (1) board size and (2) separate leadership structure (no duality function) and they found that whilst the earlier variable has positive relationship with family performance, the latter variable also having the same relationship.

Abdul Wahab, Selamat and Mohd Hanefah (2010) uncovered that institutional ownership and audit fee are found to be positively related to each other despite of its minimal economic impacts. Akhtaruddin and Haron (2010) studied 124 public listed companies under Bursa Malaysia on corporate governance elements mainly on relationship between board ownership (family firms) as well as effective audit committee and family firms' performance. They revealed that this significantly negative relationship is moderated by the increased proportion independent non-executive directors (INED) and expert members on the audit committee. In other words, whilst the increased level of voluntary disclosure on financial reporting practices applied by family firms, the information asymmetry between firm management and investors will be decreased in order to form effective audit committee and finally it will affect the family firm performance.

Mohd Ghazali (2010) used Tobin-Q as the measurement to measure family firms' performance for non-financial family listed firms under Bursa Malaysia and he discovered that governance elements of board size and independence were not significantly affect family firms' performance. She also found that both foreign ownership and government ownership has significant relationships with firms' performance but it was statistically insignificant in relation for director ownership for explaining corporate performance. Mohd Ghazali (2010) concluded that enhancing corporate transparency and accountability did not appear to result better corporate performance.

Kamardin and Haron (2011) examined the relationship between internal corporate governance mechanisms and board performance in monitoring roles which is divided into two dimensions of monitoring roles: (1) managerial oversight roles and (2) performance evaluation roles. They ascertained that both non-INED (independent non-executive directors) and managerial ownership are positively related to both dimension roles whereby, multiple directorships (interlocking) of NED (non-executive directors) is negatively related to only managerial oversight roles.

Vu, Tower and Scully (2011) studied 45 Vietnamese family listed firms for ending 2008 annual report disclosures in order to examine the relationship between both ownership structures: (1) state ownership and (2) managerial ownership, and voluntary disclosures. They found that state ownership is negatively in relation with voluntary disclosure. However, besides of managerial ownership in contrary has positive relationship especially among large firms, their finding also shown that the level of voluntary disclosure among Vietnamese listed firms is relatively low (24%).

Alnasser (2012) explained the history of corporate governance of Malaysia from the starting point until the release of the new ‘Blue Print’. The new blue print covers the roles of MSWG in explaining the concept of stakeholder theory. Azizan and Ameer (2012) uncovered that shareholder activism led by MSWG has positive impact of 0.5% on family firms’ performance as a result of MSWG engagement, whereas, the positive impact is increased to 1% for those family controlled firms in which holding threshold less than 33% shares. Finally the result shows that MSWG-led shareholder activism does have an effect on the share return of the family-controlled firms.

Berent-Brawn and Uhlaner (2012) studied on four responsible ownership behaviors namely: (1) professionalism, (2) active governance, (3) owner as resource, and (4) basic duties, and their relationships with family firms’ performance. They found that the first two behaviors are in contradicting findings: professionalism is positively related to financial family firms’ performance, whereas, the active governance is negatively related to financial family firms’ performance especially in large firms (moderated by firm size). Nevertheless, there is no significant in relation for the last two behaviors.

Embong, Mohd Saleh and Hassan (2012) tried to relate signaling theory to the connection between the disclosures of 460 family firms listed under the main board of Bursa Malaysia and the cost of equity capital. They revealed that the relationship is in negative manner especially for large family firms but is insignificant for small family firms since this relationship is moderated by firm size as a control variable.

Embong, Mohd Saleh and Hassan (2012) concluded that the firm managers could strategize the firm's disclosure policy by taking into consideration the cost benefit analysis in reducing the cost of equity depending on the size of the firm.

Given that this negative relationship will decrease the firm performance. Gama and Galvao (2012) investigated the three specific governance characteristics namely: (1) family ownership (2) family control (3) family management, where each of these variables proxies by founder, descendent, and professional (outside). They discovered that founder family control as well as professional (outside) management increase family firms performance. However, descendent management having both lower in valuation and performance.

Lam and Lee (2012) examined 346 firm-year observations for the periods 2001-2003 for family ownership under public companies in Hong Kong and resulted in finding that nomination (remuneration) committee has both positive or negative effect on firms' performance depending on independence of board committee composition and family ownership respectively as the moderating variables. As a brief they found that the effectiveness of a board committee is contingent on its independence and family ownership. Thus, in the following Table 2.4, there are key findings that were done by prior researchers in the area of family firms' corporate governance structure, the choice of CEO, and family firms' performance.

2.8.3.1 CEO Choice as Best Practice of Corporate Governance

Generally, concentrated ownership is no longer a solution for agency problem type I or type II in neither family controlled nor institutional firms (Villalongan & Amit, 2006). Therefore, if anything goes wrong in public listed firm, CEO is the one who responsible for irregularities in which, CEO succession is crucial to the success and continuity of the firm (Miller, 1993; Ocasio, 1999). Lin & Hu (2007) discovered that there is the new trend of choosing the professional as CEO by family firm in Taiwan. This study will expect the same outcome (choice of CEO is crucial in family firms' continuity) existed in Malaysia. In this juncture, board of directors of family firm has to play their role in corporate governance.

According to Saleh, Rahman and Hassan (2009), family ownership appears to have a negative effect on intellectual capital. Experience and education background as well as the tenure of a CEO in family firm has contributing towards the firms' intellectual capital which is, one of eight main attributes for corporate governance (CG) reporting that have a very low level of reporting. Its scores only 25.9% resulted from the pioneer survey study to examines the CG reporting via CG score checklist of the top 100 companies (blue-chips counters) in KLSE was done by the Consortium of Universiti Teknologi Mara (UiTM), Malaysia Institute of Corporate Governance (MICG), BizAid Technologies Sdn Bhd (BizAid), and Rating Agency Malaysia Berhad (RAM).

Table 2.3

Summary of Previous Studies on Corporate Governance and Performance

No.	**Studies and Sampling Technique**	**MATRIX ANALYSIS: Relatioship between Corporate Governance Structure (A, B, C, D) and Firms' Performance (P)**			
	Non-Family Firms only	***(A) BOD's Structure***	***(B) Directors' Remuneration***	***(C) Accountability & Audit***	***(D) Communication with Shareholder***
1	Bohren & Odegaard (2001). Sample	Very Significant -ve with (P)	NA	NA	NA
2	Jong et al. (2002). Sample	Varies with (P) depend on country	NA	NA	NA
3	Bauer, Gunster, & Otten (2003). Sample	Varies with (P) depend on country -ve with (P) E.M.U. > U.K.	NA	NA	NA
4	Black et al. (2003). Sample	Very Significant +ve with (P)	Very Significant +ve with (P)	Very Significant +ve with (P)	Very Significant +ve with (P)
5	Brown & Caylor (2004). Sample	+ve with (P)	+ve with (P)	NA	NA
6	Hanifa & Hudaib (2006). Sample	+ve with (P)	NA	NA	NA
7	Abdullah (2006). Sample	-ve with (P)	+ve with (P)	NA	NA
8	Zheka (2006). Sample	Very Significant +ve with (P)	NA	NA	Very Significant +ve with (P)

Continued………

9	Aziz (2006). Sample	Low Significant +ve with (P)	Low Significant +ve with (P)	Low Significant +ve with (P)	Low Significant +ve with (P)
10	Chidambaran Palia & Zheng (2007). Sample	Insignificant with (P)	Insignificant with (P)	NA	Insignificant with (P)
11	Hamid (2008). Sample	Insignificant with (P)	NA	Insignificant with (P)	NA
12	Bhagat & Bolton (2008). Sample	+ve with (P) Owner, Dual. -ve with (P) for INED only	NA	NA	NA
13	Rashid (2008). Sample	Varies with (P) depend on country	NA	NA	NA
14	Sunday (2008). Sample	+ve with (P)	NA	+ve with (P)	NA
15	Haat et al. (2008). Sample	NA	NA	NA	Insignificant with (P)
16	Mokhtar et al. (2009) Sample	Insignificant with (P)	Insignificant with (P)	Insignificant with (P)	NA
17	Lee (2009). Sample	+ve with (P) Including Leverage	NA	NA	NA
18	Ehikioya (2009). Sample	+ve with (P) owners, size, Duality & Lev	NA	NA	NA

Continued…………..

19	Chang (2009). Sample	+ve with (P) board size & INEDs only	NA	NA	NA
20	Stanwick & Stanwick (2010). Sample	+ve with (P) only for Board performance	NA	+ve with (P) only for accountability	NA
21	Khan et al. (2011). Sample	+ve with (P) only for Ownership	-ve with (P) Including Dividend	+ve with (P); -ve with (P) for risk mgt	NA
22	Uwuigbe & Fakile (2012). Sample	-ve with (P) only for board size	NA	NA	NA
23	Hsu, Wang, & Hsu (2012). Population	-ve with (P) only for INEDs	NA	NA	NA
24	Daud (2012). Population (33 elements of CG)	+ve with (P) only for 3 upon 12 elements of Governance	+ve with (P) only for 2 upon 8 elements of Governance	-ve with (P) only for 1 upon 5 elements of Governance	Insignificant with (P) for all 8 elements of Transparency Component

Table 2.4

Summary of Prior Studies on Corporate Governance and Family Firms' Performances

No.	Studies and Sampling Technique	MATRIX ANALYSIS: Relatioship between Corporate Governance Structure (A, B, C, D) as well as Moderator Variable of (E) and Firms' Performance (P)				
	Family Firms Only	***(A) BOD's Structure***	***(B) Directors' Remuneration***	***(C) Accountability & Audit***	***(D) Communication with Shareholder***	***(E) CEO Choice Characteristics***
1	Liebtag (1984). Sample	+ve with (E)	NA	NA	NA	Professional CEO
2	Francis (1991). Sample	+ve with (E)	NA	NA	NA	Professional CEO
3	Landsberg & Perrow (1991). Sample	Highly Skilled & Educated Family CEO +ve with (P)	NA	NA	NA	Professional CEO -ve with (P)
4	Daily (1994). Sample	+ve with (E)	NA	NA	NA	Professional CEO
5	Shivdasani & Yermack (1999). Sample	-ve with (P)	NA	NA	NA	-ve with (P)
6	Jong et al. (2003). Sample	+ve with (P) Tobin's Q > ROA U.K. > E.U.	NA	NA	NA	ESOS for CEO insignificant in Governance
7	Chen, Cheng, & Dai (2006) Sample	NA	NA	NA	NA	Professional CEO
8	Lin & Hu (2007). Sample	Family CEO in Expropriating Assets' Firms	NA	NA	NA	Professional CEO in High-Skill Firms

Continued……………

9	Amran & Ahmad (2009). Sample	+ve with (P)	NA	NA	NA	NA
10	Wahab, Selamat, & Mohd Hanefah (2010). Sample	NA	NA	+ve with (P)	NA	NA
11	Akhtaruddin & Haron (2010). Sample	NA	NA	-ve with (P)	NA	NA
12	Mohd Ghazali (2010). Sample	Insignificant with (P)	NA	Insignificant with (P)	insignificant with (P)	NA
13	Amran (2011) Sample	+ve with (P)	NA	NA	NA	NA
14	Kamardin & Haron (2011) Sample	Non-INED & Ownership +ve with (P) Evaluation & managerial Roles	NA	NA	NA	NA
15	Vu, Tower, & Scully (2011) Sample	-ve with (c)	NA	NA	NA	NA

Continued…………

16	Azizan & Ameer (2012). Sample	NA	NA	NA	+ve with (P)	NA
17	Berent-Brawn & Uhlaner (2012). Sample	NA	NA	NA	Professionalisme +ve with (P), Active governance -ve with (P)	NA
18	Embong, Mohd Saleh, & Hassan (2012). Sample	NA	NA	-ve with (P)	NA	NA
19	Gama & Galvao (2012). Sample	+ve with (P) Founder > Descendent	NA	NA	NA	Professional CEO +ve with (P)
20	Lam & Lee (2012). Sample	-ve with (P)	+ve with (P)	NA	NA	NA

2.9 Chapter Summary

This chapter is critical part to blend all the value relevance literature which mainly comprises a combination of various theories as to further search for more significant evidences that can commensurate with the CEO choice in moderating the relationship between governance elements and family firm's performance as well as the definition of a good corporate governance model that elaborated by Cadbury Committee (2003). The next chapter will explain research framework and the methodological part of present study.

CHAPTER 3

RESEARCH FRAMEWORK AND METHODOLOGY

3.1 Introduction

The previous chapter reviews the literature on relevant study findings that are related to this study. This chapter is started with introduction followed by second section which provides research framework and theoretical framework whereas the third section will be covered the research hypotheses development. The latter section explains the firm-specific characteristics. Section five and section six interpret methodology aspect, as well as, research instrument respectively. With regard to section seven, moderating variable along with operational definition are discussed. Subsequently, section eight is for research method in which consists of research sample, research process and ended with regression model as the econometric analysis. Finally, section nine is summary that provides a brief explanation about this chapter and the next chapter as well.

3.2 Research Framework

Family-owned business in most of previous studies were tend to be outperformed the non-family firm's performance, but there are studies relating to family and non-family firms' performance were also found to have contradicted findings in which non-family firm surpassed family firm's performance or *mixed* results (Amran, 2011). Family-owned firm has its costs as well due to moral hazard in agency problem type II. Thomsen and Pederson (2003) examined the relationship between owners' identity and market valuation among the largest European companies and they found that family ownership has no significant on performance, possibly due to incentive alignment, risk-aversion and entrenchments may reduce the competitiveness of closely held-family owned firms. Mohd Sehat and Abdul Rahman (2005) further confirmed the finding by Thomsen and Pederson (2003) that the shares held by block-holders in concentrated ownership have a tendency to increase firm value, however, specifically they did not find any significant relationship between family-owned firms and firm performance.

Conceptually, the combination of the agency theory, shareholders theory, stakeholder theory as well as stewardship theory can better explain the existence of such inconsistencies' relationship phenomenon (Abdullah & Valentine, 2009). The twelve of board of directors' structure are more relying on the stakeholder and stewardship theories. When there are family members acting for both management as well as shareholders as 'family members', it could be strong governance due to altruistic motives (Tian & Lau, 2001). According to Ward (2001) the important particularities ways mainly are: (a) the family business owners are identifiable, they are bound to have lifelong, interpersonal relationships and apply a long-term view in their actions; (b) the ownership also has non-economic meanings and an individual's net worth; (c) the ownership position cannot be easily left, both financially and emotionally.

Hence, family firms as a concentrated ownership naturally apply a stakeholder view since their foundations are based on shared values and long term relationships (Carlock & Ward, 2001). Apart from the above importance of identifiable and concentrated ownership, family stakeholders are historically, culturally, and relationally different from other groups. Historically means a family is related to its business for a long duration. In the sense of culturally different, each family has its own culture and set of values which are internally developed by the family members as they grow up. Finally, they are different in relation whenever family stakeholders are genetically related to each other.

However, *moral hazard* will be the conflict that dominates as cause of failure when it occurs in Public listed family controlled firms with concentrated and strong governance (Desrochers & Fischer, 2000). In shareholders theory, even though the oversight duties such as compliance (mostly during *disclosure* regime in Bursa Malaysia Listing Requirements) is taken care by the strong governance in family firms, however, the phenomena of agency problem type II is still occurred when firm's assets have been expropriated by dominated family members as directors and also CEO at the expense of minority shareholders, whereas in agency theory, board of directors' structure mechanism such as, board's committees, independent directors, and professional CEO acted differently for family controlled firms in safeguarding shareholder's interest (Clarke, 2004). Hence, it is essential that the rights of the minority investors are protected by laws and also the quality of their enforcement by the regulators and courts. Minority Shareholders Watchdog Group

(MSWG) applied for protection on minority interest is the other phenomena existed in family firm (as stakeholders), in which, according to Freeman (1984), "minority shareholders who can affect or is affected by the achievement of the family firm's objectives".

Stewardship theory can be seen in duality function of CEO and chairperson by the same holder who has *socio-emotional wealth* (SEW) in family controlled firms that can increase the family firms' performance (Naldi, Cennamo, Corbetta, & Gomez-Mejia (2012). According to Adam (2004), the existing of duality function (already one of the 33 elements of MCCG under study) increases the influencing power of the management over the shareholders and stakeholders. Abdullah (2004) found that in Malaysia (concentrated ownership) though outside directors may appear to be independent of management, the process of appointing outside directors to the board may be not truly independent and depends on the availability of talented individuals. 'Rubber stamp' on the management's policies is the indicator that management is said to have more influence than the board in making decisions (Adam, 2004). Smith (2003) suggested that the dispute between the shareholder and stakeholder theories can be overcome if executives can consider shifting the rigid phrase 'maximising shareholders value' in their corporate objective to a temperate one such as 'maximising our company's contribution to our economic system' so that they are not being restricted by the stated objectives.

Healy and Palepu (2001) argued that even though one of the solutions to *agency problem* is by using optimal contracts such as compensation and remuneration agreements and debt contracts, however, residual loss is still arises because incomplete agreements when the cost to overcome agency problem would be more than benefits derived from doing so. Clarke (2005) claimed that the agency theory had failed in the case of Enron (diffused ownership). In aligning managers and shareholders' interests (agency theory), Enron's board of directors did not properly monitor when they focusing executive incentives on generous stock options is aimed at encouraging managers to maximise the value of shares. However, he argued that 'in reality this provided a more powerful incentive to manipulate short term corporate earnings than to improve long term performance'.

Family ownership through pyramidal structures is most employed around the world including Malaysia for several reasons. Firstly, it minimises the controlling shareholders' stake and minimises the dilution of outside shareholdings by a reduction in the ratio of voting rights to cash flow rights (Bukart et al. 1997). Secondly, as Akoi (1995) suggested, the group is also means of limiting liability whereby families and their allies usually exercise control over extensive network of listed and non-listed companies for the purpose of shielded from risk by directly holding a limited number of shares. Thirdly, Khanna and Palepu (1999) argued that the group may also represent an incentive structure, as principals (other block-holders) are not always fully informed of actions of those under them.

However, this ownership structure may cause divergence between voting rights (control) and cash flow rights (ownership through shareholding) of insiders, and provides opportunities for inside shareholders to maximise their private benefit of control and exploit minority shareholders (Bebchuck et al. 1999). Abdul Rahman (2006) noted that insider ownership refers to management holdings of shares which may include shares owned by members of the corporate board, the CEO, and top management. Shareholding by directors in companies on whose boards sit (normally in concentrated ownership) is thought to encourage directors to increase their focus on company performance and share value. She added that one advantage of a family-owned firm is that there is a better matching of control rights of the dominant shareholder with its cash flow rights, resulting in a greater incentive for that control to be exercised in maximising shareholder value.

3.2.1 Theoretical Framework

Theoretically, corporate governance best practice is evidence for the Malaysian Governance and Transparency Index 2009 that will be affected the family firms' performance. The effect can be moderated by the choice of CEO in family firms. The choice of CEO is not stated as the element for the 12 elements of board of directors' structure in the Malaysian Governance and Transparency Index 2009. In other words, present study attempts to apply the corporate governance elements based on the local scenario or requirement after taking into considerations all the previous studies conducted. All 33 elements of corporate government best practice are adopted from the Malaysian Governance and Transparency Index issued by the Minority

Shareholders Watchdog Group (MSWG) on 3 August 2009. Comprehensively, all variables under study are visualized as per Figure 3.1.

3.2.1.1 Moderating Effect

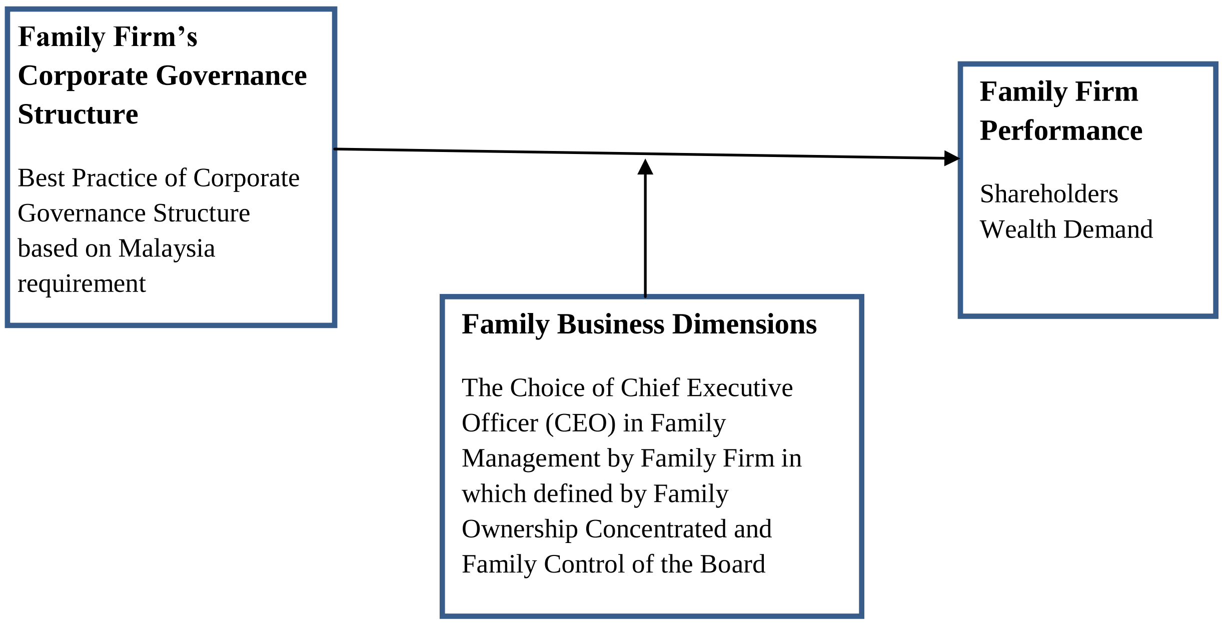


Figure 3.1

Theoretical Framework

3.2.1.2 Corporate Governance Best Practice and Firm's Performance

According to O'Sullivan (1999) stated that the growing interest on corporate governance by government worldwide has been stimulated by fact that the corporate enterprises are recognized as the fundamental to the allocation of resources in any economy. Normally, stock markets, investors, independent institutes, and governments have attempted to codify ‘best practice’ in corporate governance. The codes are breakdown into three levels as follow:

i. Supranational Codes: Proposed by the OECD (Principles of Corporate Governance, OECD, 1999); ICGN (International Corporate Governance Network); or CACG (Commonwealth Association for Corporate Governance)

ii. National Codes: Proposed by the countries’ level such as, German Code of Corporate Governance (Berlin Initiative Group, 2000); the Vienot II Report for France (MEDEF, 1999), the Cadbury Report for the United Kingdom (Committee on the Financial Aspects of Corporate Governance and Gee and Co. Ltd., 1992) which ended by U.K. Code 2003, or The King Report for South Africa (Institute of Directors in Southern Africa, 2001)

iii. Institutional Codes: Proposed by CalPers (California Public Employees’ Retirement System) in the United State of America.

Besides, measuring and rewarding the good corporate governance practice in the past, investors have the challenge to criticize the bad corporate governance as well. This fact is supported in the study by McKinsey and Company on the 2002 Global Investor Opinion Survey in which, an overwhelming majority of 70% investors are prepared to pay a *premium* for companies exhibiting high standards of corporate governance than for the shares of a company with similar financial performance but having poorer governance practices. The investors' *premium* pay for well-governed companies are varies by country and region: *Premium* average 12%-14% in North America and Western Europe; 20%-25% in Asia and Latin America; and exceed 30% in Eastern Europe and Africa (McKinsey and Company, 2002).

A survey by Robert Half Management Resources on chief financial officers (CFOs) at private companies which have more than 20 employees, had found that '58% of them said that they were implementing stricter governance and accounting practices' (Investors Relations Business, 2003). According to survey finding also, there are three main reasons for the adoption of stricter governance rules: (1) to meet rating standards to get better access to financial capital; (2) to suit the requirements to go public; and (3) to comply with the standards to enter an alliance with a public firm. Thus, companies have to address a governance model which can demonstrate to the stakeholders that management is sensitive to their stewardship (Investor Relation Business, 2003).

At this juncture, performance is described as *awareness to 'the stewardship of a firm's stakeholders'*. It means apart from its maximizing shareholders' investment return, internal stakeholders' interest could also stand for job security for employees and family members or social responsibility to the environment. However, very few is known about how the impact of 'best practice' governance principles affect firm performance in detail and what is absolute gain for family firms adopting these principles.

Weir, Laing & Philip (2002) viewed that good corporate governance should provide shareholders with an effective boardroom in monitoring the decision making process that gradually would enhances firm's performance. Many researchers have been doing numerous of relevant studies in determining this meaningful relationship. Amongst others, Jong et al. (2002), Rashid (2008), and Donker & Zahir (2008) suggested that good corporate governance could be used based on the domestic requirement, thus, the standardized characteristics of corporate governance would be insufficient in explaining firm's performance in bigger context of an international framework.

As such, for this study perspective, the corporate governance structure will be based on the Malaysian Governance and Transparency Index 2007 (Revised 2009) by MSWG. The codes would be applied as a term and reference for the corporate governance structure. Corporate governance structure can be divided into 2 components namely governance and transparency. Governance has 3 dimensions which comprises of 12 elements of board directors' structure, 8 elements of directors' remuneration, and 5 elements of accountability and audit, whereas, transparency has 8 elements of communication with shareholders. Finally, Malaysian Governance and Transparency Index launched on 3 August 2009 by the Prime Minister, Dato' Seri Mohd Najib Tun Abdul Razak.

3.3 Research Hypotheses Development

In much more comprehensive on relevant corporate governance elements were studied by Black, Jang, and Kim (2003), as well as, Brown and Caylor (2004). Brown and Caylor (2004) concluded that only for board independence, nominating committee and compensation committee is associated with good firm performance. They conducted study based on Governance-score comprising of 51 corporate governance variables and firms' performance measurement consisting of return on equity (ROE), profit margin (PM), sales growth, Tobin's Q, dividend yield, and share repurchases,

However, Black et al. (2003) evidenced that strong positive correlation between overall corporate governance index and firm performance after taking into account the measured of firms' performance in Tobin' Q, market to book ratio, and market value of common stock, as well as, overall corporate government index such as shareholder rights sub-index, board of directors sub-index, audit committee and internal auditor sub-index, disclosure to investors sub-index, independence director sub-index. Black et al. (2003) also included control variables in their study that comprises of book value of debt, book value of assets, debt to equity ratio, and sales growth.

Malaysian Governance and Transparency Index 2009 have two components: internal governance and external governance. Internal governance component comprises of board of directors' structure and directors' remuneration dimensions, whereas, external governance component consist of accountability and audit as well as communication with shareholders dimensions. These four dimensions can be breakdown into three dimensions of governance, and one dimension of transparency. As mentioned earlier, governance dimensions can be divided into 12 elements of board of directors' structure; 8 elements of directors' remuneration; and 5 elements of accountability and audit, whereas the final dimension is for 8 elements of communication with shareholders. Based on previous studies stated as above, each of every 33 elements as above-mentioned is the best practice score that has the impact on family firms' performance (Daud, 2012). These elements would be used in conversion of four above-mentioned dimensions for the hypotheses development, whereby each of these dimensions represents a very broad structure of family firms' corporate governance in Bursa Malaysia.

3.3.1 Hypotheses for Structure of Board of Directors and Performance

The most critical role of directors is to monitor managers' tendency in pursuing their self-interest initiatives at the expense of the company value and therefore, the size of the board as well as its independency is crucial factors (Zahra & Pearce, 1989). There are numerous studies on the structure of the board of directors and performance. Inter alia is the study by Ben-Amar & Boujenoui (2007) who found that inside ownership and CEO duality were negatively related towards the quality of information about corporate governance practice. However, board independence and firm size were positively associated with disclosure quality.

Most previous researchers in corporate governance studies have been used different elements of board of directors' structure in order to determine its relationship toward family firm performance. A common governance element that was studied previously to describe the board structure is board size. There are several mix findings related to the board of directors' structure studies such as, Chang (2009) found that only board size and independent directors have shown positive relationship with firm performance; Amran & Ahmad (2009) revealed that only board size and leadership structure were **positively** related to firm performance; Uwuigbe & Fakile (2012) discovered negative relationship with firm performance was shown only for board size.

One of the three governance components that comprises of twelve elements namely board size, board independence, board competencies, disclosure of directorships or chairmanships held by the company's directors in listed companies, CEO-Chairman separation, disclosure of senior independent director, number of board meetings, number of committee meetings, disclosure of the individual directors' attendance at meetings, nominating committee independence, disclosure of the selection of directors, disclosure of board and individual director appraisal, is recently studied by a local scholar.

Daud (2012) encountered more mix relationship with firm performance that were significantly shown only for board size, CEO duality, and disclosure of senior independent director were in positive relationship, but no significant relation with firm performance for other nine elements of board of directors' structure namely: (1) board independence, (2) board competencies, (3) disclosure of directorship chairmanship, (4) number of board meetings, (5) number of committee meetings, (6) disclosure of director's attendance, (7) independence of nominating, (8) disclosure of director's selection, and (9) disclosure of board and individual director appraisal.

However, there were positive relation between firm performance with these nine(9) board directors' structure elements in separate findings by previous researchers excluding for independent directors study by Chang (2009), for instance: Mangena & Pike (2005) found that there is a positive relationship between the frequency of the board meetings held and firm performance; Brown & Caylor (2004) found that there is a positive relationship between the disclosures of the frequency of the board and committee meetings and directors' attendance at these meetings to firm performance. Several past researchers concluded that the selection of the boardroom members was shown positive relationship with firm performance (Walt & Ingley, 2001; Van den Berghe & Lavrau, 2004; Leblanc, 2004; Kula, 2005; Peebles, 2007).

Based on the examination by argument from the above discussion, and also the identified elements from the Malaysian Governance and Transparency Index 2009, the relevant hypotheses are as following:

H1: There is positive relationship between the board of directors' structure and performance of the family firms.

3.3.2 Hypotheses for Directors’ Remuneration and Performance

The primary focus of the previous researchers on executive and directors compensation was the level and structural mix of compensation packages and their effect to firm performance (Jensen & Murphy, 1990; Yermack, 1995; Barber & Lyon, 1996; Hall & Liebman, 1998; Core, Holthausen, & Lacker, 1999; Murphy, 1999; and Bryan, Hwang, & Lilien, 2000).

Brown & Caylor (2004) found that directors’ remuneration is positively related with the companies’ growth and size. The evidences on how the directors’ remuneration in term of long term stock option as compensation plan increases the firm’s long term financial performance were explained by the director’s behavior, in which those with stock options would be less likely in taking excessive risk in pursuing their personal wealth (Hillman & Dalziel, 2003; Frye, Nelling & Webb, 2006).

One of the three governance components that comprises of eight elements namely remuneration committee independence, disclosure of executive directors’ remuneration, mix of executive directors’ remuneration, disclosure of performance measures of executive directors, disclosure of top 5 executive’s remunerations, disclosure of non-executive directors’ fee, disclosure of the structure of non-executive directors’ fee, stock options, is recently studied by a local scholar.

Daud (2012) encountered more findings in relationship between directors' remuneration elements with firm performance that were significantly shown only for mix of executive directors' remuneration, as well as, the disclosure of top 5 executives' remuneration. However there were no significant relations with firm performance for other six elements of directors' remuneration namely: independence of remuneration committee, disclosure of executive directors' remuneration, disclosure of executive directors' appraisal, disclosure of non-executive directors' fee, disclosure of structure of non-executive director's fee, employees' stock option (ESOS).

Based on the examination by argument from the above discussion, and also the identified elements from the Malaysian Governance and Transparency Index 2009, the relevant hypotheses are as following:

H2: There is positive relationship between directors' remuneration and performance of the family firms.

3.3.3 Hypotheses for Accountability and Audit and Performance

In the mid-twentieth century is known as the evolution of audit committees, whereby, many companies voluntarily created audit committee in order to provide more effective communication between the board of directors and external audit (Razaee, 2002). In spite of having small groups within board of directors would be helpful in maintaining cohesiveness, being small in size would also lower the communication and co-ordination costs (Evan & Dion, 1991).

Hunt and Carey (2001) suggested that effective audit committee is the corner stone of public's confidence in corporate governance and financial performance. Thus, companies cannot be tolerated in this manner by having directors who cannot contribute and must have one who has the necessary experience and knowledge to be member of boardroom (Van de Walt & Ingley, 2003). Nevertheless, Rezaee et al. (2003) viewed that having at least one member of the audit committee with financial and accounting skills may not be sufficient enough for committee to understand the nature and impacts of complexity of business transactions. Abdullah et al. (2008) revealed that the independence of audit committee bears positive relationship with firm's financial performance.

One of the three governance components that comprises of the five elements namely independence of the audit committee members, competencies of the audit committee members, competencies of the audit committee chairman, disclosure of risk management, internal control and internal audit, disclosure of whistle-blowing policy, is recently studied by a local scholar.

Daud (2012) findings in relationship between accountability and audit elements with firm performance were different in which, there were no significantly shown for all five(5) elements of accountability and audit namely: independence of audit committee members, audit committee members' competencies, audit committee chairman's competencies, disclosure of risk management (internal), and disclosure of whistle-blowing policy.

Based on the examination by argument from the above discussion, and also the identified elements from the Malaysian Governance and Transparency Index 2009, the relevant hypotheses are as following:

H3: There is positive relationship between accountability and audit and performance in family firm.

3.3.4 Hypotheses for Communication with Shareholders and Performance

Fraudulent activities will be refrained by the financial transparency that provides depositors, creditors and shareholders and this important mechanism will be given them credible assurance (Zulkifli, Samad, & Ismail, 2005). In the study by Rashid (2008) found that the transparent and timely disclosure of information is crucial in creating shareholders' value. Lang and Lundholm (1993) noted that analysts' ratings of corporate disclosure have positive relationship with earning performance. According to Botoson (1997), the disclosure policies of firms positively related to cost of capital. Healy et al. (1999) suggested that stock performance is associated with the expanded disclosure by firms.

According to Bollen, Hassink, de Lange, and Buijl (2008), a firm is considered as good corporate governance when it has high scoring in corporate governance index that would be included effective disclosure of information which is detailed company profile, corporate governance policy and also provided with certain corporate transparent information, for instance, analyst meetings, publication of press release, presentation of semi-annual results, and shareholders' meeting on firm's website.

The primary reason of having own company website is to provide investors with financial, as well as, non-financial information replacing hard-copy publications and thus eliminating the distribution and production cost of print-based documents (Bollen et al. 2008). Accoding to Zheka (2006) who studied on elements of transparency in corporate governance namely firm's website, timeliness of publication of annual report, publication of information on auditor have positive effect on firm's performance.

However, Daud (2012) discovered no relationship between communication with shareholders elements and firm performance namely: timeliness of release of annual financial results, timeliness of release of quarterly financial results, having corporate website, company's responsiveness to queries sent via investor relation link on company website, having a result briefing to announce full year result, having the presence of key management at result briefing, availability of presentation material / website briefing online, and having shareholders participation.

Among other variables that under his study are the eight elements of communication with shareholders that comprises of the timeliness of release of annual financial results, timeliness of release of quarterly financial results, having corporate website, company responsiveness to queries sent via investor relation link on company's website, having a result briefing to announce full year result, having the presence of key management at result briefing, availability of presentation material / webcast briefing online, having shareholder participation.

Based on the examination by argument from the above discussion, and also the identified elements from the Malaysian Governance and Transparency Index 2009, the relevant hypotheses are as following:

H4: There is positive relationship between communication with shareholders and performance of the family firms.

3.3.5 Choice of CEO as Moderating Variable and Hypothesis

Lin and Hu (2007) has study the link between CEO's background and a firm's performance. Each type of management has its strengths and drawbacks. In term of loyalty and reputation, for instance, a family CEO has strong incentives to ensure a firm's profitability (Davis et al. 1997). In contrast, the family CEO's ability in management is on average, and inferior to that of professional management (Morck et al., 2000). Moreover, they also may contribute some special problems in which they are having lack of restrain in its generosity to family members (Schulze et al., 2001; Lubatkin et al., 2003), which may lessen a firm's value.

As such, inversely, professional management from competitive labor market has superior ability, charismatic and talented candidates. However, by doing so, family firms will be having agency problem in which there is inherent conflict of interest between shareholders and managers especially where there is no employee scheme of shares (ESOS). Thus, this study is to support the finding of Lin and Hu (2007) in order to establish whether a CEO's efforts to enhance a firm's performance is affected by operating features and to what extent the controlling family firm can play in corporate governance for long term as well as for its survival.

Creative accounting and any risk averse that taken by the CEO are the indicators of the moral hazards and adverse selection that leads to asymmetric information between parties. CEOs may spend family firm assets beyond the optimal size in order to double up their incentives and compensation due to increasing size (Jensen 1986; Murphy 1985). Agency theory suggests that firm to involve managers that headed by the CEO as insider ownership (for instance, Employees Scheme of Shares, ESOS) for aligning their interests. By giving them ESOS or as such mechanism will shifts the conflicts of interest towards sense of belonging. However, compensation is not the only factor that controlled the CEOs. They might have difference views in term of *motivation* factors due to the application theory of *Maslow* is supporting stewardship theory rather than agency theory. As such, socio-emotional wealth (SEW) is the reason why do shareholders will attempt to execute good corporate governance for demanding their wealth or at least earning better return on their investments.

3.3.5.1 CEO Background and Firm's Performance

There are several factors that make the board of directors of a family firms decided to choose the professional CEO from job market (outsider) rather family insider or CEO member (Lin & Hu, 2007).

3.3.5.2 Factors relating to the Choice of a CEO Background

Normally, a CEO was chosen by the controlling family with the wealth maximization agenda for them. It is equal to the sum of their own shares value and private benefits deserved only if control is kept within the family (Burkart et al., 2003). For them, as long as the benefits of be having a family CEO exceed the cost. The reason of limiting the CEO position to family members is that, besides they do not have to pay monitoring costs, they can enjoy the private benefits of control and have discretion to expropriate from minority shareholders. The drawbacks are in the aspect of lower intellectual capital of family-member CEO since he/she is recruited from a restricted labor pool, is generally not as talented as a non-family professional. Moreover the inferior ability of a family CEO is harmful to the share value.

Cost and benefit analysis can be applied in the context of a firm's operating characteristics effect. The cost increases with discrepancy in productivity between family members and professional managers (Burkart et al., 2003; Bhattacharya and Ravikumar, 2004). When a firm's operation requires specific or advanced managerial skill, it is reliable to obtain qualified and capable candidates for a CEO from the professional labor market than from family members. In other words, whenever managerial skill is the issue, the increment ability between the two can be shown in magnifying the discrepancy in productivity between them. Thus, the high requirement for managerial skill will lead to a separation of ownership from management and the hiring of a professional CEO (Burkart et al., 2003).

In a contrary, whenever managerial discretion is the issue, the higher potential for expropriation for the controlling family will increases benefit of using a family CEO. The management can have autonomy power in diverting corporate resources as private benefits through managerial discretion. If a firm requires absolute discretionary spending in its production technology**,** the family CEO can inherently exercise a great deal of managerial discretion. Hence, the controlling family is more likely to be in favor of using CEO amongst family members. Despite of nepotism practices, this is the right time for family firm to choose professional, innovative and creative CEO that can contributes towards good corporate governance. Therefore, the choice of CEO will moderates the relationship between corporate governance best practice and family firms' performance. These arguments suggest that the choice of a CEO's background is affected by a firm's operating characteristics and therefore will leads to the hypotheses below:

H5: The trend of choosing professional CEO will form moderating effect to the relationship between two components of corporate governance best practice namely (1) Governance components: consist of (a) Board of directors' structure, (b) Remuneration, (c) Audit and Accountability; (2) Transparency component, and family firms' performance.

3.4 Firm-specific Characteristics as Controllable Variables

Controllable variables normally known as the firm's operating characteristics which are covered the research and development (R & D), firm size, advertising spending, fixed assets ratio, leverage (debt ratio), and cash holdings will be further explained later on. Control variable is the outside block-holders who can compete with the relative power of controlling family that will decrease the possibility of using a family member (founder / descendent) as CEO (Smith and Amoako-Adu, 1999). Lin and Hu (2007) defined relative power of controlling family by the ratio of the voting rights of the largest shareholder to the sum of the voting rights of the largest and the second largest shareholders.

3.4.1 Industries-specific Characteristics

There are also five industries' operating characteristics as dummy variables to proxy for the same firm's operating characteristics. For instance, high R&D spending by firms in the IT industry. The leading company in the IT industry will make greater R&D expenditure relative to the average for the industry to maintain its leadership; this is firm specific factor. A firm's factor, relative to the industry factor, is vulnerable to decision making by the CEO. We regard industry factors as exogenous characteristics of firms that are unaffected by any single CEO, and industry data can be instrumental variables. Low or high cash-flow rights which is meant for dummy variable was created in order to examine the hypotheses in high-skill firms or high-expropriation firms.

3.5 Methodology

The four hypotheses on the relationship between 33 corporate governance best practice elements and family firm performance are portrayed as above. The research framework on this relationship is conceptually visualized in the earlier diagram (Figure 3.1) and in the following Figure 3.2:

3.5.1 Research Design

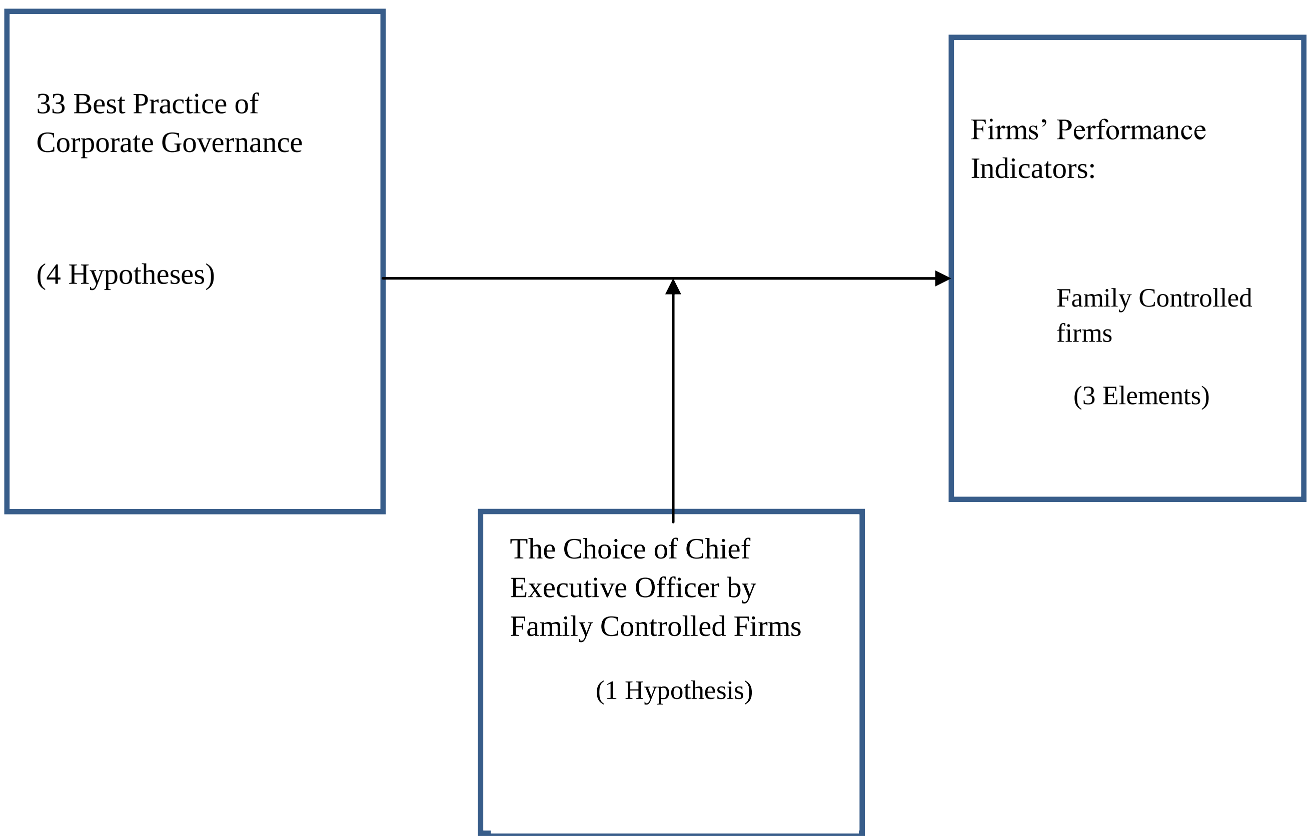


Figure 3.2

Research Model

3.6 Research Instrument

The Present study is different in the sense that, it has extended the findings by Daud (2012) where a more in-depth study will be involved because of four different aspects. Firstly, in terms of population, the present study focuses specifically on the listed family controlled firms in Bursa Malaysia, whereas Daud (2012) has taken all public listed firms in general. Secondly, in the aspect of shareholders' wealth demand in family firms' performance, the current study will be evaluated by two other additional methods: Tobin's Q in financial approach as well as economic value added (EVA) in financial economic approach rather than the common approaches by Daud (2012), that is the ROA in accounting and the ROE in financial.

Thirdly, instead of a single theoretical framework, the present study will consider a combined theoretical framework which covers the agency theory, the shareholders theory, the stakeholders' theory and the stewardship theory. Lastly, the current study will add choice of CEO as an additional independent variable that will be moderated by the relationship between corporate governance structure and family firms' performance. It is very rare to see that family member CEO has successfully gained the firm performance from practical high-experience skill on acquisition that he/she has made especially when the exercise involves companies listed on the ACE market which is formerly known as Malaysian Exchange of Securities Dealing and Automated Quotation Market (MESDAQ) market for the high skill industry (Lin & Hu, 2007). Since the CEO professionalism is part of the family firm's intellectual capital, the assets can be assessed from the CEO's tenure for experience as well as educational background.

The study by Saleh and Rahman (2009) on the relationship between ownership structure and intellectual capital(IC) (efficiency of investments) performance in Malaysia revealed evidence that family ownership has a negative effect on IC performance or in other words, there is a high probability of opportunistic behavior of families in pursuing their objectives at the expense of value creation activities in companies. Therefore by choosing the professional CEO in the family firms is expected to boost up the momentum of the synergy performance from every decisions made by the expert CEOs in contributing to family firms' value.

Disadvantages in applying secondary data is the gap of information; data may be incompatible with the research; possibility of depth limitation or an oddity in a time series and that the data may be unavailable to allow for investigation on reasons or consequence; the information may not cover all of the subject or group in the research; and possibility of inconsistency of time series.

3.6.1 Operational Definition

This research scope is only meant for Malaysian family firms in all sectors that are listed publically in Bursa Malaysia and covered the firms' records including the financial data for the year ended 2011. However, this study does not cover the public listed non-family firms and non-public listed companies or any multinationals or foreign based companies that have different levels of corporate governance practice due to different legal jurisdiction and country of origin. This study shall also be looking only for the latest measurement made on the MCCG without referring to any earlier amended version of the code.

3.6.2 Definitions on Research Terminology

The following definitions are commonly used throughout the study and would provide a crystal clear and better understanding in delivering the pertinent issue especially in the discussion section.

3.6.2.1 Corporate Governance

Cadbury Committee (2003) has defined corporate governance in a far broader perspective. They view this social issue as a matter which "is concerned with holding and balance between economic and social goals and between communal goals and individual desires. The governance framework exists to encourage the efficient consumption of resources and equally to require accountability for the *stewardship* of those resources.

High Level Finance Committee Report 1999 has defined corporate governance as "the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interests of the other stakeholders."

3.6.2.2 Definition of Family Firm

Prevalence and impact of family firms have been found to vary significantly depend on the definition used (Astrachan and Shanker, 2003; International Family Enterprise Research Academy, 2003; Lansberg, Perrow, & Rogolsky, 1998). This study has taken the definitions by LaPorta et al. (1999) who traced out the largest shareholder of a company by studying ultimate shareholdings of 27 countries, also used the following four criteria for family control proposed by Morck, Percy, Tian, and Yeung (2004) to distinguish family firms: (1) the largest group of shareholders in a firm is a specific family, and (2) the stake of that family is not less than 10 per cent of the voting shares. La Porta et al. (1999) revealed that in term of cash flow rights around the world, only 24 percent of large companies are widely held; 35 percent are family-controlled, and 20 percent are state-controlled.

The other two additional criteria for family businesses also proposed by Austrian Institute for SME Research (2008), in which, they defined it as “a firm, of any size, is a family enterprise, (3) if the majority of votes is in possession of the natural person(s) who established the firm, or in possession of the natural person(s) who has/ have acquired the share capital of the firm, or in the possesses of their spouse, parents, child or children’s direct heirs, whereby, the majority of votes may be indirect or direct, and (4) at least one representative of the family or kin is involved in management or administration of the firm (consistent with Bettinelli, 2010; Gersick, Davis, Hamptom, & Lansberg, 1997; Tagiuri & Davis, 1982; Jensen & Meckling, 1976).

3.6.2.3 Governance Despair in the Family Firm

Generally, corporate governance is defined as a set of guided principles that is used to increase corporate accountability whilst promoting investors' protection. Specifically, this study considers the nature of ownership in family firms differs in several important ways from one found in non-family corporations and already elaborated by Amran (2011) and Amran & Ahmad (2010) in paragraph 2.8, Chapter two. In contrast to that findings, the MCCG 2009 requiring the listed firms in Bursa Malaysia to separate this duality function as the best practice of corporate governance.

3.6.3 Family Firm Performance

There are two common types of performance measurement being used in measuring how well a particular firm is doing, that is accounting based performance measurement and market based performance measurement. For the purpose of this study, performance measurement is defined as the measurement of what a firm had and expected to accomplish that could be used to assist in a decision making process.

3.6.3.1 Performance Indicator in Accounting Measurement

It is a known fact that a business entity's purpose of existence is to create or increase the wealth of its stakeholders through its economic activities. Therefore, the financial performance of a business entity is crucial thus requiring proper measurement. It seems today that there are various standards governing how financial could be measured according to the type of business or industry. In Malaysia, the accounting standards are being governed by MASB. The establishment of MASB was under the Financial Reporting Act 1997 (the Act). Under the Act, the functions and powers of MASB cover:

- issue new accounting standards as approved accounting standards and to review, revise or adopt existing accounting standards as approved accounting standards;
- issue statements of principles for financial reporting;
- sponsor or undertake development of possible accounting standards;
- conduct public consultation as necessary;
- develop a conceptual framework for the purpose of evaluating proposed accounting standards;
- make such changes to proposed accounting standards as considered necessary;
- seek the view of the Financial Reporting Foundation in relation to new and existing standards, statement of principles, and changes to proposed standards;
- determine scope and application of accounting standards; and
- perform such other function as the Minister of Finance may prescribe.

As such, the measurement of financial performance in Malaysia should adhere to the related governing standards.

Below is just some of accounting performance measurements used in evaluating a firm's performance:

a) Return on Assets (ROA)

ROA is one of the indicators used to measure profitability and is one of the most common accounting ratios used in financial analysis.

ROA is derived from the following equation:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

The net income is obtained by taking the profit before tax and before financing charges whereas the average total assets is obtained by averaging out the beginning total assets and the ending total assets for a particular period, that is Average Total Assets = (Beginning Total Assets + Ending Total Assets) / 2.

ROA is used to indicate how profitable a company's assets are when it comes to revenue generating. In addition, Lee et al (2008) suggests that firms with large pay dispersion generate higher subsequent operating ROA than low pay dispersion. Besides as being familiar measurement among the investors, companies that require large initial investments will generally have lower ROA (Hamid, 2008). Intensifying global stiff competition and rapid technological changes has given a Family-controlled firm no option but to be more focus on maximizing assets efficiency (Thenmozhi, 2000).

3.6.3.2 Market Based Performance Indicator in Finance Measurement

According to Rashid (2008), the value of firm can be defined as the amount of utility or benefits of a firm by the shareholders. Below are some of the measures on how a firm is being valued using a market based performance measurement:

a) Tobin's Q

$$\text{Tobin's Q} = \frac{\text{Equity market value} + \text{Liability book value}}{\text{Equity book value} + \text{Liability book value}}$$

Tobin's Q was developed by James Tobin, a Sterling Professor of Economics at Yale University in 1968. Tobin's q is defined as the ratio of market value of assets (equity and debt) to the replacement value of assets. Tobin's Q is also used to value firm in the financial markets from the previous research done by Sarkar and Sarkar (2000) and Bhagat and Jefferis (2002). Lee et al. (2008) uncovered that firm performance measured by using Tobin's Q is positively associated with the remuneration structure of the board members and top executives. The advantage of using Tobin's Q is that the difficult problem of estimating either rates of return or marginal cost is avoided but for Tobin's Q to be meaningful, measures of both the market value and replacement cost of a firm need to be accurate (Lindenberg and Ross, 1981).

Lindenberg and Ross (1981) developed the formula for Tobin's Q (hereafter called L-R Tobin's Q) which involved nine variables. In terms of computational procedure, Chung and Pruitt (1994) changed it from the L-R Tobin's comprehensive formula to a simple approximation of Tobin's Q. Both computation method of Tobin's Q are stated below.

$$\text{L-R Tobin's Q} = \frac{\text{PREFST + VCOMS + LTDEBT + STDEBT - ADJ}}{\text{TOTASST – BKCAP + NETCAP}}$$

PREFST	=	the firm's preferred stock liquidating value
VCOMS	=	the firm's common stock price multiplied by the outstanding number of share as at December 31
LTDEBT	=	the firm's long-term debt adjusted value for its age structure
STDEBT	=	the book value of the firm's current liabilities
ADJ	=	the firm's net short-term assets value
TOTASST	=	the book value of the firm's total assets
BKCAP	=	the book value of the firm's net capital stock
NETCAP	=	the firm's inflation-adjusted net capital stock.

Approximation of Tobin's Q = (MVE + PS + DEBT) / TA

MVE	=	Market value added in terms of firm's share price and the outstanding number of common shares
PS	=	the firm's outstanding preferred stock liquidating value
DEBT	=	the firm's short-term liabilities value net of its short-term assets plus the book value of the firm's long-term debt
TA	=	the book value of the firm's total assets

3.6.3.3 Performance Indicator in Financial Economic Measurement

EVA is a trademark of the Stern Stewart Consulting Organization in Sweden. This new method for measuring financial performance is introduced by Bennett Stewart in 1991. EVA is a model based on a company's accounting. Basically creating value mechanism in EVA is also like accounting but involving both of audited report, specifically on profit and loss account and balance sheet as per Table 3.1.

The financial requirement is calculated as the defined capital (an adjusted balance sheet) multiplied with a suitable WACC. Weissenreider (1998) recommend making about 5-15 adjustments to those companies that implement EVA. He also discovered from his survey on 550 correspondents, that the main adjustments for the financial

Table 3.1 *Formula for EVA Calculation*

		Sales	
	-	Operating Expenses	
	-	Tax	
	=	Operating Profit	(Profit and Loss Account)
Adjustments			
	Financial Requirement		(Balance Sheet)
	-	EVA	

EVA's capital base is derived from the company's (or unit's) balance sheet as below:-

Capital x Weighted Average Cost of Capital = Financial Requirement
(Capital Structure) (WACC)

EVA Index = Operating Profit / Financial Requirement (in percent)

requirement in percent in which companies always considered for calculating EVA are on annuity depreciation in financial requirement (18% in first year and 10% in the last year), significant 10 years economic life, inflation adjusted annuity (15% every year), nominal WACC of 15%, possible hidden value by adding net book value of intangible assets in capital employed and valuation method in measuring EVA index as alternative approach.

A study by Stern Steward (2005) found that the companies that applied the EVA measurement outperformed their peers by 8.5% annually and this trend would be increased by 57% over a five year period. Meaning that, those companies that adopted EVA as performance metric is the link to long-term wealth maximization and discount factor techniques. Stern and Chew (2001) conclude that the capital charge is the most distinctive and important aspect of EVA. Under conventional accounting, most organizations appear profitable but many in fact are not creating value. In other words, when managers employ capital they must pay for it as if they would pay other operating expenses. Therefore, managers can properly assess the trade-off between the balance sheet and income statement. EVA has a magnitude positive or negative value as per Table 3.2.

According to Black (2001), the value of a firm could be measured using the value ratio. Mokhtar, Sori, Hamid, Abidin, Nasir, Yaacob,…, Mohamad (2009); and Hamid (2008) suggest that a combination of the three methods: accounting, market based, and financial economic performance measurement could add robustness to the study as these different performance measurements have their own distinct and unique strengths.

Table 3.2:

Absolute Magnitude is Either Positive or Negative

Company	**2004**	**2005**	**2006**	**2007(budget)**
Sales	234	258	305	420
Operating Expenses	-200	-205	-243	-285
Tax	0	-3	-10	-28
Operating Profit	34	50	52	107
Financial Requirement	-45	-50	-60	-62
EVA	**-11**	**0**	**-8**	**45**

Annuity means that the financial requirement will be the same every year in nominal term (or par value). The Financial Requirement is derived from balance sheet items as per Table 3.3.

Table 3.3:

Financial Requirement Calculation

Company	2004	2005	2006	2007(budget)
Capital	375	417	500	520
WACC (included Tax)	12%	12%	12%	12%
Financial requirement	45	50	60	62

3.7 Moderator Variables and Controllable Variables

Meta-Analyses of financial performance and equity by Dalton, Daily, and Certo (2003, February) found no consensus about the direction and magnitude for equity and firm performance relationship in which they proposed consistent linkages for CEO, officer, director, institutional, or block-holder equity and firm performance. This proposal by Dalton, Daily, and Certo is related to the current study which is focused on the choice of CEO as moderating variables towards family ownerships and performance relationship. Family firm has previously appointed member CEO in practicing its corporate governance before they were replaced by the professional CEO to form the Corporate Governance best practice (Lin & Hu, 2007; Amran & Ahmad, 2010; Hsu, Wang, & Hsu, 2012).

According to Anderson and Reeb (2003), the six control variables are: (1) *firm size* that can be measured by the natural logarithm of the book value of assets which controls the size effect. Intangible assets and future growth opportunity that rely respectively on: (2) *R&D intensity* variable and (3) *advertising spending* variable, which can be measured by the ratio of either variable to the book value of total assets. The fourth: (4) variable is *leverage* (debt ratio) where it controls the positive tax-shield effect and the negative financial distress effects and is measured by the book value of debt divided by total assets.

The fifth: (5) controlled variable is *cash holdings*, which can be measured by the ratio of cash and marketable securities to the book value of total assets (relevant to cash flow right that is deemed to be critical for the choice of CEO by the family firm). The last: (6) controlled variable is fixed assets ratio, which can be measured by ratio of property, plant and equipment (PPE) to the book value of total assets. Professional CEO or Family CEO and Low or High cash-flow rights is dummy variable was also created in order to examine the hypotheses choice of CEO in high-skill firms or high-expropriation firms.

3.7.1 Corporate Governance Index and Quantifying Variables

The Corporate Governance Index was developed jointly by a research team at Nottingham University Business School (NUBS) Malaysia Campus in collaboration with the Minority Shareholders Watchdog Group (MSWG) (Aziz, 2006). The joint research was done on the level of compliance with the recommendations of the

Malaysian Code as well as additional global best practices incorporated into the scorecard. The study involved the usage of correlation analysis to link various financial performance indicator measures namely, accounting and value-added base, to corporate governance compliance scores obtained using a scorecard in which the final results were then applied to a multi regression model to attest whether collectively market value- added based financial performance measures are better predictors in comparison to accounting intrinsic value-based financial performance measures.

However in this study, the use of economic value added in financial economic is an additional to Aziz's study. The current study will also be looking at CEO preference by the board of directors in all family firms listed in Bursa Malaysia as the moderator variable. The terms of family (founder / descendant) CEO or outsiders (professional) CEO refers to the study by Wu, Quan, and Xu (2010) who defined both as follows:

1. Based on four proxies that measure moderator variable: family CEO takes value of one if:

a. CEO has shareholdings in a firm and zero otherwise
b. the proportion of institutional investors' shareholding of a firm is lower than median proportion of industry and zero otherwise
c. CEO is also the board chairman and zero otherwise
d. CEO is an insider director on the board and zero otherwise

2. Based on four proxies that measure moderator variable: professional CEO takes value of zero if:

a. CEO has a master's degree or above and one otherwise
b. CEO serves on other firm (interlocking) and one otherwise
c. CEO has at least a professional certificate and one otherwise
d. the tenure of CEO is longer than the median tenure of industry and one otherwise

In this study, the CEO who falls in both categories is considered a controlled variable. Other controlled variable is the outside block-holders who can compete with the relative power of controlling family that will decrease the possibility of using a family member (descendent) as CEO (Smith and Amoako-Adu, 1999). Lin and Hu (2007) defined the relative power of controlling family by the ratio of the voting rights of the largest shareholder to the sum of the voting rights of the largest and the second largest shareholders.

As mentioned earlier in chapter two, there are suggested usage of the five controlled variables in the firm's operating characteristics by Henderson and Fredrickson, 1996; Shleifer and Vishny, 1989; Rosen, 1992; Barclay and Holderness, 1989; Himmelberg et al., 1999; Jensen, 1986; Smith and Amoako-Adu, 1999; Wooldridge, 2002, and Anderson and Reeb, 2003; namely: (1) R & D intensity, (2) advertising spending, (3) fixed assets ratio, (4) cash holdings, whereas the fifth: (5) debt ratio. For the industry, there are three selected industries' operating characteristics as dummy variables to proxy for the same firm's operating characteristics.

Since the population of this study is divided into two groups, that is high-skill type and high-expropriation type, therefore, the dummy is created for the choice of CEO, which is meant for testing whether the controlling family affects a professional CEO's performance in high-skill firms. The dummy variable is professional CEO and low cash-flow rights, equal one when a professional CEO is present and cash-flow rights of the largest shareholder is less than 30 per cent in the cash-flow rights of the population.

However, the dummy for the CEO preference is also meant for testing on whether the controlling family affects the relationship between the CEO's background (descendent or founder CEO) and firm performance in high-expropriation firms. For this purpose, the dummy variable is family CEO and high cash-flow rights, equal one when a family CEO is present and cash-flow rights of the largest shareholder is less than 30 per cent in the cash-flow rights of the population.

3.7.2 Definition of Outsider (Professional) CEO

In addition to the above CEO's definitions, the current study justifies the relationship between CEO and the largest shareholder with the information in the company prospectuses in Bursa Malaysia. If the CEO is a family member of the largest shareholder, the researcher designates the CEO as a family-member CEO. Otherwise, the researcher designates the CEO as a professional. The ownership data is collected from company prospectuses in Bursa Malaysia. Firm variables are calculated with data drawn from the Malaysia Economics Journal's (MEJ) database.

3.7.3 CEO Background and Firm Operating Characteristics Relationship

The study employs five variables that is R&D intensity, firm size, advertising spending, cash holdings, and fixed assets ratio, to define a firm's operating characteristics. In order for R&D activities to be productive, the CEO should have a specific ability to process information, which is likely to be rare but critical to a firm's performance (Henderson and Fredrickson, 1996). Therefore, a higher R&D intensity decreases the probability of using a family CEO.

Nevertheless, the drawbacks of a higher R&D can also increase expropriation. CEOs can make manager-specific R&D investments to reduce the probability of being replaced, extract higher salaries and larger prerequisites (Shleifer and Vishny, 1989). Thus, a higher R&D intensity can also increase the probability of having a family CEO. The intensity of R&D activity is measured as the ratio of R&D spending to total assets by percentage.

Large firms involving more complex operations have a need for the advanced managerial abilities of the CEO (Rosen, 1992), thereby decreasing the tendency of using a family CEO. In contrary, a large firm, because of its large resources, is endowed with higher pecuniary and non-pecuniary benefits of control (Barclay and Holderness, 1989). Hence, based on previous study findings, the firm would be better and more likely to choose a family member as CEO. In short, the size of a firm has mixed effects on determining a CEO's background. If superior managerial skills are important in maintaining a large firm's operations, it is predicted that large firms would be reluctant to use family members as CEOs. The size of firm is measured by the natural log of the book value of assets.

Discretionary spending can be proxy the intensity of consumption on advertising spending, which is related to the opportunity for expropriation (Himmelberg, et al., 1999). As firm's requirement for advertising is high, management can easily extract personal benefits from this activity. Therefore, the use of member CEO is possible rather than employ professional CEO. Advertising spending is measured by advertising expenditure to total assets by percentage. The composition of a firm's assets is related to cash holdings and fixed assets. High cash holdings will increase managerial discretion since it reduces the need for raising additional funds in the external capital market, which leads to enhanced or greater external monitoring (Jensen, 1986).

In this juncture, based on the past study findings, the present study predicts that a firm is more likely to use family CEO. Cash holdings are measured as the ratio of cash and marketable securities to total assets. Fixed assets are tangible, observable and easily monitored (Himmelberg et al., 1999). They provide low agency costs and a decreased probability of using a family CEO. They can be measured by the sum of land, plant, and machinery value to total assets.

Ownership variable is used as a controlled variable such as a blockholder who can compete with the controlling family. This will decrease the possibility of using a family member of the controlling family as CEO (Smith and Amaoko-Adu, 1999). Endogeneity (matching) considerations can be reduced by using instrumental variables (industry data) for firm operating variables which is explained in the procedures suggested by Wooldridge (2002). Industry data is an instrumental variable because of the industry features that are exogenous. The characteristics of the firms are thus unaffected by any single CEO.

3.7.4 Family Firm's Performance Measurement

Thenmozhi (2000) noted satisfactorily that a combination of performance measure seems to be a very strong measure influencing share prices and have to be used to understand the impact on share price behavior. Aziz (2006) evidenced that corporate governance compliance scores for 100 smaller companies listed on the Kuala Lumpur Stock Exchange (KLSE) revealed that the corporate governance compliance was low compared to the results of a prior study done on the bigger companies listed on KLSE. Aziz (2006) applied Economic Value Added (EVA), Market Value Added (MVA), EPS, PE ratio, ROE, and ROCE in measuring the firms' performance.

Conventionally, there are two main performance measurements that could be used to measure a company's performance that is market based and accounting based performance (Demsetz and Villalonga, 2001). According to Horvath (2005), performance measurement should provide information supporting decision-making and ensure prompt feedback. The difference between the two performance measurements are significant, that is market based performance measurement is forward looking whilst accounting based performance measurement is backward looking.

The other difference is that market based performance measurement is an estimate of what management would accomplish and accounting based performance measurement is an estimate of what management had accomplished (Lee, 2009). Furthermore, market based performance measurement is computed by analysts, fund managers or even the shareholders by applying certain applicable methods whereas accounting based performance measurement is measured by accountants based on professional standards laid by the profession. In Malaysia, the accounting standards are being governed by the Malaysian Accounting Standards Board (MASB) under the Financial Reporting Act 1997.

Unfortunately, both historical-based and market-based performance measurements failed to assess the firm's actual value-added that was created by the management team headed by the CEO. Therefore, according to Linthicum (2010), despite the inconsistency with the General Acceptance Accounting Principle (GAAP), there is a need for a decision to be decided by the CEO / BOD based on the market value or current value-added that was generated within the firm's accounting period. Stern (1996) and Weissenrieder (1998) are convinced that a steady increase in EVA will precipitate an increment in the market value of an organization. They further suggest that the adoption of an EVA resolution has proven to be effective in almost all types of organizations, from the emergence of growth companies to those entities involved in “turnaround positions”.

Performance refers to family firm performance. The sample is made up of listed family firms. Profitability and stock prices are the main concern of the market and firm’s owners. Therefore, the application of profitability-based measure for the study is return on assets (ROA), whereas, market-based measure is Tobin-q, for firm performance. ROA is calculated with the earnings before interest and tax (EBIT) plus depreciation divided by total assets (result is in percentage). Tobin-q is measured by market-to-book value of total assets. The percentage of CEO ownership is correlated with Tobin’s Q. Besides the variable which is seen in terms of the background of the CEO (Family CEO), this study measures four variables of firm characteristics commonly used in previous studies (example Morck et al., 1988; Anderson & Reeb, 2003) which explains firm performance.

The four variables are firm size that can be measured by the natural logarithm of the book value of assets which controls the size of effect; both intangible assets and future growth opportunity that rely on R&D intensity and advertising spending. R&D intensity can be measured by the ratio of R&D spending to the book value of total assets. The last variable is debt ratio which controls the positive tax-shield effect and the negative financial distress effects and is measured by the book value of debt divided by total assets. The study will be applying the endogeneity procedure by

Himmelberg et al. (1999) in handling the endogeneity problem by including the firm's fixed effects in the regression (for equation (1)) below in order to control a firm's unobservable characteristics. By doing so, this study will be able to look at firms that use both family and professional CEOs and compare performances between the different backgrounds.

3.8 Research Method

Hussey and Hussey (1997, p. 78) defined research method as the term "science and art of planning procedures for conducting studies". With regards to that, this section discusses the research sample, research process, and regression models as the statistical analysis applied in the current study.

3.8.1 Research Sample

Sunday (2008) suggests that a bigger sample size should be used for future research due to the larger the sample size of the study, the better chances it will have to be like the average value. The present study uses 'conditional' population which represents all family firms in all industries publicly listed in Malaysian Capital market (Bursa Malaysia) rather than all public listed firms as in the study by Daud, 2012. The finance firms (i.e. banks, insurance, and trusts) are excluded from the present study due to different regulatory requirements and material difference in the type of operations (Ahmad & Courtis, 1999; Cheng & Courtenay, 2006). The study also excluded institutional and foreigner ownership firms due to their different corporate governance environments (Daud, 2012). The family firm selection starts with a list of firms on the main board, followed by a second board of Bursa Malaysia in one group and finally ends with the ACE market of Bursa Malaysia in the other group (Lin & Hu, 2007). They were ranked based on their market capitalization as of 31 December 2011 and the process of selection allows firms to be selected across a range of sizes based on market capitalization, thus reducing the bias of selecting only large firms (Arshad, Md Nor, & Noruddin, 2011).

The finance firms will be excluded due to the different regulatory requirements and also material difference in the types of operations (Ahmad & Courtis, 1999; Cheng & Courtenay, 2006; Gray et al., 1995). Firms with incomplete data due to missing data related to the variables of interests in the current study will also be dropped from the 'conditional' population. The research approach involves the content analysis of family listed firms' published annual reports (Arshad, Md nor, & Noruddin, 2011).
By using the definition of family controlled firm and professional CEO as the above-mentioned, this study will be taking the sample which includes all the listed non-financial family firms during 2011 (reconciliation or pre-mandatory period for MCCG of 2012) in Malaysia. Malaysia capital market is characterized by weak legal protection for shareholders, high ownership concentration, and a prevalence of family firms, which are similar to other emerging markets (La Porta et al., 1999; Yeh et al., 2001; Lemmon & Lins, 2003).

As mentioned above, the sample of the study will be taken from the total population of family firms in all industries amounting to 424 non-financial firms that are listed on the main board of Bursa Malaysia (formerly known as Kuala Lumpur Stock

Exchange (KLSE)) as of December 2010 involving companies listed on the Malaysian Exchange of Securities Dealing and Automated Quotation Market (MESDAQ) market (now called ACE market of Bursa Malaysia). This includes listed firms that have disappeared during the sample periods but are still included in the sampling.

3.8.2 Research Process

Most of the financial research uses annual accounting data in publicly audited reports (see Barth, 1993; Fasshauer & Glaum, 2008). The present study uses primarily the annual reports as a source of information in investigating specifically for records kept in the Bursa Malaysia that can be accessed via information technology system as well as examining all of the firm's annual reports in hardcopies. Data is reliable because Bursa Malaysia is the only capital market in Malaysia and each of the financial reports are already audited by external auditors.

Both the local country's specific corporate governance dimensions (MCCG 2009) rather than general or international dimensions of corporate governance, as well as the local population of family firms listed in Bursa Malaysia have been chosen for the current study. This is consistent with the recommendations by previous researchers in the local corporate governance dimensions (Lee, 2009; Jong et al., 2002; Rashid, 2008; and Donker and Zahir, 2008), who also suggested a bigger sample size (Khatari et al., 2002; Rashid, 2008 and Mokhtar et al., 2009).

The advantages of secondary data are: large representation samples well beyond the resources of the individual researchers are available; availability of supporting documents and explanation of methodology, sampling strategy and data codes; good for examining longitudinal data and looking for trends; has considerable cost, time and human capital as the data is already in public document. Hence, the researcher can concentrate on data analysis and interpretation; and the secondary data can be used as an unobtrusive method to supplement direct survey research and to corroborate the findings.

The unit of analysis in the present study is the Malaysian Public Listed Company. Multiple regressions as the statistical analysis will be based on logistic regression model which will be applied to examine the determinants of the CEO's background. Regression method of analysis is applied because besides the 33 best practices in MCG Index-scores, the study is looking for the relationship manner between CEO succession and firm performance, after the family firm has made the choice between the two CEOs; professional or a family member, based on which one can improve the firm's performance. The dummy dependent variable, family CEO is equal to 1 if the CEO is a member of the largest shareholder's family; otherwise, it is equal to 0. The software for this analysis is the SPSS due to the study model is *less structural*. Recent advances in meta-analytic techniques allow for path analysis through structural equation modeling (SEM) or MASEM by Cheung and Chan (2005) and will be suggested for future study.

3.8.2.1 Retrieving Data and Data Mining

Data stream and annual reports are two separate sources where family listed firms' data were collected. Any missing financial figures from data stream were acquired from the hard copy of annual report. The annual reports were retrieved from the Bursa Malaysia website at www.bursamalaysia.com.my . All relevant data was collected from two consecutive years of 2010 and 2011. The three categories set of data are representing data distribution for 'specific' population (namely, overall, 2010 firms' year, and 2011 firms' year). In this study they are subjected for important tests in which covers assessment of normality, sampling adequacy, validity and reliability test.

3.8.3 Linear Regression Models

SPSS analysis method is the most suitable to fulfil the study objectives. The choice of SPSS would means that the stringent procedure of Structural Equation Method (SEM) for measuring mediating effect is no longer appropriate due to the only one construct variable for CEO choice limitation. Multiple regression analysis is an extension of bivariate correlation results. Hierarchical regression analyses methods is applied and the regression results of running the SPSS equation models analyses as the best prediction of family firms' performances (as DV or dependent variable) from several variables excluding transformation of moderating effects by taking into consideration the interaction between four corporate governance best practice and CEO choice.

Moderation involves a third variable that acts as controlling condition. In this study the moderating variable is the choice of CEO which is also an independent variable (IV). According to Baron and Kenny (1986), moderation refers to the function which represents the generative mechanism through which the IV (predictor) variable is able to influence the family firm performance as dependent variable of interest. The moderation effect testing is examined by the interaction variable, MCCG Index-scores * CEO choice (MCCG-scores*CEO-choice), whereby, the effect is computed as a product of the two variables of MCCG Index scores and CEO choice by the family firms. This formulated interaction variable is shown in model (1), (2), and (3) as below.

The overall multiple regression will be based on the following equation:

Model (1): $\mathbf{ROA_i} = \alpha_\theta + \boldsymbol{\beta}_1 \text{ D\_(Control Variables)}_{it} + \boldsymbol{\beta}_{12} \text{ D\_(MCGIndex-scores)}_{it} + \boldsymbol{\beta}_{17} \text{ D\_(CEOC\_0)}_{it} + \boldsymbol{\beta}_{17} \text{ D\_(MCGIndex-scores)}_{it} * \boldsymbol{\beta}_{17} \text{ D\_(CEOC\_0)}_{it} + e_{it}$ …………….(1)

Model (2): $\mathbf{Tobin's\ Q_i} = \alpha_\theta + \boldsymbol{\beta}_1 \text{ D\_(Control Variables)}_{it} + \boldsymbol{\beta}_{12} \text{ D\_(MCGIndex-scores)}_{it} + \boldsymbol{\beta}_{17} \text{ D\_(CEOC\_0)}_{it} + \boldsymbol{\beta}_{17} \text{ D\_(MCGIndex-scores)}_{it} * \boldsymbol{\beta}_{17} \text{ D\_(CEOC\_0)}_{it} + e_{it}$ …………….(2)

Model (3): $\mathbf{EVA_i} = \alpha_\theta + \boldsymbol{\beta}_1 \text{ D\_(Control Variables)}_{it} + \boldsymbol{\beta}_{12} \text{ D\_(MCGIndex-scores)}_{it} + \boldsymbol{\beta}_{17} \text{ D\_(CEOC\_0)}_{it} + \boldsymbol{\beta}_{17} \text{ D\_(MCGIndex-scores)}_{it} * \boldsymbol{\beta}_{17} \text{ D\_(CEOC\_0)}_{it} + e_{it}$ …………….(3)

Note:

Control variables = Market Types (MARKET_2), Block-holders Net Cash Right (BLOCK_NCR), Fixed Assets Ratio (FAR), Leverage (LEV), Industry R & D (RESEARCH_IND), Cash Holdings (CHoldg), Industry Sectors (SECTORS_10), Firm Size (SIZE_FIRM), Industry Firm Size (SIZE_IND), Industry Low Cash Flow Right (IND_LCFR_0), and Industry Block-holders Competing Cash Right (BLOCK_IND_CCR).

MCCG Index = Board of Directors' (BOD) Structure (GOV_DIR), Directors' Remuneration (GOV_REM), Accountability and Audit (GOV_AA), Communication with Shareholders (GOV_COM)

CEOC_0 = CEO Choice

Moderating Variables* = β_{17} D_(MCGIndex-scores)$_{it}$ * β_{17} D_(CEOC_0)
= gov_rem_interect, gov_com_interect, gov_aa_interect, gov_dirinterac

Family Firms' Performance (FFP) = Return on Assets (FFP_ROA), TOBINSQ (FFP_TOBINSQ), Economic Value Added (FFP_EVA)

Firm performance can be affected by the 33 best practices of MCCG Index-scores as well as the CEO's background and other factors as in equation (1) to equation (3). Block-holder, firm size, and firm's specific characteristics are the control variables of this study. An industry dummy is used to cover the occurrence of endogenous problem. The family CEO who is also a professional CEO is considered an outlier in this study and it will be excluded from CEO choice criteria.

3.8.4 Summary of Variables and Measurements

Table 3.4 shows the summary of the measurement and variables applied in the present studies of CEO choice in moderating the relationship between corporate governance codes and family firms' performance. Reliability of the MCCG best practice element measurement or score-rating is already been tested by joint research team (Aziz, 2006). Current study has been confirmed it by analyzing the governance codes as per composite reliability result in appendix IV.

Table 3.4

Summary of Variables and Their Measurements

Category	**Notation**	**Measurement**
Family Firm's Performance (DV)	FFP	ROA, Tobin's Q, EVA
	ROA	$= \dfrac{\text{Net Income}}{\text{Average Total Assets}}$
	TOBIN'S Q	$= \dfrac{\text{Equity market value} + \text{Liability book value}}{\text{Equity book value} + \text{Liability book value}}$
	EVA	= Sales-Operating Expenses-Tax-Financial Requirement , or = (ROA – WACC) x Total Capital

Malaysian Corporate Governance Best Practice and Transparency (Revised 2009)	MCG-Index (IV) **12 GOV_DIR:** B-size (DIR1) B-Ind (DIR2) B-Comp (DIR3) Disc-D&C (DIR4) Duality (DIR5) Disc-SIndD (DIR6) B-Mtg (DIR7) C-Mtg (DIR8) Disc-DAt (DIR9) Com-IoN (DIR10) Disc-D&S (DIR11) Disc-B&IDAp (DIR12) **8 GOV_REM:** Ind-RC (REM1) Disc-EDR (REM2) Mix-EDR (REM3) Disc-EDAp (REM4) Disc-T5ER (REM5) Disc-FeeNED (REM6) Disc-SoFeeNED (REM7) ESOS (REM8)	Scorecard: Total 100 scores **35 points comprises of** Two points Five points Two points Two points Four points One point Three points Three points Two points Two points Three points Six points **20 points consist of** Two points Four points two points One point Four points Three points Two points Two points

	5 GOV_AA: Ind-ACM (AA1) Comp-ACM (AA2) ACCComp (AA3) Disc-RMgt (AA4) Disc-Wbp (AA5) **8 GOV_COM:** T-RAFS (COM1) T-RQFS (COM2) HCWeb (COM3) CRQviaCWeb (COM4) HRBtoAFYR (COM5) HPKMgtRB (COM6) AoPMonline (COM7) HShP (COM8)	**20 points-breakdown into** Three points Two points Two points Ten points Three points **25 points assessment** Three points Two points Five points Two points Three points Two points One point Seven points Total = 100 %
CEO Choice Family CEO dummies: a. CEO has shareholdings in a firm and zero otherwise b. the proportion of institutional investors' shareholding of a	**CEOC_0** Professional CEO dummies: a. CEO has a master's degree or above and one otherwise b. CEO serves on other firm (interlocking) and one otherwise	Family CEO = 1; Professional CEO = 0

firm is lower than median proportion of industry and zero otherwise c. CEO is also the board chairman and zero otherwise d. CEO is an insider director on the board and zero otherwise	c. CEO has at least a professional certificate and one otherwise d. the tenure of CEO is longer than the median tenure of industry and one otherwise	
Future Research- **Control Variables:** External Variables: (IV) Block-holders (large shareholders)	Competing Outsiders BLOCK_CCR (CON1)	Proxies for managerial ability = Percentage Family-Block-holders ownership (relative power of controlling family by the ratio of the voting rights of the largest shareholder to the sum of the voting rights of the largest and the second largest shareholders)
Firm Size	SIZE_FIRM (CON2)	= natural log of the book value of assets
Internal Variables: (IV)	Firm's Specific (Operating) Characteristics	More Vulnerable to CEO's Decision Making
R & D intensity (in percentage)	RESEARCH_IND (CON3)	= R & D spending / total assets

Advertising spending (in percentage)	AdvSp (CON4)	= Advertising expenditure / total assets
Fixed assets ratio Cash holdings	FAR (CON5) CHoldg (CON6)	= Sum of Property, Plant and Equipment value / total assets = Cash and marketable securities / total assets
Endogenous **In(ρ/(1- ρ)) = β_0 + β_1(Firm's Operating & Attributes Characteristics Variables)it + β_2(Block-holders Variables)it + ∑ δtDt + ηi + eit ....(4)** **note:** ρ = probability of presence of insider CEO; Dt = 1 for year t	Industry Data is Exogenous The uses of industry numbers as independent variables to classify the firms. *If fitted probability* (**In(ρ/(1- ρ)**) *in equation 4) is larger than* ***0.5***, according to the firm's operating and attributing features, the family controlled firm is predicted to use a family member as insider CEO; therefore, it is classified as a expropriation type, otherwise, as high-skill type.	Instrumental Variables* Relative to the average for the specific industry in every family firm's operating characteristics variables as above.
Industry Types: Highly Expropriation (Non-ACE) Versus High Skill Industry (ACE)	Family CEO dummies: HCFR Professional CEO dummies: LCFR	High Cash Flow Right = 1 Low Cash Flow Right = 0

*The attributes of a firm are affected by industry and firm-specific factors. The information technology (IT) industry, for instance, requires high R&D activities to sustain innovative breakthrough and that's results in a common characteristics: high R&D spending by firms in the IT industry. The leading company in the IT industry will make greater R&D expenditure relative to the average for the industry to maintain its leadership; this is firm specific factor. A firm's factor, relative to the industry factor, is vulnerable to decision making by the CEO. We regard industry factors as exogenous characteristics of firms that are unaffected by any single CEO, and industry data can be instrumental variables.

3.9 Chapter Summary

In addition to the methodology of the study, the developed MCCG index by MSWG provides a comprehensive measure of the extent to which a company has, as disclosed in their corporate governance disclosures. Apart from the adopted international best practice in codes of corporate governance, SPSS method model is used to give a picture of what CEOs really matters in Malaysia business environment in term of CEO choice in family firms. The findings of the option by Malaysian family firms are presented in the next chapter.

CHAPTER 4

RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results of study related to the relevant family firm's performance models. The main objective of the study is to provide the moderating effect of the CEO choice among family listed firms in Bursa Malaysia on the relationship between CG and its firms' performance, mainly on the Tobin's Q model. The chapter is broken down into eight sections, of which the earlier Section 4.2 explains the data of present study population, including the distribution of the firm's financial report on MCCG application levels. Section 4.3 presents the descriptive statistics of all variables pertaining to this study. In Section 4.4, all the relevant regression assumptions are observed, as well as the results of correlation analyses by taking into consideration the robustness of the earlier test results. Section 4.5 provides the correlation analyses. Section 4.6 reports the results of the multivariate regression analyses on the three performance models. Besides reviews of the results of the hypotheses testing, Section 4.7 also reveals the main study findings resulting from the moderating effect of CEO choice. MCCG best practice's effects on family firms' performance models are further analyzed in Section 4.8 by classifying the more specific data for CEOs. Finally, the chapter ends at Section 4.9 which summarizes the overall findings of this dissertation.

4.2 Data Population

As mentioned earlier in chapter three, this study involves the population of all family firms listed on the Board of Bursa Malaysia which consists of Main market and ACE (Alternative Certainty Efficiency) market for two consecutive years (2010 and 2011) as well as combined years for overall data. The Final list of the listed family firms from the Main and the ACE markets have been sorted and updated from 2009 up till data collection year of 2014 in order to get the latest listed family firms in both markets. In the sorting process, there are 112 family listed firms in Bursa Malaysia that have been examined due to missing data for several reasons as in Table 4.1:

Table 4.1

Sorting Process for Data of Population

No.	**Main Market (65 firms-examined)**	**No.**	**ACE Market (47 firms-examined)**
1)	9 firms were delisted	1)	18 firms were delisted.
2)	3 firms-restructuring (PN17)	2)	1 firm- restructuring (PN17).
3)	4 firms were under financial distress (GN3)	3)	2 firms were under financial distress (GN3)
4)	30 firms- incompleted-12 month either 2010/2011 financial years	4)	None- incompleted-12 months either 2010/2011 financial years.
5)	19 firms were suspended by SC or under severe-material litigation	5)	23 firms were suspended by SC or under severe-material litigation.

Finally, the study has observed the updated relevant data from the annual report that amounted to 472 family listed firms. Upon this amount, the normalized data is finalized to 404 family listed firms. Therefore the data is subjected for 808 family listed firms after cover up for two consecutive years (2010 and 2011) on the same 404 family listed firms. Based on Figure 4.1 and Table 4.2, out of the 808 family listed firms, 698 (86.4%) are represents Main market while the remaining balance of 110 (13.6%) family firms are from ACE market.

Table 4.2

Family listed companies in Malaysian Capital Market

Market Category	**Frequency**	**Percent**
Main Market	698	86.4
ACE Market	110	13.6
Total	808	100.0

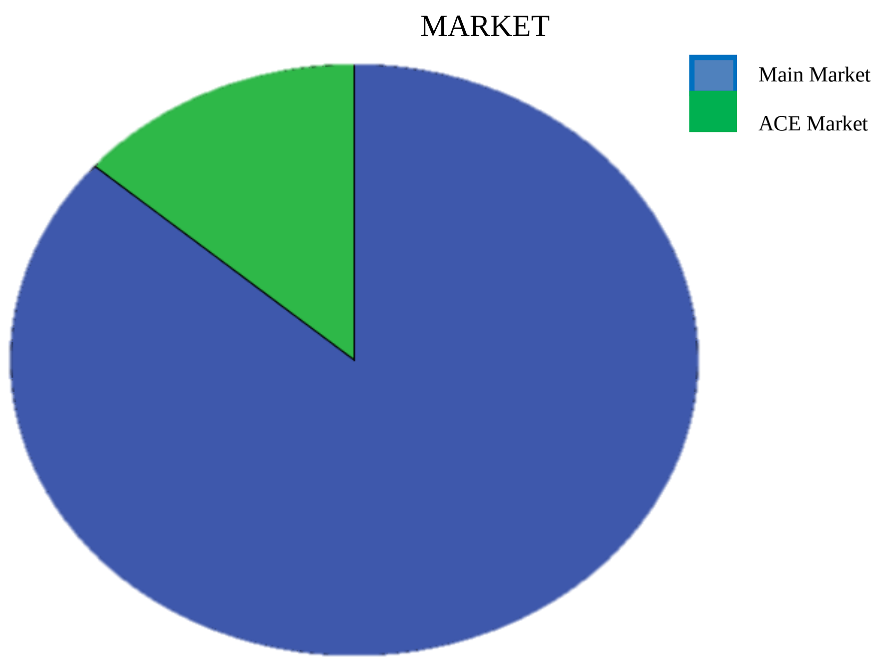


Figure 4.1

Family Listed Companies in Malaysian Capital Market.

Based on Table 4.3, both markets have different sectors: (1) 308 firms are specified industries (38.1%); (2) 152 firms are trading/services (18.8%); (3) 118 firms are Consumer (14.6%); (4) 80 firms are technology (9.9%); (5) 66 firms are properties (8.2%); (6) 44 firms are construction (5.4%); (7) 36 firms are plantation (4.5%); and (8) 4 firms (0.5%) with 2 each of them are operated in hotel and Infrastructure Project Companies (IPC) industry respectively.

Table 4.3

Firm Types for Family Firms in Bursa Malaysia

Market Sectors	**Frequency**	**Percent**
Technology	80	9.9
Trading/Services	152	18.8
Industrial	308	38.1
Consumer	118	14.6
Construction	44	5.4
Plantation	36	4.5
Properties	66	8.2
Infrastructure Project Companies	2	0.2
Hotel	2	0.2
Total	808	100.0

The Table 4.3 shows that industrial and trading/services are dominant activities among Malaysian family listed firms in Bursa Malaysia. Both sectors have been contributed around 56.9 % in overall sectors at Bursa Malaysia. Apart from a small percentage of technological firms in Main market as compared to ACE market, non-technological firms have been dominated technological firms by 90.1 % for both markets. Breakdown figures on these activities are also portrayed in Figure 4.2 as follows.

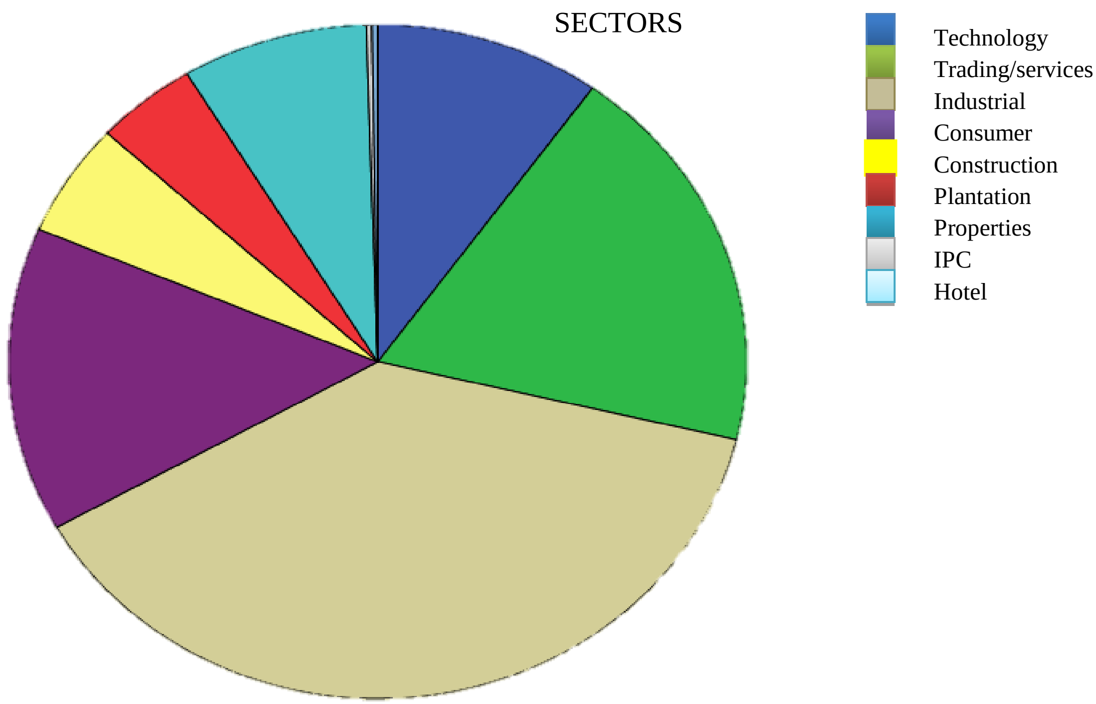


Figure 4.2

Nine Sectors (Mining sector is outlier) involving Family Listed Firms Principle Activities

Based on table 4.4, in considering the technology firms in the Main and ACE markets, the ratio has shown that insider CEO of family firms are rounded at 0.7 times (332/476) lower than those of outsider CEO. Besides, family firms have relied on the outsider CEO 1.4 times (476/332) higher than insider CEO in overall comparison.

Table 4.4

Low Cash Flow Right of Family Listed Firms in Technology Sector

Technology Firm vs Non-Technology Firms on the Differ Cash Flow Right	**Frequency**	**Percent**
Technology	**80**	9.9
Trading/Services, Industrial, Consumer, Construction, Plantation, Properties, IPC, Hotel	728	90.1
Total	808	100.0

Only 80 (9.9%) of the Malaysian family listed firms are engaged in the technology sector, in which theoretically the industry that has a low cash flow right than other sectors. Furthermore the technological family firms would prefer high-skill outsider CEO expert rather than insider CEO among their family member (Lin & Yu 2007), as per Table 4.4. Data mining involves 808 firm-year observations and the descriptive analysis on CEO choice preferable by the family firms are as follows.

Table 4.5

Statistics for CEO Choice by Family Firms in Bursa Malaysia

CEO Choice	Frequency	Percent
Outsider CEO	476	58.9
Insider CEO	332	41.1
Total	808	100.0

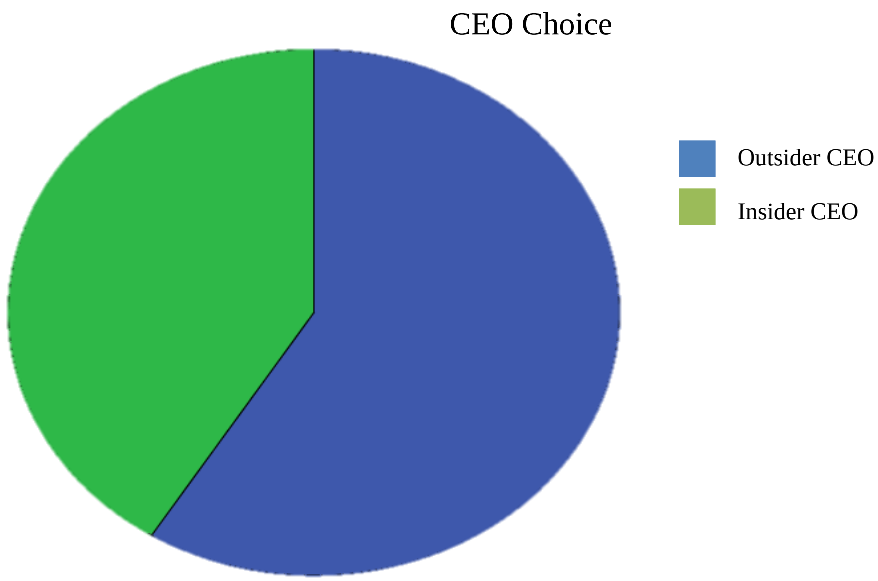


Figure 4.3

Breakdown in Comparative Ratio for Outsider and Insider CEOs

Comparatively, the above contrast between the two types of CEOs can also be shown in the pie chart (Figure 4.3). Besides, the preferred outsider CEO by the Malaysian family listed firm is also culturally demanded by many expropriation firms. This fact is supported by the percentage ratio of 58.9% as shown in Table 4.5 and Figure 4.3. However, after considering the technology firms for ACE and the main markets, it is found that the high-skilled family firms in Malaysia still rely on the insider CEO by 1.3 times (49/37) in comparative ratio, but more interestingly, expropriation of family firms are 1.6 times (439/283) higher for outsider CEO as compared to outsider (professional) CEO. Only 0.6 times (283/439) still rely on insider CEO as per Table 4.6. The existence of high-skilled family firm is subject to a very high technology business that has invested 50% of its capital structure on average mainly for research and technology. Normally in terms of cash-flow rights, the controlled-family has weaker control over its skillful outsider CEO. The tendency for family members to exercise assets-expropriation in the expense of minority shareholders is low. However a lot of compromise can be negotiable between outsider CEO and the family's stakeholders (Lin & Yu, 2007).

This study finds that outsider CEOs which are supposed to have the best practice among the high-skilled family firms do not exist in Bursa Malaysia. This trend of CEO choice in high-skilled family firms contradict with Lin and Yu (2007)'s findings, as well as provide insufficient sample data in high-skilled family firms (only 37 outsider CEOs from the population of less than 100 technology firms as per Table 4.6). Thus the current study stresses only on the overall data of 808 family listed firms in Bursa Malaysia. In the voluntary year of 2010 and 2011, (before mandatory date: 31 December 2012) family listed firms have shown reluctance to consider the MCCG as having the best practice in mitigating the agency problem when majority of them are graded as moderate governance in four elements of corporate governance except for directors' remuneration which are scored at low governance.

Theoretically, with regards to the best practice in Malaysia Code of Corporate Governance (MCCG), the extra of 1.4 times preferable ratio for outsider CEO than insider CEO among expropriation family firm has also given different impact on firm's performance. On the overall data of 808 family listed firms, no one has been considered as premium firms in term of excellent scores (more than 80%) in MCCG Index except for transparency in external CG component.

Table 4.6

Analysis on CEO Choice by Family Firm in Malaysia

Firm's Types	CEO Choice : Family CEO		Total of Overall CEO Choice
	Family Member Insider CEO = 1	**Professional** Outsider CEO = 0	
Expropriation Firms	283 39.20%	439 **60.80%**	722 100%
High-Skill Firms	49 56.98%	37 43.02%	86 100%
Total Overall Family Firms	332 41.10%	476 **58.90%**	808 100%

Despite the outsider CEO being 1.4 times more preferable than insider CEO by family listed firms in Malaysia, the application of overall CG codes in terms of governance grading levels are still disregarded even though they are seem to be independent but only in appearance.

4.2.1 Distribution of Firm's Financial Report on MCCG Application Levels

According to McKinsey (2002), investors have seriously considered corporate governance as critical importance whereby they placed a premium on corporate governance (CG) in which companies with favorably rated CG practices will have high market valuation. In this study, the current CG breakdown levels in family-controlled firms listed at Bursa Malaysia are shown in Table 4.7. Grading categories in this study is based on MCCG Index 2010 which standardizes by MSWG, whereby their respective scores on corporate governance are as follows: (1) premium firm represented by the scores equal to 80% and more (i.e. firm's score ≥ 80% or the 'A+' family listed firms), (2) satisfies firm ranging from the scores equal to 60% and more till less than 80% (i.e. 60% ≤ firm's score < 80%), (3) moderate firm ranging from the scores equal to 40% and more till less than 60% (i.e. 40% ≤ firm's score < 60%), (4) low in governance firm ranging from the scores equal to 20% and more till less than 40 (i.e. 20% ≤ firm's score < 40%).

None of family listed firms in Malaysia has premium governance in its element of board of directors' structure best practice as shown in the same table. Only 94 family firms (11.6%) from overall 808 family firms are at satisfied governance level for the element. The same finding also discovered in its element of directors' remuneration best practice whereby, none of family listed firms in Malaysia has premium governance. Only 28 firms (3.5%) from overall 808 firms are at satisfied governance level for the element. Based on Table 4.7, none of the family listed firms in Malaysia has premium governance in its element of accountability and audit best practice.

Only 242 firms (29.95%) from overall 808 firms are at satisfied governance level for the element. Nevertheless, there are 154 family listed firms (19.1%) in Malaysia who have premium governance in its element of communication with shareholders best practice. More interestingly, the study also results in an overall dominant percentage of 37.9% (ratio of average subtotal 306 / 808 firms) among Malaysian family firms are at moderate governance in their MCCG best practice application.

Table 4.7

Malaysian Family Listed Firms' Code of Corporate Governance Index Scores for Board of Directors Structure, Directors Remuneration, Accountability and Audit, and Communication with Shareholders

Grading Categories	**Governance in Average Scores (Percent)**	**BOD Structure Frequency (Percent)**	**Remuneration Frequency (Percent)**	**Accountability and Audit Frequency (Percent)**	**Communication with Shareholders Frequency (Percent)**
Low Governance (20% ≤ firm's score < 40%)	287 (35.52%)	292 (36%)	646 (80%)	108 (13%)	102 (13%)
Moderate Governance (40% ≤ firm's score < 60%)	306 (37.87%)	422 (52%)	134 (17%)	458 (57%)	210 (26%)
Satisfied Governance (60% ≤ firm's score < 80%)	176 (21.78%)	94 (12%)	28 (3%)	242 (30%)	342 (42%)
Premium Governance (firm's score ≥ 80%)	39 (4.83%)	0 (0%)	0 (0%)	0 (0%)	154 (19%)
Grand Total	808 (100%)	808 (100%)	808 (100%)	808 (100%)	808 (100%)

4.3 Descriptive Statistics

The mean, standard deviation, minimum and maximum for the overall variables in relation to the moderation effect of CEO choice as the relevance study in valuing governance mechanism for the population of 808 family listed firms are presented and discussed in this section. This study's 'specific' population does not consider the outliers' samples in order to determine the data robustness of variables under study. The statistical results for the independent variables show that, the means on the respective governance elements are ranked according to its percentage scores. Communication with shareholders is prioritized at the highest governance level (60.51%), followed by accountability and audit (50.84%), and board of directors' structure (45.74%). The lowest governance percentage score in family controlled firms is in its director's remuneration (30.05%). On moderating variable, the average chances for the insider CEO to be chosen by family shareholders are at 41%.

Other independent variables' statistical results have revealed that firm's competing cash rights for the family listed firms are at 72.7% relatively and controlled by family members, in which out of this percentage, 45.4% is has absolute control power through their shareholdings in terms of net cash rights. They also have strong cash holdings for about 52 cents in every ringgit of their total assets. In the context of risks, Malaysian family controlled firms are presumed to have lesser leverage for every ringgit of their total assets. The lesser might be impacted from the 1997 crisis which indicated that financial institutions ought to be more stringent in assurance for any possible non-performance loan. According to Dick and Pernsteiner (2013), previous empirical analyses are not clearly indicated on whether family businesses show a higher or lower leverage than non-family controlled companies. They found that the uncertainty finding is especially true for family listed firms. Based on this ground fact, leverage is excluded from the control variables list of the current study.

Family firms' performance models as the dependent variables of this study have different results. The overall performances for three models are comparatively explained in terms of contribution ratio, actual value of ringgit as well as magnitude results. The present study indicates that return on assets model has an average of 5.8 cents in every ringgit of their total assets, whereas, Tobin's q model has even more value to the average of 73 cents in every ringgit of their total assets. However, Malaysian family controlled firms have an average of – RM26,700.00 or – RM0.0267 million in negative value for their economic value added, which is probably unattractive capital market for foreign investors. Descriptive analysis is presented in Table 4.8.

4.4 Regression Assumptions

In order to produce more meaningful outcomes for this dissertation, all secondary data collection are subjected to statistical procedure such as sufficient data requirement, data screening and transformation, normalization, reliability analyses, and validity analyses. Several assumptions such as outliers, normality, linearity, multicollinearity, autocorrelation and heteroskedasticity also are to be satisfied before the data is analyzed.

Table 4.8

The Main Central Tendency and Variability Measures for the Overall Variables

Governance Elements	N	Min.	Max.	Mean	Std. Dev.	Variance
Board's (BOD) Structure	808	0.20	0.77	0.4574	0.12100	0.015
Directors' Remuneration	808	0.10	0.75	0.3005	0.14518	0.021
Accountability and Audit	808	0.00	0.75	0.5084	0.12327	0.015
Communication with Shareholders	808	0.20	1.00	0.6051	0.18110	0.033
Return on Assets (ROA)	808	-0.048	0.290	0.0584	0.05236	0.003
TOBIN'S Q	808	0.054	2.66	0.7832	0.37819	0.143
Economic Value Added (EVA)	808	-0.3398	0.1141	-0.0267	0.04812	0.002
CEO Choice	808	0.00	1.00	0.41	0.492	0.242
Competing Cash Right	808	0.2536	0.9988	0.72697	0.15148	0.023
Net Cash Right	808	-0.4928	0.9976	0.45396	0.30296	0.092
Industry Competing Cash Right	808	0.1155	0.9575	0.5774	0.11697	0.014
Firm Size	808	11.78	24.72	19.1697	1.34707	1.815
Industry Firm Size	808	17.52	22.80	19.6168	0.93006	0.865
Industry R & D	808	0.00000	0.176500	0.04315	0.04117	0.002
Fixed Assets Ratio	808	0.00000	0.94000	0.314797	0.201464	0.041
Cash Holdings	808	0.02000	2.43800	0.51689	0.41898	0.176
Industry Low Cash Flow Right	808	0.00	1.00	0.90	0.299	0.089

4.4.1 Sufficient Data Requirement

Sum of 808 family listed firms as final data is more than required sample size (a sample of 100 subjects is acceptable but sample of 200+ are preferable) in which, it is sufficient for assumptions and practical considerations (Coakes & Steed, 2007).

4.4.2 Data Screening and Outliers

Outliers are individuals who have such extreme scores on an individual variable, or on a set of variables, that they will distort the overall results (Tabachnick & Fidel 2007). A common method to detect this problem is by using the mahalanobis distance test. Outlier would become a problem if the mahalanobis distance exceeds a critical value from chi-square statistical table (Tabachnick & Fidel, 2007). No missing data are traced or found during data screening and several data reduction in the mahalanobis distance examinations covering 68 outliers data on family listed firms are deleted from overall 472 family firms for a beginning year (2010) that listed in Bursa Malaysia.

4.4.3 Normalization of Data Population

The final 808 Malaysian family firms will then be transformed to its respective Z-score values, before they can be tested in skewness and kurtosis for normality analysis. Skewness and kurtosis analyses are applied in order to determine the normal data population. Skewness and kurtosis refer to the shape of the distribution and its values are zero if the observed distribution is exactly normal (Coakes & Steed, 2007). As evidenced in Table 4.9, even though the maximum tolerance value for kurtosis is 10 compared to the current study kurtosis value for EVA variable which is 10.636, it is still acceptable due to its importance as a core dependent variable under study in measuring family firms' performance. Besides, the study opted to retain the variable for further analysis due to its minimal number. Hence, the data has no violation to the normality assumption.

In addition to the skewness and kurtosis values, the normality assumption can also be confirmed by way of using graphs for instance, the histogram and normality plot. As evidenced in Figure 4.4, the histogram of dependent variable data of family firms' performances in Tobin's Q model are considered as normal data only for the data sets below the curve, whereas, the normality probability plot is a graphical technique and it is another method to test the data normality in which, it is used to assess the data sets' as approximately normal distribution.

For that, data are plotted against a theoretical normal distribution in such a way that the points form an almost straight line. Based on two independent variables for the governance elements, namely, board of directors' structure as per Figure 4.5, any deviation from the straight line is considered as deviated from normality.

Table 4.9

Normality Analysis for the Overall Variables

Governance Elements	N	Skewness		Kurtosis	
Board's (BOD) Structure	808	0.546	0.086	0.178	0.172
Directors' Remuneration	808	1.009	0.086	1.286	0.172
Accountability and Audit	808	0.207	0.086	0.038	0.172
Communication with Shareholders	808	-0.531	0.086	-0.648	0.172
Return on Assets (ROA)	808	1.188	0.086	1.617	0.172
TOBIN'S Q	808	1.475	0.086	3.551	0.172
Economic Value Added (EVA)	808	-2.657	0.086	10.636	0.172
CEO Choice	808	0.363	0.086	-1.873	0.172
Competing Cash Right	808	-0.062	0.086	-0.751	0.172
Block-Net Cash Right	808	-0.062	0.086	-0.751	0.172
Industry Competing Cash Right	808	0.683	0.086	4.149	0.172
Firm Size	808	-0.077	0.086	2.534	0.172
Industry Firm Size	808	-0.833	0.086	0.208	0.172
Industry R & D	808	1.959	0.086	3.028	0.172
Fixed Assets Ratio	808	0.398	0.086	-0.503	0.172
Cash Holdings	808	1.714	0.086	3.336	0.172
Industry Low Cash Flow Right	808	-2.690	0.086	5.250	0.172

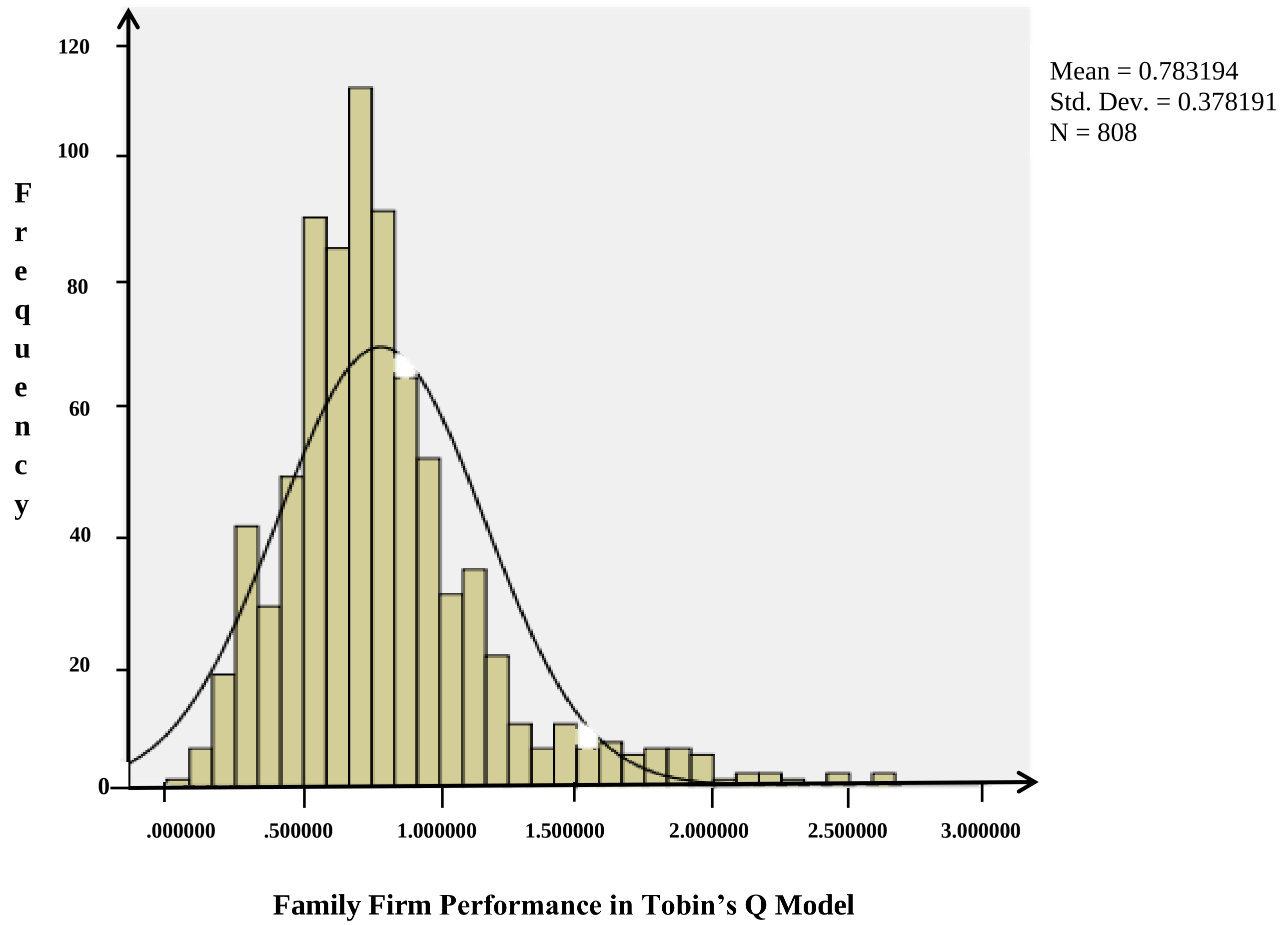


Figure 4.4

Normality of Dependent Variable for Family Firm Performance in Tobin’s Q Model

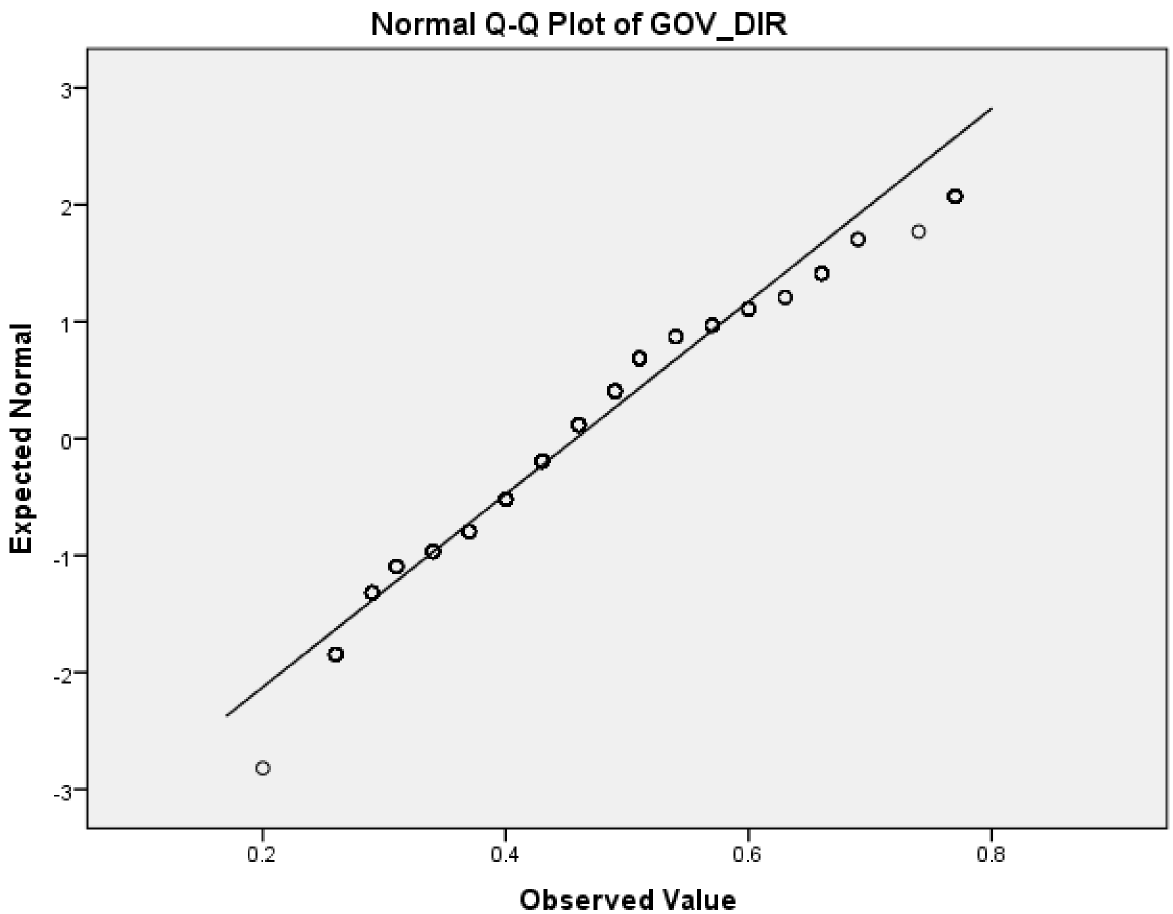


Figure 4.5

Normality of Independent Variables for Governance in Board of Directors' Structure (GOV_DIR)

4.4.4 Multicollinearity

Multicollinearity problem exists when one or more of the independent variables are highly correlated with each other and its existence can be indicated by using Variance Inflation Factor or VIF (Berenson, Levine, & Krehbiel, 2005). According to Shukeri and Nelson (2010), the aim of multicollinearity test is to examine whether the problem exists between the dependent and independent variables and the association amongst dependent variables. In order to discover this problem, two methods are applied for the current study: (1) Pearson Correlation (correlation matrix) and (2) Variance Inflation Factor (VIF). According to Hair et al. (2006) and Tabachnick and Fidell (2007), a multicollinearity problem exists if the correlation amongst independent variables is above 0.9.

As evidenced in Table 4.14, all variables in the correlation matrix with pearson correlation coefficients are less than 0.9. In other words, the ranking of the highest correlation coefficients for the correlation matrix are between the cash holding variable and family firm's performance in Tobin's Q, as well as, industry low cash flow right variable and industry size variable, which is at 0.796 and 0.748 respectively (both of correlations are lower than 0.9). Nevertheless, only 48 pairs of these relationships are significantly correlated to each other ($P > 0.01$; $r > 0.085$).

Based on the VIF analysis as per Table 4.11, Block-holders in industry competing cash right cannot be deleted because none of the following cut-off thresholds is fulfilled: (1) tolerance value is not less than 0.1 and (2) VIF statistic is more than 10 does existed in overall data set (Hair et al., 2006). The higher the t-value, the lower the p-value and chances to be significant is also high, whereby a multicollinearity problem is suspected if the finding results have high adjusted R^2 but low in t-value. After all, in the present study finding, adjusted $R^2 = 0.675$ that is less than 0.9 tolerated threshold value and all possible test for this problem has been executed.

Thus, from these evidences, it can be concluded that the present study has no issues of multicollinearity at all.

4.4.5 Autocorrelation

The existence of autocorrelation was examined by the Durbin-Watson statistical test. The purpose of the test is to detect the present of autocorrelation in the residuals from a regression analysis. An acceptable value under this statistical test ranges from 0 – 4 in which, a value greater than 2.6 indicates the occurrence of a strong negative series problem of correlation amongst data population, whereas, a value below 1.4 indicates the occurrence of a strong positive series problem of autocorrelation (Kazmier, 1996). As evidenced in Table 4.10, the value of Durbin-Watson for Tobin's Q model is 2.046. Hence, the current study is free from autocorrelation problem amongst data population.

Table 4.10

Autocorrelation Test for Tobin's Q Model

Model	**R**	**R^2**	**Adjusted R^2**	**Std. Error of the Estimation**	**R^2 Change**	**F Change**	**Sig F Change**	**Durbin-Watson**
Tobin's Q	0.826	0.682	0.675	0.21562	0.003	1.707	0.146	2.046

4.4.6 Heteroscadasticity

As for homoscedasticity test, it assumes that the dependent variable shows an equal degree of variance throughout the predictor variables' range. In other words, homoscedasticity problem exists when residual variance is unequal and this situation can be mitigated through data transformation as if similar to methods applied to achieve normality (Hair et al., 2006). In this situation, violation of homoscedasticity refers to heteroscedasticity. The latter condition has a tendency to make the coefficient estimate to be underestimated, and in some cases, it makes insignificant variables seem significant (Hair et al., 2006).

They also suggest that deflation simultaneously cures coefficient bias and heteroscedasticity by dividing the observed values with known scale factor to obtain Y and X. Based on the scatter plot of the two dependent variables' residuals as per Figure 4.6, it shows a clear relationship between residual and the predicted value. However, it confirms that there are no issues of homoscedasticity or independence of residual due to the present study standard error of estimate is rounded at 0.21 as evidenced in Table 4.12.

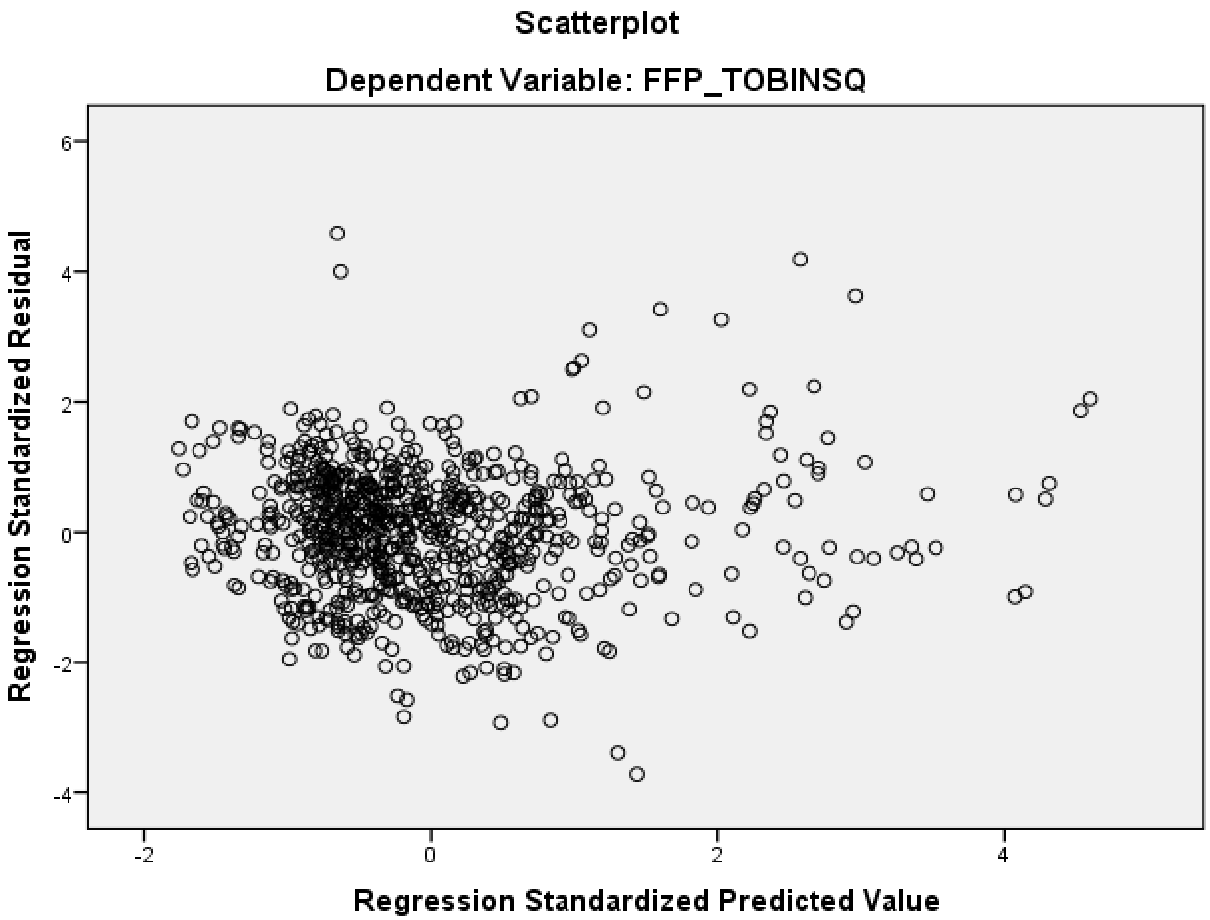


Figure 4.6

Scatter Plot of the Residuals, Dependent Variable for Family Firms' Performances in Tobin's q Model (FFP_TOBINSQ)

Table 4.11

Variance Inflation Factor (VIF) as Indicator for Multicollinearity Existence

Family Firms' Performance in Tobin's Q Model (FFP_TOBINSQ)	Collinearity Statistics	
	Tolerance	**VIF**
Board's (BOD) Structure (GOV_DIR)	0.469	2.134
Directors' Remuneration (GOV_REM)	0.447	2.238
Accountability and Audit (GOV_AA)	0.510	1.959
Communication with Shareholders (GOV_COM)	0.809	1.236
CEO Choice (CEOC_0)	0.869	1.150
Block-Net Cash Right (BLOCK_NCR)	0.925	1.081
Industry Competing Cash Right (BLOCK_IND_CCR)	0.131	*7.656*
Firm Size (SIZE_FIRM)	0.624	1.601
Industry Firm Size (SIZE_IND)	0.236	4.237
Industry R & D (RESEARCH_IND)	0.231	4.330
Fixed Assets Ratio (FAR)	0.862	1.160
Cash Holdings (CHoldg)	0.759	1.318
Industry Low Cash Flow Right (IND_LCFR_0)	0.164	6.094

Table 4.12

Result of Estimating Model (2) Showing Regression Analysis Results for Moderation Effects on the Relationship between Corporate Governance and Family Firm Performance in Tobin's Q

Model (2): **Tobin's Q_i** = α_0 + **β1 BLOCK_NCR** it + **β2 FAR** it + **β3 RESEARCH_IND** it + **β4 CHoldg** it + **β5 SIZE_FIRM** it + **β6 SIZE_IND** it + **β7 IND_LCFR_0** it + **β8 BLOCK_IND_CCR** it + **β9 GOV_DIR** it + **β10 GOV_COM** it + **β11 GOV_AA** it + **β12 GOV_REM** it + **β13 CEOC_0** it + **β14 gov_rem_interect** it + **β15 gov_com_interect** it + **β16 gov_aa_interect** it + **β17 gov_dir_interac** + t + eit ....(2)

Model Summary[b]

Tobin's Q Model (2)	R	R^2	Adjusted R^2	Std. Error of the Estimate	Change Statistics				
					R^2 Change	F Change	df1	df2	Sig. F Change
1	0.822	0.676	0.673	**0.21628**	0.676	208.577	8	799	0.000
2	0.824	0.679	0.674	**0.21**604	0.002	1.438	4	795	0.220
3	0.824	0.679	0.674	**0.21**600	0.001	1.273	1	794	0.260
4	0.826	0.682	0.675	**0.21**562	0.003	1.707	4	790	0.146

a. Predictors: (Constant), Net Competing Rights, Fixed Assets Ratio, Industry Research & Development, Cash Holdings, Firm Size, Industry Size, Industry Low Cash Flow Rights, Industry Competing Cash Rights, Governance in Board of Directors' Structure, Governance in Communication with Shareholders, Governance in Accountability and Audit, Governance in Directors' Remuneration, CEO Choice, and Four Moderation Interaction Variables between: Governance in Board of Directors' Structure *CEO Choice (labelled as gov_rem_interect), Governance in Communication with Shareholders *CEO Choice (labelled as gov_com_interect), Governance in Accountability and Audit *CEO Choice (labelled as gov_aa_interect), Governance in Directors' Remuneration *CEO Choice (labelled as gov_dir_interac)

b. Dependent Variable: Family Firm Performance in Tobin's Q Model (labelled as FFP_TOBINSQ)

4.4.7 Reliability and Validity Analyses

It could be presumable that reliability of the MCCG index 2007 (revised 2009) valuation after in-depth joint-study by the team from MSWG and Nottingham University, United Kingdom is already been tested. Nevertheless, its reliability result is confirmed and disclosed as appendix. In order to reach the robustness of data, the current study is also takes into consideration the nomological validity which examines whether the correlations between all variables under constructs in the measurement theory makes sense such that correlations must be positive or negative according to theory stipulated (Hair et al. 2006).

Based on hierarchical regression findings for moderating effects as per Table 4.18 (page 201), it is observed that all directions of correlations are partly in the hypothesized direction as stipulated in the hypotheses in accordance to theory in family listed firms except governance elements of remuneration and communication with shareholders. Thus, it can be deducted that nomological validity is substantiated for all measures used in this study order.

4.4.8 Linearity Trend Analysis

Data distribution trend can be whether a linearity or quadratic in shape. Analysis of variance (Anova) result as per Table 4.13 (or F- test) in the current study has shown that linearity trend is confirmed due to the P-value is significant at 0.00 ($P < 0.05$).

Table 4.13

Analysis of Variance Result or F test Result for Dependent Variables

No.	Model	Sum of Square	Df	Mean Square	F	P- value
1.	Regression Residual Total	105.385 10.039 115.424	11 796 807	9.580 0.013	759.662	0.000
2.	Regression Residual Total	105.448 9.976 115.424	15 796 807	9.580 0.013	558.111	0.000
3.	Regression Residual Total	105.566 9.858 115.424	16 796 807	9.580 0.012	529.427	0.000
4.	Regression Residual Total	105.385 9.722 115.424	20 796 807	9.580 0.012	427.813	0.000

4.5 Correlation Analyses

Once the data on studied variables were duly tested for its robustness confirmation, the next step is to examine the correlation between all variables. Pearson correlation (bivariate) matrix between variables is statistically presented in Table 4.14. Basically, there are eight main targeted correlations which comprises of four governance elements as independent variables: board of directors' structure, directors' remuneration, accountability and audit, and communication with shareholders which are labelled as GOV_DIR, GOV_REM, GOV_AA, and GOV_COM respectively, CEO choice as moderating variable, three family firms' performance models as dependent variables (namely return on assets, Tobin's Q, economic value added), and controllable independent variables.

Governance in board of directors' structure is highly correlated with governance in directors remuneration and governance in accountability and audit as well, but it is not correlated with any of the family firm performance models, whereas, governance in directors remuneration is highly correlated with governance in board of directors' structure and governance in accountability and audit, but it is also uncorrelated with all family firms' performance model variables in return on assets, Tobin's Q, and economic value added as well. Governance in accountability and audit is not only highly correlated with governance in board of directors' structure and governance in directors' remuneration, but also it is negatively correlation with governance in communication with shareholders.

However, governance in accountability and audit are not correlated with any of the family firm performance models. Governance in communication with shareholders is only correlated with governance in accountability and audit in negative magnitude. However, it is also uncorrelated with all performance model variables. In one hand, all governance elements are not correlated with CEO choice, but on the other hand, CEO choice is correlated with other controllable variables: block-holdings in competing cash right or block-holdings in competing cash right, and firm size.

Nevertheless, family firm performance in Tobin's Q is not only highly correlated with cash holding, but also correlated with other controllable variable (positively with industry low cash flow right only), whereas, family firm's performance in economic value added is highly correlated with firm size. The family firm performance in return on assets is correlated with family firm performance in economic value-added as well as cash holding. Correlation relationships matrix between all variables under study, can be reviewed comprehensively in Table 4.14.

Based on the significant correlation results as shown in Table 4.14, the three most highly correlated and significant relationships by hierarchical order are interrelated between: (1) only one family firm performance in Tobin's Q as dependent variable and cash holding (r = 0.796); (2) industry low cash flow right or technology firm with the three other controllable variables which are industry size (r = 0.748), block-holding in industry competing cash right (r = 0.651), and industry research and development (r = -0.591); and (3) governance best practice in directors remuneration and board of directors structure as well as governance best practice in accountability and audit with both governance best practices namely, board of directors' structure and directors remuneration, within family controlled firms in Bursa Malaysia, with correlation results at r = 0.694, 0.512, and 0.502 respectively.

Table 4.14

Pearson Correlation Matrix

Correlation Matrix	GOV_DIR	GOV_REM	GOV_AA	GOV_COM	FFP_ROA	FFP_TOB.Q	FFP_EVA	CEOC_0	B_NCR	B_IND_CCR	SIZE_FIRM	SIZE_IND	RSCH_IND	FAR	CHoldg	IND_LCFR_0
GOV_DIR	1	**0.694***	**0.512***	-0.13	-0.027	-0.055	-0.069	0.054	-0.053	-0.067	-0.017	0.001	0.002	0.021	-0.035	-0.033
GOV_REM		1	**0.502***	0.015	-0.075	-0.083	-0.084	0.053	-0.036	-0.089	-0.055	-0.045	0.025	-0.021	-0.049	-0.036
GOV_AA			1	**-0.327***	-0.040	0.056	-0.110	-0.073	-0.050	**0.112***	**0.148***	**0.164***	**-0.112***	0.007	0.033	**0.204***
GOV_COM				1	0.034	0.008	0.041	0.081	0.027	**-0.128***	**-0.132***	**-0.132***	0.066	-0.064	0.061	**-0.100***
FFP_ROA					1	**0.104***	**0.373***	-0.045	0.004	-0.023	0.016	**-0.105***	**0.117***	-0.062	**0.208***	-0.068
FFP_TOBINSQ						1	-0.025	**-0.145***	0.050	**0.204***	**0.222***	**0.193***	**-0.119***	-0.070	**0.796***	**0.262***
FFP_EVA							1	0.063	-.001	**-0.126***	**-0.504***	**-0.145***	-0.042	-0.050	**0.141***	-0.082
CEOC_0								1	**-0.213***	**-0.121***	**-0.179***	-0.077	0.040	0.060	**-0.175***	**-0.111***
B_NCR									1	0.001	0.043	-0.008	0.057	0.025	0.043	-0.066
B_IND_CCR										1	**0.383***	**0.743***	0.032	0.022	**0.207***	**0.651***

……continued

Correlations Matrix	**GOV_ DIR**	**GOV_ REM**	**GOV_ AA**	**GOV_ COM**	**FFP_ ROA**	**FFP_ TOB.Q**	**FFP_ EVA**	**CEO C_0**	**B_ NCR**	**B_IND _CCR**	**SIZE_ FIRM**	**SIZE_ IND**	**RSCH_ IND**	**FAR**	**CHoldg**	**IND_L CFR_0**
SIZE_FIRM											1	**0.326***	-0.059	-0.058	**0.113 ***	**0.350***
SIZE_IND												1	**-0.427***	0.048	**0.125***	**0.748***
RSCH_IND													1	-0.030	-0.007	**-0.591***
FAR														1	**-0.180***	**0.089***
CHoldg															1	**0.147***
IND_LCFR_0																1

Note. N = 808. Based on the correlation results as highlighted in Table 4.14, **48 pairs** of variables under study are correlated in significant relationships. *Correlation is significant at the 0.01 level (1-tail); *p < 0.01); (P: 0.01; N: 500< x <1000) = (**Correlation (r)**; ((0.10 + 0.07)/2); **r > 0.085***).

4.6 Regression Analyses

Interestingly, by applying the overall combined data, the three family firms' performance models come up with two main different results. Firstly, family firms' performances in return on assets and economic value added performance models are insignificant with all governance elements except for Tobin's Q performance model. For family firms' performance by using Tobin's q model, the firm's performance is slightly insignificant with CEO choice and the other three governance elements. However, board of directors' structure has been the only element that is significantly related (P = 0.086) and directly affects family controlled firms' performance but in negative magnitude at the first place.

Secondly, as evidenced in Table 4.15, by interacting CEO choice with all governance elements indirectly, the above significant value is lower to P = 0.022 and in the opposite magnitude at the presence of governance element in board of directors' structure best practice. Directly, board of directors' structure has given negative impact towards Tobin's q performance model. Nevertheless, indirectly (i.e. by having more outsider CEOs), the earlier resulted finding has been changed to which family controlled firms' performance in Tobin's q model are more significantly related and positively influenced by governance element in board of directors' structure best practice.

However, as evidenced in Table 4.12, the Tobin's Q model seem to be slightly unfit due to the total moderating effect results (sig. F change = 0.146) has been changed from sig. F chance = 0.260 (directly). Based on Table 4.15, governance best practice for accountability and audit has no change at all (both direct and indirect relationship has the same significant value of 0.696) in relation to family firm's performance. Nevertheless, there are changes in value for both governance best practices, namely directors' remuneration, and accountability and audit but the changes are insufficient enough to establish significant relationships with family firms' performances.

Table 4.15

OLS Regression Result for Tobin's Q Model

Tobin's Q Model	Standardized Coefficients	T	Sig.
	Beta		
(Constant)		-1.797	0.073
Block Net Cash Right	.025	1.199	0.231
Industry Block Cash Competing Right	-0.193	-3.812	.000***
Firm Size	0.115	5.068	.000***
Industry Size	0.058	1.406	0.160
Industry-Research	0.053	1.297	0.195
Fixed Assets Ratio	0.060	2.887	0.004***
Cash Holding	0.800	37.398	0.000***
Industry Low Cash Flow Right	0.211	4.482	0.000***
Governance – Board of Directors' Structure	**-0.069**	**-1.721**	**0.086***
Governance – Directors' Remuneration	-0.006	-0.149	0.881
Governance – Accountability and Audit	0.015	0.391	0.696
Governance – Communication with Shareholders	0.000	0.006	0.995
CEO Choice	-0.027	-0.196	0.845
Board of Directors' Structure Interaction	0.269	2.288	**0.022****
Directors' Remuneration Interaction	-0.085	-1.180	0.238
Accountability and Audit Interaction	-0.044	-0.390	0.696
Communication with Shareholders Interaction	-0.095	-1.180	0.238

a. Dependent Variable: FFP_TOBINSQ

Note. N = 808, R Square = 0.682, Adjusted R Square = 0.675, F = 1.707, Significant = 0.146 (1)
*Significant at level 0.1, **Significant at level 0.05, ***Significant at level 0.01

As a result of CEO choice as moderating variable, the indirect relationship with family firm's performance has changed. The changes are not only in terms of the relationship becoming more significant, but its impact now has turned to becoming a good governance mechanism for a better performance among family-controlled firms at Bursa Malaysia.

The three study models analyses on family firms' performances that involved the transformation of moderating effects are developed afterwards in order to test the five hypotheses in achieving the study objectives. Finally, the overall data set of 808 Malaysian family listed firms (combined years) or full sample is used to run on these three performance models in which constructed by the CEO chosen as well as all control variables as follow:

Model (1): $\textbf{ROA}_i = \alpha_\theta + \boldsymbol{\beta}_1$ D_(Control Variables)$_{it}$ + $\boldsymbol{\beta}_9$ D_(MCGIndex-scores)$_{it}$ + $\boldsymbol{\beta}_{13}$ D_(CEOC_0)$_{it}$ + $\boldsymbol{\beta}_{14}$ D_(MCGIndex-scores)$_{it}$ * $\boldsymbol{\beta}_{14}$ D_(CEOC_0)$_{it}$ + e_{it} …………….(1)

Model (2): $\textbf{Tobin's Q}_i = \alpha_\theta + \boldsymbol{\beta}_1$ D_(Control Variables)$_{it}$ + $\boldsymbol{\beta}_9$ D_(MCGIndex-scores)$_{it}$ + $\boldsymbol{\beta}_{13}$ D_(CEOC_0)$_{it}$ + $\boldsymbol{\beta}_{14}$ D_(MCGIndex-scores)$_{it}$ * $\boldsymbol{\beta}_{14}$ D_(CEOC_0)$_{it}$ + e_{it} …………….(2)

Model (3): $\textbf{EVA}_i = \alpha_\theta + \boldsymbol{\beta}_1$ D_(Control Variables)$_{it}$ + $\boldsymbol{\beta}_9$ D_(MCGIndex-scores)$_{it}$ + $\boldsymbol{\beta}_{13}$ D_(CEOC_0)$_{it}$ + $\boldsymbol{\beta}_{14}$ D_(MCGIndex-scores)$_{it}$ * $\boldsymbol{\beta}_{14}$ D_(CEOC_0)$_{it}$ + e_{it} …………….(3)

Note:

Control variables = Block-holders Net Cash Right (BLOCK_NCR), Fixed Assets Ratio (FAR), Industry R & D (RESEARCH_IND), Cash Holdings (CHoldg), Firm Size (SIZE_FIRM), Industry Firm Size (SIZE_IND), Industry Low Cash Flow Right (IND_LCFR_0), and Industry Block-holders Competing Cash Right (BLOCK_IND_CCR).

MCCG Index = Board of Directors' (BOD) Structure (GOV_DIR), Directors' Remuneration (GOV_REM), Accountability and Audit (GOV_AA), Communication with Shareholders (GOV_COM)

CEOC_0 = CEO Choice

Moderating Variables* = β_{14} D_(MCGIndex-scores)$_{it}$ * β_{14} D_(CEOC_0) +_ _ _ + β_{17} D_(MCGIndex-scores)$_{it}$ * β_{17} D_(CEOC_0)
= gov_rem_interect, gov_com_interect, gov_aa_interect, gov_dirinterac

Family Firms' Performance (FFP) = Return on Assets (FFP_ROA), Tobin's Q (FFP_TOBINSQ), Economic Value Added (FFP_EVA)

Since Tobin's Q is the only significant relevant model, the overall regression equation for model (2) as above would be:

Model (2): **Tobin's Q$_i$ = αθ + β1 BLOCK_NCR** it + **β2 FAR** it + **β3 RESEARCH_IND** it + **β4 CHoldg** it + **β5 SIZE_FIRM** it + **β6 SIZE_IND** it + **β7 IND_LCFR_0** it + **β8 BLOCK_IND_CCR** it + **β9 GOV_DIR** it + **β10 GOV_COM** it + **β11 GOV_AA** it + **β12 GOV_REM** it + **β13 CEOC_0** it + **β14 gov_rem_interect** it + **β15 gov_com_interect** it + **β16 gov_aa_interect** it + **β17 gov_dir_interac** + t + eit ……..(2)

4.7 Hypotheses and Result Findings

The results of the regression analyses between independent variables and family firms' performances in Tobin's Q model are discussed in this section. The findings are based on two groups of hypotheses are involved: (i) **H_1 – H_4:** corporate governance elements which comprises of board structure characteristics best practice, board of directors' remunerations best practice, accountability and audit best practice, and communication with shareholders best practice in which, these elements are stated in second objective of current after study (ii) **H_5** – moderating effect (CEO choice) as per fourth objective of current study.

The control variables have also shown significant results and considered as new findings for the study. The result of the regression analysis for Tobin's Q model is shown in Table 4.15. As evidenced in this table, the regression shows that R^2 as well as adjusted R^2 for the Tobin's Q model are 0.682 and 0.675 respectively. This indicates that the model is able to interpret 67.5% of the variability of the family firms' performances. Nevertheless, the Tobin's Q is slightly unfit model due to its insignificant value of F-statistic = 1.707, p = 0.146 ($P< 0.05$), proving that the model is insignificant to explain the difference in family listed firms' performances at Bursa Malaysia.

However, Tobin's Q model becomes significant after it is further analyzed by using additional CEO data (breakdown changes in two significant F change: insider CEO data, P = 0.065 and outsider CEO data, P = 0.107) and fit to explain variability of the family firms' performances at Bursa Malaysia. The following section focuses the results of the research hypotheses and their relationship amongst the study variables for Tobin's Q model.

4.7.1 Governance Elements' Effect on Firms' Performances ($H_1 - H_4$)

The direct relationship between the MCCG elements best practice and firms' performances are important in determining the moderation effect of the CEO choice intervention. Four hypotheses are developed to measure family firms' performances for the relationships that involving board structure characteristics, board of directors' remunerations, accountability and audit, and communication with shareholders. The results for each variable of four governance elements are discussed with regard to the performances, afterwards.

Hypothesis 1: Board of Directors' Structure

The study expects a positive relationship between board of directors' structure best practice and family firms' performance models. However, the result of regression analysis shows in the contrary whereby this code of governance has significant relationship and negatively influences family firms' performances ($t = -1.721$, $P = 0.86$). The result in Table 4.15 is consistent with Shivdasani & Yermack (1999), Amran (2011), Vu, Tower, & Scully (2011), and Lam & Lee (2012). The consistency is in the sense that independency and competencies of independence non-executive directors and anti-duality roles that introduced in twelve governance best practices in the board of directors' structure are also seen as the relevance factors that can cause a reduction in their firms' performance.

A strong relationship among family members in terms of absolute power in their cash flow rights are still impairs the block-holders' rights in any expropriation decision made by family shareholders. Other reason might be the limited power that granted to the outsider CEOs in consuming cash holdings despite of their executive power. In this juncture, stewardship, shareholders and stakeholders theories are seem to be complemented to each other as suggested by Abdullah and Valentine (2009) in order to explain this situation. Hence, these theories are more relevance and dominant than agency theory. This finding suggests that the existing MCCG in board of directors' structure best practice seem to be downfall for the family firm's performance.

However, the turning point from a negative effect to a positive relationship is finally discovered at the moderation effect of CEO choice intervention as well as at the breakdown effect by using different CEO data. The earlier effect, the changed positive relationship between governance best practice in board of directors' structure and family firm's performance is significantly increased, whereas at latter effect, the changed finding is further supported by additional analyses finding in determining whose CEO is going to reduce family firm's performance and vice versa. The detail explanation is found in Section 4.7.2 and Section 4.8.

Hypothesis 2: Directors' Remuneration

The study predicts a positively associated with family firms' performance models. However, the result of regression analysis indicates a contradiction whereby directors' remuneration as the existing code of governance best practice is insignificant relationship with family firms' performance (t = - 0.149, P = 0.881) as per Table 4.15. The result is consistent with Mokhtar et al., (2009) and Chidambaran Palia & Zheng (2007). Too powerful in cash flow rights has made family shareholders to become more concern on secretive approach with the outsider CEOs than transparency best practice in declaring their remunerations that is already mandatorily imposed by government on 31 December 2012.

In the context of stakeholder theory, information asymmetry that contributed to moral hazard problem in family controlled firms still cannot be solved by other concentrated ownerships in term of block-holders or any anti-directors movement such as minority shareholders watchdog groups (MSWG). This finding suggests that the existing MCCG in directors' remuneration best practice has caused the failure to increase the firm's performance. However, the insignificancy relationship between directors' remuneration and family firm's performance has become significant at the point of breakdown effects by way of using different CEO data. The changed effects on different impacts are further explained in the next Section 4.8.

Hypothesis 3: Accountability and Audit

The study initially presumes a positive relationship between governance in accountability and audit best practice and family firms' performance models. Eventually, the code of governance proves contrary with family firms' performance. The contrary result of regression analysis shows the value of t = 0.391 and P = 0.696. The result in Table 4.15 is consistent with Mohd Ghazali (2010), Mokhtar et al., (2009), and Hamid (2008). The consistency in findings is due to the fact that the present INEDs are seems independent in appearance whereby, they have been influenced by dominant family directors who also act as the majority shareholders. Finally, this controlling management may chooses insider CEO or at least the outsider CEO who can favor family members' interest.

According to Abdullah et al. (2010), favoritism is worst if members in the nomination committee as well as the audit committee are dominated by the insiders or at least independence in appearance by "collaborating directors", in which they have a high tendency to nominate and reappoint directors who can go along with them. If the independent directors are also incompetent and have limited knowledge about the firms' business, the status of being independent from management is not a guarantee of better monitoring. This finding suggests that the existing MCCG best practice is seen to be irrelevance among family firm's performance improvement.

Hypothesis 4: Communication with Shareholders

The study predicts that governance element in communication with shareholders have a positive relationship with family firms' performance models. In conjunction with contradiction result of regression analysis which related to insignificant relationship between communication with shareholders best practice and family firms' performance, the value of $t = 0.006$, and $P = 0.995$, as shown in Table 4.15. The result is consistent with Mohd Ghazali (2010) and Chidambaran Palia & Zheng (2007). According to Haniffa and Hudaib (2006), high managerial ownership is unsuitable in Malaysian business environment due to moral hazard problems involving the risk of misallocation of firms' resources in corporate decision making at the expense of minority shareholders.

Even though the spirit of having communication with shareholders best practice seems to be theoretically commendable, the term "shareholders" in this type of concentrated ownership refers to the principal and manager who are the same persons. Besides, they have dual roles in the sense that the independency in any board's committees are decided by them, they also have very powerful cash flow rights including pyramidal controlled firms. In the context of stakeholders and shareholders complemented theories, as long as, there is no reduction in family shareholdings, the insignificancy results would be the same as in current study for the existing MCCG in communication with shareholders best practice that evidently cannot contribute any effect to the family firms' value.

In the absence of moderating and control variables, specifically for Tobin's Q model as per Table 4.16, directors' remuneration is negatively related to family firm's performance for overall data (significant $p = 0.042$), whereby on the same performance model, the result is consistent with the findings resulting from separated CEO-data (as shown in furtherance analysis result for insider CEO only at significant $p = 0.041$). At this juncture, as far as family performance is concerned, ROA model has supported Tobin's Q model just for directors' remuneration at significant $p = 0.041$ but in negative magnitude, whilst in the presence of both variables for furtherance analysis finding, Tobin's Q is highly supported by EVA model in the same relationship that is between directors' remuneration and family firms' performance at significant $p = 0.023$.

Table 4.16

Differentiating Models- Regression Analysis Results for MCCG Best Practice Direct Effects on Family Firms' Performance Models in Overall Data

Family Firm Performance		Main Effects				Summary of Regression Model			
		GOV_DIR	**GOV_REM**	**GOV_AA**	**GOV_COM**	**R^2**	**Adj. R^2**	**R^2 Change**	**Sig. F Change**
ROA Model	Coeff.-Value	0.050	- 0.146	-0.037	0.061	0.153	0.014	0.024	0.049**
	t-value	0.707	-2.051	-0.578	1.133				
	Sig. P-value	0.480	**0.041****	0.563	0.258				
EVA Model	Coeff.-Value	0.018	-0.017	-0.096	0.007	0.099	**0.000**	0.010	0.417
	t-value	0.245	-2.40	-1.475	0.123				
	Sig. P-value	0.807	0.810	0.141	0.902				
Tobin's Q Model	Coeff.-Value	-0.061	-0.145	0.182	0.063	0.169	0.019	0.029	**0.020****
	t-value	-0.856	-2.041	2.834	1.178				
	Sig. P-value	0.393	**0.042****	**0.005*****	0.239				

*Significant at the 0.1; **Significant at the 0.05; ***Significant at the 0.01

Even though internal governance component such as accountability and audit is positively and highly significant (at p = 0.005) in relation to family firm's performance, however, in the hierarchical regression analysis including furtherance analysis, this internal governance component is no longer relevant in relation to either family firm's performance or moderating variable that resulted from the analysis of any population data in the current study.

4.7.2 Control Variables, CEO choice and Family Firms' Performances

As evidenced in Table 4.15, there are extremely significant (at 0.01 significant level) for four positive relationships between control variables (namely cash holding, firm size, industry low cash flow right, fixed assets ratio) and family firms' performance models, excluding one negative relationship involving block-holder's industry competing cash rights with family firms' performance in Tobin's Q model. All of them are proven to be positively associated at (t = 37.398, P = 0.000; t = 5.068, P = 0.000; t = 4.482, P = 0.000; t = 2.887, P = 0.004) and negatively associated at (t = - 3.812, P = 0.000) respectively.

The results are consistent with Lin & Hu (2007), Ehikioya (2009), Shivdasani & Yermack (1999), Jong et al. (2003), and Lee et al. (2008). This finding suggests that highly significant relationships can be considered in furtherance of current study in the context of specific governance element's impact on family firms' performance so that the high value creation can be given to investors by the insider CEOs. Based on Table 4.15 also, by considering direct relationship for the above model, CEO choice has no significant influence towards family firms' performance even at significant level 0.1. In other words, family firms' performance can only be impacted by CEO choice indirectly at the present interaction between governance element in board of directors' structure and CEO choice.

4.7.3 Moderating Effect of CEO Choice

Hierarchical regression analysis is applied in current study in order to test the moderating effect of CEO choice on the relationship between the MCCG best practice and family firms' performance at Bursa Malaysia. The results provide the answer to the fourth question of the current study: Does the choice of CEO moderate the relationships between corporate governance and family-controlled firm performance?. In the hierarchical regression analysis also, moderated regression analysis is executed to examine the moderating effect of CEO choice on the relationships between internal (board of directors' structure and governance remuneration) as well as external (directors' accountability & audit and communication with shareholders) components of Malaysian code of corporate governances (MCCG) best practice and family firms' performance models.

This technique of analysis is suggested by Baron and Kenny (1986) as appropriate application for moderation effect of a quantitative variable on the association between other quantitative variables identification. Besides being a simple and straightforward test procedure, this technique is also the most popular procedure applied for such test (Aguinis & Gottfredson, 2010). According to

Aiken and West (1991), moderating effects are detected through calculation of interaction terms that resulted from the independent and moderator variables.

In order to avoid multicollinearity, the predictor and moderator variables are standardized (z-scoring) as such to make it convenient for interpreting meaningfully (Aguinis & Gottfredson, 2010; Frazier, Tix, & Barron, 2004). At the interaction terms via SPSS examination process stage, variables are integrated into the regression equation by distinct steps in which such steps are recommended by Baron and Kenny (1986) and Frazier et al. (2004). They suggested that the control variable is entered followed by evaluating the non-moderated equation just before the moderated relationship is entered. Table 4.17 is derived from the four steps in calculating the said moderation term and it is referred as the result of the hierarchical regression analysis for family firms' performance in Tobin's Q model.

As shown in row 1 (i.e. Step 1) in Table 4.17, all control variables are entered into the regression model in the first step, the adjusted R^2 is found to be 0.673, indicating that sixty seven percent of the family firms' performances can be explained by these variables. Result in row 2 (i.e. Step 2) shows that without the effect of CEO choice, corporate governance mechanism becomes insignificant in relation to family firms' performance. The adjusted R^2 is slightly increased to 0.674. The increased 0.002 in R^2 is insignificant due to the value of F change which is also insignificant (0.220). In row 3 (i.e. Step 3), by adding the CEO choice as moderator variable, adjusted R^2 is still maintain at 0.674 but R^2 change decreased by 0.001.

This implies that there is no effect at all from moderator variable (CEO choice) on dependent variable. The result in row 4 (i.e. Step 4) shows that once the interaction is entered in the final step, R^2 increased from 0.674 to 0.675. Despite significant F change valued at P = 0.146, the R^2 change (0.003) is still significant due to additional analyses findings which indicated that there is an acceptable breakdown changes at the point of breakdown effect in two significant F change at: (1) P = 0.065 for the insider CEO data, and (2) P = 0.107 for the outsider CEO data. Furthermore, as evidenced in Table 4.17, in term of indirect effects, the interaction of board of directors' structure best practice and CEO choice has proven to be more significant (P = 0.022) to the earlier relationship directly between board of directors' structure best practice and family firms' performances (P = 0.086).

The increased significant findings have shown that the CEO choice moderates the relationship between one of the corporate governance mechanisms (MCCG) and family firms' performance. Hence, the model is fit to explain variability of the family firms' performance at Bursa Malaysia. However, the changed magnitude from negative to positive direction at the point of the moderation effect of CEO choice intervention as well as at the point of breakdown effects can be clearly refined after executing the additional analyses.

The moderating effects of CEO choice on the relationship between corporate governance element in board of directors' structure best practice and family firms' performance in Malaysia have been proven significantly and positively related only for overall data of family-controlled firms. However, this fact is also supports the additional analyses findings in the context of which CEO chosen that could contribute a positive impact to their firms' performance. It is evidenced that the CEO choice has moderating effects, whereby it is only happen for governance best practice in board of directors' structure (significance P: 0.022 < 0.05) towards Malaysian family listed firms' performance.

In the context of family firms' performance models, comparatively, apart from significant relationship directly and indirectly for Tobin's Q, economic value added as well as return on assets performance models show insignificant relationships with MCCG elements best practice directly and no significant in relation to moderation effect are detected indirectly with CEO choice in term of governance elements interactions in both models. The insignificant relationships are caused seemingly by the intangible assets such as human capital. Intangible assets is the only considered value for Tobin's Q of which the finding portrays the competency of selected CEO that impacted family firms' performances.

Table 4.17

Hierarchical Moderated Regression Analysis Results for Family Firms' Performances in Tobin's Q Model

Analysis Procedure / Variables		Control Variables								Main Effects				MODERATE	Interaction Effects				Summary of the Hierarchical Regression Model				
		Block Net Cash Right	Block Comp. Cash Right	Firm Size	Ind. Size	Ind. Research	Fixed Assets Ratio	Cash Hold.	Ind. Low Cash Flow Right	Board's Struct.	Directors' Remunerate	Account-ability and Audi	Comm. with Share holders	CEO Choice	Board's Interact	Remunerate Interact	Account ability and Audit Interact	Comm. With Share-holders Interact	R^2	Adj. R^2	R^2 Change	Sig. F Change	Durbin Watson
Step 1 (C.V.) Column 1	t-value	1.018	-3.603	5.373	1.277	1.021	3.103	37.726	4.341	-	-	-	-	-	-	-	-	-	0.676	0.673	0.676	0.000	
	Coeff.-value	0.021	-0.2***	0.1***	0.052	0.041	.06***	0.8***	0.2***														
Step 2 (I.V.) Column 2	t-value	0.987	-3.922	5.118	1.439	1.337	2.953	37.548	4.497	-0.174	-1.517	0.306	-0.826						0.679	0.674	0.002	0.220	
	Coeff.-value	0.020	-0.2***	0.1***	0.059	0.054	.06***	0.8***	0.2***	-0.005	-0.045	0.008	-0.018										
Step 3 (Moderate) Column 3	t-value	1.206	-3.861	5.213	1.360	1.286	2.907	37.372	4.505	-0.212	-1.545	0.379	-0.878	1.128					0.679	0.674	0.001	0.260	
	Coeff.-value	0.025	-0.2***	0.1***	0.056	0.052	.06***	0.8***	0.2***	-0.006	-0.045	0.01	-0.02	0.024									
Step 4 (CEO-governance Interaction as I.V.) Column 4	t-value	1.199	-3.812	5.068	1.406	1.297	2.887	37.398	4.482	-1.721	-0.149	0.391	0.006	-0.196	2.288	-1.180	-0.390	-1.180	0.682	0.675	0.003	0.146	2.046
	Coeff.-value	0.025	0.2***	0.1***	0.058	0.053	.06***	0.8***	0.2***	-.069*	-0.006	0.015	0.000	-0.027	0.27**	-0.085	-0.044	-0.095					

Significant at p< 0.1*; Significant at p< 0.05**; Significant at p< 0.01***

4.8 Additional Analyses

The impact of direct relationship between four elements of MCCG best practices and firms' performance can be diagnosed in a further regressed and in-depth analysis by dividing the 808 overall CEOs data into specifically on 476 outsider CEOs data versus 332 insider CEOs data. Thus, the resulted findings explain the issue on which CEOs chosen as well as performance model could be suited to the best governance mechanism in order to boost up family firms' performance. The hypotheses from H1 – H4 are only applied in Tobin's Q model and economic value added model for this purpose due to return on assets model has given insignificant relationship with family firms' performances.

Unlike Tobin's Q, the insignificancy findings for return on assets are seen relevance to the unconsidered intangible assets as additional value to be accounted for measuring firm's performance. In the context of going concern entity concept, the economic value added is different from return on assets in term of value in which the earlier firm's performance model has taken negative magnitude in family firm's performance as the sign for alarming situation. The negative signs show that the firms are destroying more value than they are creating. The results from the additional analyses can be compared between models as well as between types of CEO choice.

Based on Table 4.18, economic value added and Tobin's Q models are two family firms' performance models that have significant F chance at 0.057 and 0.065 respectively. Interestingly, both of these models come from economic value added-*insider* CEO model and Tobin's Q-*insider* CEO model in which they can be presumed as fit models. Despite the earlier model being more fit, the latter model has more significant influential relationship with family firms' performance due to its higher adjusted R^2 = 0.649 as compared to the lesser adjusted R^2 = 0.346 for economic value added-insider CEO model.

Nevertheless, the R^2 change for economic value added-insider CEO model is 20 times extra in value (R^2 change = 0.18) than the R^2 change for Tobin's Q-insider CEO model (R^2 change = 0.009). The similar result for both models is in the context of negative magnitude for directors remuneration best practice, whereby economic value-added insider CEO model has more significantly influence (P = 0.023) than Tobin's Q-insider CEO model (P = 0.041) on family firms' performances.

However, the Tobin's Q- insider CEO model has two more significant in relation with family firms' performances but found to be difference in its magnitudes. The first significant (P = 0.060) is for the communication with shareholders best practice that has negatively influence relationship with family firms' performance. The second significant (P = 0.076) is for the board of directors structure best practice that has positively influence relationship with family firms' performances.

Even though Tobin's Q-outsider CEO model has similarity in its significant (P = 0.085), but board of directors structure best practice in Tobin's Q-outsider CEO model has negative influence on family firms' performance. Despite economic value added-outsider CEO model has insignificant F change (P = 0.133), but this model has the same impact as Tobin's Q-insider CEO model in its significant relationships (P = 0.069) in relation to the communication with shareholders best practice which is being accountable for the decline in the family firms' performance.

Briefly, there are three categories results that can be found in pairing among the six groups of model as follow: (1) between economic value added - insider CEO model (t=-2.276; P=0.023) and Tobin's Q-insider CEO model (t=-2.052; P=0.041) on director's remuneration best practice, (2) between Tobin's Q-outsider CEO model (t = - 1.729; P = 0.085) and Tobin's Q- insider CEO model (t = 1.780; P = 0.076) on board of director's structure best practice, (3) between economic value added - outsider CEO unfit model (t = - 1.823; P = 0.069) and Tobin's Q - Insider CEO Model (t = - 1.886; P = 0.060) on communication with shareholders best practice.

First pairing explains that both models have similarity in magnitudes, whereby directors' remuneration best practice has negative impact on family firm's performance and the finding seems to confirm the expropriation agenda in a manner that the decision is always made by owners is always executed at the expense of minority shareholders. Interestingly, the economic value added-insider CEO model is negatively more significant than Tobin's Q-insider CEO model for the relationship between family firms' performance and governance element in directors' remuneration.

At the unavailability of CEO choice interaction, board of directors' structure best practice for overall data is similar to the outsider CEO data in the sense that both has contributed to the decline in the firm's performance. However, this scenario has changed to positively affect the family firm's performance once the CEO choice has interacted with only one of the MCCG best practice. Surprisingly, insider CEO is more significant than outsider CEO within Tobin's Q models which is consistent with the overall CEO in Tobin's Q model result.

Despite its unfit model, the economic value added – outsider CEO has similarity in magnitude in such a way it is also confirms the fact that the higher the family ownership in a firm, the more tendency for the insider CEOs to be selected among themselves. Therefore, communication with shareholders best practice is clearly irrelevance with them. It is also seen that Tobin's Q - Insider CEO is more significant than economic value added-outsider CEO in comparison between two models.

Table 4.18

Hierarchical Regression Analysis Results for MCCG Best Practice Direct Effects on Family Firms' Performance Models in CEO- Separate Data

Family Firm Performance			**Main Effects**				**Summary of the Hierarchical Regression Model**				
			GOV_DIR	**GOV_REM**	**GOV_AA**	**GOV_COM**	**R^2**	**Adj. R^2**	**R^2 Change**	**Sig. F Change**	**Durbin-Watson**
ROA Model	Outsider CEO	t-value	1.076	- 1.617	- 0.368	0.130	0.099	0.075	0.007	0.433	2.100
		Sig. P-value	0.283	0.107	0.713	0.897					
	Insider CEO	t-value	0.640	- 1.570	0.367	- 0.265	0.072	0.037	0.008	0.611	1.965
		Sig. P-value	0.523	0.118	0.714	0.791					
EVA Model	Outsider CEO	t-value	0.712	- 1.312	- 0.790	- 1.823	0.326	0.308	0.100	0.133	2.152
		Sig. P-value	0.477	0.190	0.430	**0.069***					
	Insider CEO	t-value	- 0.351	- 2.276	0.475	0.103	0.370	0.346	0.180	**0.057***	1.908
		Sig. P-value	0.726	**0.023****	0.635	0.918					
Tobin's q Model	Outsider CEO	t-value	- 1.729	- 0.176	0.142	0.272	0.710	0.702	0.005	**0.107**	1.916
		Sig. P-value	**0.085***	0.860	0.887	0.786					
	Insider CEO	t-value	1.780	- 2.052	- 0.701	- 1.886	0.662	0.649	0.009	**0.065***	2.194
		Sig. P-value	**0.076***	**0.041****	0.484	**0.060***					

*Significant at the 0.1; **Significant at the 0.05; ***Significant at the 0.01

The current study finds that family firms' performance in Tobin's Q model is the only model which has significant moderating effect with CEO choice. This finding is supported by Jong et al. (2003) who discovered that Tobin's q performance model is more significant and relevant than return on assets model. Positive moderation relationship is found between internal governance best practice (board of directors' structure) and family firms' performance. As a result, the detailed study hypothesis on family firms' performance in Tobin's Q model for the specific populations (2010, 2011 and combined years) is analyzed by using multiple regressions and statistically proven currently as the new study findings, as per Table 4.19.

Table 4.19

Summary of the Finding Results of the Studied Hypotheses in Malaysia Family Firms (Tobin's Q)

No	Hypotheses test between the main variable in the study	Result 2010 /Insider CEO (+ve or -ve) relationship	Result 2011/ Outsider CEO (+ve or -ve) relationship	Result Overall (Combined) (+ve or -ve) relationship
	Model: **Tobin's Q$_i$** = αθ + **β1 BLOCK_NCR** it + **β2 FAR** it + **β3 RESEARCH_IND** it + **β4 CHoldg** it + **β5 SIZE_FIRM** it + **β6 SIZE_IND** it + **β7 IND_LCFR_0** it + **β8 BLOCK_IND_CCR** it + **β9 GOV_DIR** it + **β10 GOV_COM** it + **β11 GOV_AA** it + **β12 GOV_REM** it + **β13 CEOC_0** it + **β14 gov_rem_interect** it + **β15 gov_com_interect** it + **β16 β19 gov_aa_interect** it + **β17 gov_dir_interac** it + eit ….(2)			

1.	**H_1:** **(+)**	There is positive relationship between the board of directors' structure and performance of the family firms. Additional Analyses on data: Finding Result	Not Supported Insider CEO **Supported** **(+)**	Not Supported Outsider CEO **Supported** **(-)**	**Supported** **(-)** **-**
2.	**H_2:** **(+)**	There is positive relationship between directors' remuneration and performance of the family firms. Additional Analyses on data: Finding Result	Not Supported Insider CEO **Supported** **(-)**	Not Supported Outsider CEO Not Supported	Not Supported -
3.	**H_3:** **(+)**	There is positive relationship between accountability and audit and performance in family firm. Additional Analyses on data: Finding Result	Not Supported Insider CEO Not Supported	Not Supported Outsider CEO Not Supported	Not Supported **-**
4.	**H_4:** **(+)**	There is positive relationship between communication with shareholders and performance of the family firms. Additional Analyses on data: Finding Result	Not Supported Insider CEO **Supported** **(-)**	Not Supported Outsider CEO Not Supported	Not Supported **-**

5.	**H_5:**	The trend of choosing professional CEO will form **moderating effect** to the relationship **between** governance components of corporate governance best practice namely (1) *Governance components*: consist of Internal Governance:			
	(+)	(a) Board of directors' structure,	Not Supported	Not Supported	**Supported (+)**
	(+)	(b) Remuneration	Not Supported	Not Supported	Not Supported
		External Governance:			
	(+)	(c) Audit and Accountability;	Not Supported	Not Supported	Not Supported
	(+)	(d) Communication with Shareholders (*Transparency component)*,	Not Supported	Not Supported	Not Supported
		and (2) Family firms' performances.			

4.9 Chapter Summary

In pre-mandatory era (i.e. before 31th December 2012), family-controlled firms as dominated concentrated-owners have been found to be dissatisfied in complying with the best practice of the MCCG. The dissatisfaction indicator can be seen when no 'premium firms' title could be given to any of the family-controlled firms in Malaysia for having good practitioners in the MCCG best practice. Interestingly, after taking into consideration the consequence of CEO choice interaction with four MCCG best practice, one element in the board of directors' structure best practice from the internal component of corporate governance is found to be significantly moderated in total effects and positively related with family-controlled firm's performance.

However, the moderation of total effect only supports Tobin's q model. The adjusted R^2 for the significant element of MCCG best practice with family controlled firms' performances is produced statistically at 0.675 in which, these relationships are very highly related from one to another. Finally, the main objective of the present study is fulfilled by its findings when positive moderation relationships are found between internal governance best practice (board of directors' structure) and family firms' performances.

CHAPTER 5

DISCUSSION AND CONCLUSIONS

5.1 Introduction

The chapter specifies a discussion of the study findings on the trend of choosing outsider CEO issue in relation to the moderating effect of the CEO choice on the relationship between corporate governance and family firm's performance. The chapter is organized as follows: Section 5.2 provides an overview of the present study. Section 5.3 provides the discussion on major findings. Section 5.4 discusses further the results on the moderating effect of the CEO choice. Section 5.5 explains the significant relationship of control variables. Section 5.6 draws on the implications of the study. Section 5.7 covers the study limitations. Section 5.8 proposes the future research. Finally, the valuable findings of the present study are concluded in section 5.9 and mark the end of this dissertation.

5.2 Study Overview

The current study attempts to justify the present disagreement concerning the firms' performance outcomes with regards to the MCCG best practice and its relationships with the choice of CEO practiced by the family owned concentrated firms in Malaysia. In relation to Daud (2012)'s findings, the current study also finds that the Malaysian Code of Corporate Governance (MCCG) best practice is evidently practiced at an undesired application level by the listed family-owned firms in Bursa Malaysia. Therefore, a prime issue in this study is on whether the code would have significant impact specifically on their overall performance, and more generally on the mechanism in reducing moral hazard problems in terms of the right decision on CEO choice as well.

Although Malaysia is ranked relatively high on applying stakeholder's rights as reported by La Porta, Lopez-De-Silanes, Shleifer and Vishny (1998), the role of minority shareholders watchdog group (MSWG) is still ineffective enough to control expropriation agenda or to reduce moral hazard problems in Malaysian family firms (Satkunasingam & Shanmugam, 2006). This scenario has motivated the researcher to examine the topic and to contribute an added value in the current literature. The lack of an effective governance mechanism to relieve the current agency problem type II has motivated the researcher to investigate on whether the choice of outsider CEO by the firm's concentrated ownership like family-controlled firm is useful to reduce the agency conflict in the context of Malaysian perspective.

Specifically, the aim of the present study is to identify the current level of MCCG best practice application level due to the facts reported by Astrachan et al. (2006) who asserted that these codes may actually be detrimental to family businesses, damaging unity or imposing excessively complex requirements on private firms. Predictively, family-controlled firms in Bursa Malaysia that normally appointed insider CEOs and its complexity requirements would require specific governance best practice as suggested by the Austrian Institute for SME Research (2008).

However, these firms do not embrace openness in the firm's practices and continue to be managed as if they are still owned by their founder (Ow-Yong & Cheah, 2000). Thus, the total effects of CEO choice on the MCCG best practice, firm's attributes including its firms' characteristics (as control variables), and family firm's performance have been examined in this study. The earlier speculation on whether family firms in the high-skilled industries will experience positive impact on their performance with the effects of the existing new trend of hiring outsider CEO as suggested by Lin & Hu (2007) is not exists in the Malaysian capital market. Thus, it is no longer included in this study due to this trend being unpopular. Instead, the negative impact is expected to be more in terms of the moderating effect if the new trend of hiring outsider CEO is currently practiced by the expropriation family firms in Bursa Malaysia.

5.3 Major Findings

A listed company in Bursa Malaysia, Genting Berhad who was noted as the highest ranking in payment for directors' remuneration, had paid the biggest ever remuneration which amounted to RM117 million to their directors in the year 2012. In addition, the said company as being in the top ranking has topped the highest-paid directors list, paying the highest remuneration to its entire board for this year 2014, but this time they broke their own record with an amount that is even bigger than that given in 2012, which is RM140.9 million. This is probably due to the spirit of the agency theory that is almost non-existent in family-controlled firms where the majority shareholders are the parties who control the executive power and cash flow rights of the firms as well.

The current situation of an expropriation issue in Genting Berhad can be easily understood in the context of a family institution, whereby the parents of a family have given money to their own kids from their own pocket and savings in order to raise their kids and develop their potentials. When these intangible assets of the family have grown up, they may set aside part of their incomes for their parents. At that point of time, the value of the said family gets bigger with the addition of newcomers such as the son-in-law and daughter-in-law into the family tree, this indirect control in business term is called controlled by pyramidal effects. This is why they have enough power to secure the directors’ remuneration amongst themselves no matter whether the fund is secured outside or inside the firm. This fact is supported by the insignificant relationship between directors’ remuneration and family firms’ performance.

Consequently, the high provision fund in terms of retained earnings, which is supposed to be treated as revenue reserves as well as capital reserves for future expansion plan or uncertain future-contingency plan for a family listed-firm is often unrealized. This situation has happened in the Genting

Bhd, a huge fund is already taken away for the sake of expropriation agenda by the family members. Thus the spirit of the shareholders theory can be improved by introducing the inheritance taxes by the Malaysian government in order to discourage them from expropriating firms' assets. This suggested movement if taken into consideration by the proper authorities will enhance the family listed firms' reserves for their future expansion and contingency plan.

The current study supports this fact when the family firms' performance measurement for Tobin's Q model is found to be insignificantly related with CEO choice at the first place. However, it has indirect effect and become significant and positively related with the firm's performance due to effects from one of the MCCG best practice interaction (board of directors' structure element) with CEO choice.

Furthermore, the majority of the independent non-executive directors (INEDs) who have been appointed to execute the independency function of the remuneration committees are powerless because they are also subjected to "favoritism" appointment by the family controlled firms. Thus, the purpose of the stakeholder theory in establishing the minority shareholders watchdog group (MSWG) still cannot overcome the expropriation of the firms' assets by family members who have dominant power to overrule the independency of the members of the MSWG because those who joined the organization are also selected by family members (Saktunasingam & Shanmugam, 2006).

In addition to the stakeholder theory fails to overcome the moral hazard problem. As far as the usage of outsider CEO data is concerned, the defeated purpose of independency fact is also supported by the present study findings for the significant but in negative relationship between the board of directors' structure and family firms' performances. This is why the presence of outsider CEOs is given no credit and they are in fact not welcomed by the family members (Ow-Yong & Cheah, 2000).

This fact is matched by the moderating effects mostly by outsider CEO in the current study findings. The findings show that family shareholders as the majority ownership of the listed firm are totally dissatisfied with the board of directors' structure - labelled as GOV_DIR. Based on the overall data in Tobin's q performance model, this dissatisfaction can be seen in the changing magnitude on total effect by way of moderation and the increased significant level from P = 0.086 (negative for direct relationship without CEO choice) to P = 0.022 (positive relationship with CEO choice for moderation total effect) when board of directors' structure best practice is present.

The breakdown effects from the additional analyses findings that are derived from a separate regression test in Tobin's Q model is the other empirical evidence that supports this result. Further analyses finally uncovers that the outsider CEO is the one that contributes to negative magnitude in the first place and this evidence is significantly indicated at P = 0.085 (t = - 1.729). The turning point from the usage of the insider CEO data is finally discovered when the direct effect relationship between the board of directors' structure best practice and family firms' performances is significantly indicated at P = 0.076 (t = 1.780) by using more fit model (significant F change = 0.065).

However, on a multiple regression test for moderating effects on the same model, the MCCG seems to be detrimental to family firms' performance. This is indicated when the significant level on negative relationship between outsider CEO increased from significant P = 0.086 to a positive relationship at significant level P = 0.022. This happens when the interaction effects between one of the MCCG element with dominated outsider CEOs is inserted into the earlier relationships. Both negative relationships in which one of them is resulted from the combined overall CEO data at P = 0.086 (t = - 1.729) is then confirmed to be more or less the same as the results derived from the additional analyses for another negative relationship involving outsider CEO data at significant P = 0.085 (t = - 1.721).

The current study indicates that family firms' performance on Tobin's Q model is the only model which has significant moderating effect from the board of directors' structure and CEO choice intervention. The rest of the three elements of MCCG (namely as: (1) directors' remuneration – labelled as GOV_REM; (2) accountability and audit – labelled as GOV_AA; and (3) communication with shareholders – labelled as GOV_COM) have shown insignificant relationships directly towards family firms' performances and these governance elements are presumed to be irrelevant to family-controlled firms' performances.

This finding is supported by Jong et al. (2003) who discovered that Tobin's Q performance model is more significant and relevant than return on assets model. Positive moderation relationships are found between internal governance best practice (board of directors' structure) and family firms' performance at the final significant total effect (significant F change at P = 0.065 and P = 0.107) is resulted finding as per Table 4.18 which restates in Table 5.1. The table also shows that the equation regression development for economic value added model can be considered incomplete when moderating effect is not presented or in other words, there is insignificant relationship among any interactions from MCCG best practice and CEO choice with family firms' performances.

5.4 Moderating Effects of CEO Choice

In the context of independency, findings from the current study have uncovered that in the family firms' internal governance specifically for the board of directors' structure, the introduction of the existing enforced governance code by the Malaysian government could only be hazardous to the built of trust bound by blood ties among family members. In other words, it is usually the family directors who sit on the board who choose the independent non-executive directors whom they can work with in the nomination committee as well as in the audit committee.

As evidenced by the previous scholars in a transparency study, family firms have been found to be reluctant in providing information about their firms to the public. They are inclined to be unsupportive of the transparency regime, and would most likely not provide crucial and critical information about the firm to the management team headed by the outsider CEO. In the context of insignificancy for accountability and audit, the findings of the current study have revealed that the outsider CEOs of the family firm have been too dependent on the expropriating executive directors specifically in preparing an accurate and informative financial report for external auditors. Without the knowledge of the outsider CEOs, these reports are usually falsified and inaccurate.

However, the underlying signaling theory can be applied when there is a proof by way of positive relationship for indirect effect with the presence of CEO choice in this study, whereby this significant relationship have shown that the impact of family firm's MCCG information disclosures for its existing and potential investors in the audited report, would possibly have been increased the family-controlled firm's corporate value.

The current study predicts that the decision made by the insider CEO is baseless and normally lacking in professionalism. In other words, this expropriation of firm's assets problems which occur at the expense of minority shareholders may actually affect the overall family firm's performance (Clarke, 2004). However, the study finding reveals that the choice of an outsider CEO rather than an insider CEO amongst expropriation family firms would have a negative impact towards the firms' performance when associated with the board's structure whereas the governance element of MCCG in accountability and audit could not give any effect to their firms' performances.

Moreover, the introduction of the existing enforced governance codes by the Malaysian government does not have much effect on the owners of the company. The insignificant relationship between communication with shareholders and family firms' performances seems to be supported by the fact that, shareholders also sit on the board of directors' office, who will be

Table 5.1

Regression Equations Development from the Study Finding

Family Firm Performance	**Adjusted R^2**	**Sig. P at 0.10**	**Regression Equations Development**
ROA Model	0.057	-	Insignificant at all direct and indirect relationships
EVA Model Direct effect: **Sig. F change = 0.014**	0.335	**Direct:** GOV_COM. P = 0.089	Significant **negative** in direct relationship for the only two elements of MCCG best practice: 1) FFP_EVA = **-** 0.072 (GOV_COM) + 0.540 2) "considered as incomplete equation" because of the insignificant in moderating effect from CEO choice interaction.
Tobin's q Model Total effects: **Sig. F change = 0.1** (Consider additional analyses)	0.675	**Direct:** GOV_DIR. P = 0.086 **Indirect:** GOV_DIR. P = 0.022	Significant **negative** in direct relationship for the only one element of MCCG best practice: 1) FFP_TOBINSQ = **-** 0.069 (GOV_DIR) - 0.549 Significant **positive** in moderating effect relationships with the only one element of MCCG best practice by the outsider CEO choice: 2) FFP_TOBINSQ = 0.269(CEOC_0) - 0.069(GOV_ DIR) – 0.549

reappointed as directors and as members of the nomination committee who then will also be appointed as the management team for the firms. This situation is best explained by the theory of shareholders which complements the theory of stakeholders in which a family controlled firm is dominated mostly by family members who make up the employees, employers, shareholders, and investors.

According to the stewardship theory, the desired objectives of family firms are shared together by the same parties as early as the day they were born and brought up by the same parents together under one roof, bound together emotionally with specific trust value in the same culture. Moreover, the existing MCCG and its enforced applications are extremely improper governance codes for family controlled firms. The proper governance codes should be based on the requirement of the socio-emotional-wealth (SEW) concept in order to boost the value of the overall family listed firms in Bursa Malaysia specifically and foster Malaysia economic growth generally as half of the contribution to Malaysian Gross Domestic Product (GDP) comes from family business sector (Ngui, 2002).

5.5 Significance of the Control Variables

Cash holding, firm size, industry low cash flow rights and fixed assets ratio are found to have significant positive relationships with family-controlled firms' performance. The reductions for its value change in their firms' performances have also been proven to have significant relationships but in negative effects with block-holder industry competing cash rights of a family-controlled firm. The significant control variables are highly related with the firms' performance in the economic value added model but unrelated in return on the assets model. However, Tobin's Q is the only performance model that has very high relation with the significant moderation and independent variables at adjusted R^2 = 0.675, followed by economic value added model (R^2 = 0.317) and return on assets model (R^2 = 0.057).

Findings from the current study for the significant positive relationships in cash holding, firm size, industry low cash flow rights and fixed assets ratio are supported by the respective scholars: Lin & Yu (2007), Ehikioya (2009), Jong et al., (2003), and Lee at al., (2008). Whereas, the significant negative relationships in block-holder industry competing cash rights of a family-controlled firm are supported by the following scholars: Lin & Yu (2007), Shivdasani & Yermack (1999), and Ehikioya (2009). The present study also proves that the control variables (namely: net competing right, industry size, industry research and development) have insignificant relationships with family-controlled firms' performances.

Substantially, as far as highly significant positive in family firm's cash holding that related to its performance is concerned, most of capital is required to finance an acquisition activity or to cope a negative impact of the financial resource's availability crisis that have led to the increased in consuming private equity funds and venture capital, which require an active role in management by Italian companies (Giovannini, 2010).

This fixed assets ratio has a similar concept with the family firms' performance model on return on assets (ROA) in the aspect of indicating how profitable a firm's assets are when it comes to revenue generating. The significant and positive effects found in this study confirm Lee et al. (2008)'s findings that firms with large pay dispersion (diversification) generate higher subsequent operating ROA than low pay dispersion. This situation is contributed by the nature of family listed firms in Bursa Malaysia that have more than one specific operating activity, and more than one subsidiary which are formed for the purpose of absorbing risks and income tax reduction.

The findings of the present study on the significant and positive relationship in firm size and performance are supported by Ehikioya (2009)'s findings in which the firm size of non-family firms has significant and positive relationship with firm performance. Large firms that are involved in complex operations have a need for advanced managerial abilities in their CEO (Rosen, 1992). The decline in family firms' performances are due to the decrease in the tendency of using family CEOs following the increased trend in choosing outsider CEOs who lack experience and expertise, by family shareholders in expropriation firms.

Consequently, the finalized negative effect found in this study indicates that family controlled firms may require specific governance rather than the mandatory MCCG best practice. The stewardship theory (like CEO duality) as the element included for the independent board's structure is more dominant than the agency theory (separation of CEO and chairperson). Every single cent is highly controlled by shareholders who select the board of directors who then appoint members of the CEO (insider) as the head of the management team. This situation is called socio-emotional wealth (SEW) in family controlled firms which can increase the family firms' performance (Naldi, Cennamo, Corbetta, & Gomez-Mejia, 2012).

5.6 Implication of the Study

In the context of the Malaysian perspective, there are several implications that can be highlighted here as an extension to the contributions made in previous studies. These implications can be divided into theoretical as well as practical implications.

5.6.1 Theoretical Implication

This study has not contributed solely to the agency theory. For concentrated ownership like family-controlled firms, this agent-principal relation was unable to provide a more meaningful explanation on the significant negative relationship for the agent's failure to achieve the objective of maximizing shareholder's wealth on either by way of choosing outsider CEO or using the MCCG best practice. The study supports the complementary theories namely the stewardship, shareholders and signaling which were suggested by Abdullah & Valentine (2009). Hence, the findings of the study are likely to be associated with the theories of stewardship and shareholders rather than stakeholder and agency theories. On the one hand, the earlier theories contribution can be seen in the context of how the outsider CEOs are unable to contribute to good governance practices which is proven in its negative moderation effect on the relationship between corporate governance best practice and family firms' performances.

On the other hand, in relation to the furtherance of analysis finding, the changed relationship magnitude with regard to family firms' performances from negative to positive seems to be contributed by the insider CEOs. Furthermore, the family firm's behavior could be explained by the strong bound of trust relation amongst family members who are also the controlling shareholders. Besides, the dominant stewardship theory can be seen on the desired objectives of family firms that are shared together by the same parties as early as the day they were born and brought up together under one roof, bound together emotionally with specific trust value in the same culture. Family member's desire and self-interest are balance out by social motives such as for the glory of a family business empire or dynasty.

Besides the majority shareholders and the firm's main investors, family members also are the persons who sit on the board room, and are usually the same individuals who will be reappointed as directors and as members of the nomination committee, who then will also be appointed as the management team for the firm. This situation is best explained by the theory of shareholders. The theory refers to firms that are controlled by dominant parties who normally economic self-interest maximizing oriented that make decisions on the firm's property that best suit their expropriation agenda.

The drawback for the dominant controlling rights in shareholders theory is that the high provision fund in terms of retained earnings, which is supposed to be treated as revenue reserves and capital reserves for future expansion plan that benefited to all stakeholders including minority interest and the whole firm, can easily be taken away for some expropriation agenda by the family members. The failure of the stakeholders theory could be due to the defeated purpose of establishing the minority shareholders watchdog group (MSWG) because this organization is unable to overcome the expropriation of firms' assets by family members. Shareholders, who have dominant power to overrule the independency of the members in the MSWG, are the ones who select members who join the organization.

Eventually, the role of MSWG is still ineffective in controlling the expropriation agenda or in reducing moral hazard problems in Malaysian family firms (Satkunasingam & Shanmugam, 2006). It seems to be true in Malaysia, for instance, as reported by Webb (2013, July 23), that a company named Protasco paid out a significant cash deposit of RM50 million as upfront payment (13% more than the shareholder's fund as at 31 December

2011) without any permission from the minority shareholders. Besides, the negative relationship of moderation findings strongly supports Mohamed Yunos (2011) who suggests that agency theory per se cannot find conclusive evidence on agency problems.

At this juncture, the stewardship and shareholders theories in the family-controlled firms are found to be more influential than agency and stakeholders theories. Therefore, this is the right time for Malaysian family-controlled firms to have specific governance code since the imposition of MCCG best practice by the relevant authority as well as inappropriate outsider CEO choice have given more deterioration to the family trust relation rather than maximizing their shareholders' wealth.

5.6.2 Practical Implication

The study covers important findings and conclusion pertaining to empirical impacts by outsider CEO choice (moderating variable) and the undesirable MCCG best practice towards family-controlled firms that are publicly listed in the Malaysian capital market. The practical implication is only relevant for three targeted groups which can be categorized as follows.

5.6.2.1 Implication to Regulatory and Policy Makers

The present study has already proven the distinctive characteristics between dispersed ownership and concentrated-ownership like family-controlled firms. The relevant authorities such as the Ministry of Finance and Bank Negara Malaysia as the policy makers together with the regulatory authorities such as the Security Commission and Bursa Malaysia, should impose a new specific governance code best practice for family listed firms as the additional for Bursa Malaysia listing rules.

It begins with the implementation of the role of outsider CEO hired as the advisor to the prime insider CEO or solely an insider CEO after competent endorsement has been made by the independent board of directors. Another consideration is that, only the board of director's structure of the existing MCCG element best practice should be maintained due to its positive contribution to the firm's value that impacted from the interaction between the board of director's structure and the insider CEO's moderation effect. Apart from giving Tobin's q application exposure to the family directors, the committee of FCCG should be looking for other specific governance to improve the existing corporate governance codes in the context of stewardship, shareholders and signaling theories dominancy in family business.

5.6.2.2 Implication to Financial Reports Users

Even though the relationship between expropriation family-controlled firm's performances and board of directors' structure best practice is moderated by the outsider CEO choice, the MCCG best practice has been proven unsuitable governance mechanism for them due to declines in the firm's performance. Besides reconsidering the competency of the insider CEO, it is time for family-controlled firms to change from the commonly used return on assets to Tobin's Q in reassessing their performance.

The current study's empirical finding has proven that the MCCG best practice is seen to be unsuitable for the complexity of family firms in Malaysia. Thus, this governance codes which has been mandatorily enforced since 31 December 2012 by the Malaysian government on family-controlled firms in Bursa Malaysia will be lifted back to square one as the voluntary compliance is temporary until the proper governance codes for them is discovered by future researchers.

Being alert to the awakening trend of the International standard requirement, investors are beginning to recognize the 'premium' firms or give more weight or priority to those public listed firms which are in demand, having highly complied with the MCCG best practice. Interestingly, the investors can still have the 'premium' family-controlled firms by seeking only 10% of the family-controlled firms in Bursa Malaysia which have positive economic value added, EVA. Chung and Pruitt (1994) believe that many financial managers will have no doubt recognized the adopted approximation of Tobin's Q and economic value added (EVA).

Financial analysts, creditors and auditors should not simply rely on the financial statement report since the choices of CEO as well as the MCCG best practice are no longer effective mechanisms to overcome moral hazards in the agency problem type II for family-controlled firms. The ineffective mechanism is due to inconsistency in the current findings between MCCG best practice and family-controlled firms' performance models, as well as the significant but negative influence by the CEO choice on the relationship between MCCG best practice and family-controlled firms' performance.

Nevertheless, in the context of "window dressing" in the audit's financial reports, the minority shareholders as well as the minority shareholders watchdog group (MSWG) must be alert enough with the Tobin's Q model for them to monitor the actual family firms' performance. In the practical aspect, the 'premium' family-controlled firms with positive EVA can be improved by having excellent MCCG best practice which makes it a preferable choice by investors.

5.6.2.3 Implication to Academia and Researchers

The present study is executed through the proven methodology in which instead of using the sampling technique, the application of population in the study analyses are given more reliable evidence to produce significant results. The current study uses 'conditional' population which represents all family firms in all industries publicly listed in Bursa Malaysia rather than all public listed firms as in the study by Daud (2012).

Methodologically, the current study finding support Jong et al. (2002), Rashid (2008), and Donker & Zahir (2008) suggest that good corporate governance could be used based on the domestic requirement, thus, the standardized characteristics of corporate governance would be insufficient in explaining firm's performance in bigger context of an international framework. Besides reduces sampling bias from the process of selection (Arshad, Md Nor, & Noruddin, 2011), the use of population specifically on family listed firms could give the better chances to have better average value from the larger sample size (Sunday, 2008).

Since the unsuccessful endeavor for MSWG role in deserving stakeholder's aspiration theory, this organization may want to set up a new joint research with local as well as international universities on the basis of smart partnership. The MSWG could have research grants from several resources such as funder from the FCCG committee, corporate social responsibility (CSR) funds, or from any interested parties. The joint research should take into consideration the socio-emotional wealth elements and the proposed inheritance tax in order to improve the shareholders' wealth for family-controlled firms in Bursa Malaysia.

5.7 Study Limitations

The limitations of the present study are as follows:

1. The pioneer of accounting study, Ball and Brown (1968) found a significant positive correlation between buy and hold abnormal return (BHAR) in accounting measures with the information set that is reflected from security return over the firm's previous years

earning. They also suggest that competing source of information including quarterly earnings preempted the annual earning information by about 85%. Therefore, quarterly earnings are a particularly timely source of information to the capital market as compared to annual accounting numbers at the close of the year December 31. However, the present study exploration is limited to two consecutive years only. The trend of CEO choice among family-controlled firms could be more meaningful if it is executed in a time series of five years.

2. Giovannini (2010) conducted an in depth study on the analysis of family firms and discovered a negative relationship between family involvement and market price by using buy and hold abnormal return as firm's performance measurement model. However, this study did not apply BHAR to measure its family firm's performance model.

3. Approximation of Tobin's Q formula applied in the current study is similar to the Chung and Pruitt (1994) computational procedure, in which they simplified the detailed Tobin's Q formula developed by Lindenberg and Ross (1981) or well known as L-R Tobin's Q. Cross-sectional comparisons of Q values indicated that at least 96.6 percent of the variability of L-R Tobin's Q is explained by

approximation of Tobin's Q and the simple difference does not amount to inherent biases (Chung and Pruitt, 1994).

4. In the present study, the financial sector is excluded due to its special regulation issued by Bank Negara (regulated Central Bank of Malaysia). The financial firms (i.e. banks, insurance, and trusts) are excluded from the present study due to the different regulatory requirements and material difference in the type of operations (Ahmad & Courtis 1999; Cheng & Courtenay, 2006).

5. Specifically, the study also does not cover multinational or foreign based companies that may demonstrate different levels of corporate governance practices which depend on its country of origin (Jong, Gispert, Kabir, Renneboong, 2003). Jong et al. (2003) studied various governance characteristics which are not covered in this study such as board fraction external and several types of block-holdings, country specific code of corporate governance, and structure regime.

6. Other uncovered variable is socio-emotional-wealth (SEW). Basically, family members were bound by the SEW since they were young. The five elements of SEW studied by Kellermanns, Eddleston, Zellweger (2012) were, (1) family control and influence, (2) identification of the family with the firm, (3)

binding social ties, (4) emotional attachment of family members, and (5) trans-generational intentions Due to limitations of the availability of data publicly, and the absence of its qualitative in nature, this quantitative study did not examine construct variables for socio-emotional wealth (SEW) among family member for being an insider CEO.

5.8 Future Research

The uncovered governance variables that were studied by Jong et al. (2003) should be done in future research. The two years covered in this study can be extended to five or ten years so that more significant effects on good governance mechanism can be obtained. Finance companies which have different governance requirements can also be studied using the same methodology as the present study so that comparisons can be made between the two types of companies based on the outcome of the studies. It is empirically evidenced that high-skilled industries in Malaysia still rely on insider CEO and the population for the high-skilled industries for family controlled firms are limited to 80 companies. Therefore, a comparative study using the qualitative approach should be carried out between family listed firms and non-family listed firms, in terms of their firms’ performances. The impact on firms’ performances can be measured by comparing the outsider CEO in non-family listed firms and insider CEO in family listed firms in Bursa Malaysia.

Since family members in concentrated ownership are bound by the socio-emotional-wealth (SEW) since they were young, the five elements of SEW that studied by Kellermanns, Eddleston, Zellweger (2012) could be the moderating variable between CEO choice and high-skilled industries for family controlled firms. In overcoming the complexity of family firms, a comparative study can also be done between foreign countries which have applied inheritance tax (automatic direct inheritance of corporate control by family heirs) and Malaysia who is capital gain tax oriented, in order to justify the governance aspect and benefit cost analysis for the family heirs tendency to sell-off any significant portion of the corporate group to public investors.

5.9 Conclusion

The failure for a single theory to explain the nexus between the board of directors and firm's performance in family-controlled firms in Malaysia has supported this study's complementary theories namely stewardship theory and shareholders theory as suggested by Abdullah & Valentine (2009). Hence, the interested parties can see that for family-controlled firms, stewardship and shareholders theories are more influential than the agency and stakeholders theories.

The obvious difference between the agency cost in agency problem type I and the moral hazards in agency problem type II is in the area of the directors who are sitting on the nomination committees in the dispersed ownership firms, as well as in the family controlled firms (a type of the concentrated ownership). The earlier type of nomination committee consists of directors who have been selected by the firm's CEO that strategically can get along with them, whereas the latter type of nomination committee comprises of family members as the directors who are going to choose either the insider CEO or outsider CEO.

The current status for having good practitioners in the MCCG best practice in Malaysian family-controlled firms is satisfied at moderate level. In other words, dissatisfaction indicator can be seen in terms of no 'premium firms' title which could be given to any family-controlled firms in Malaysia. The regression analyses for 2010, 2011 and the combined years sample data have resulted in all the family performance models having similarity in terms of insignificancy with no direct influence towards all corporate governance elements and partly significant for the board of directors' structure best practice and family firms' performances in Tobin's Q model, as well as communication with shareholders best practice and family firms' performances in the economic value added model.

Only family firms' performances in Tobin's Q model have shown a high related negative influence directly in the first place on the board's structure in family-controlled firms that resulted from the combined years' data. In the context of moderating effects, despite family-controlled firms' preferring outsider CEO rather than insider CEO, family firms' performances in Tobin's Q model is still related and influence indirectly but in positive relationship with one of the internal governance elements.

Internal governance element namely the board's structure best practice that resulted from the overall combined years' data is dominated by outsider CEO. However, despite the lesser portion, the family firms' performances are impacted positively by the insider CEO rather than outsider CEO. The present study has proven the changing magnitude and finalized the evidence by way of additional analyses that resulted from CEOs separated data.

As the conclusion, there are three points to ponder from the above discussions. Firstly, shareholders who can choose the right CEO (an intangible asset) is exercising the best governance practice for a firm's human capital investment. Tobin's Q performance measurement model has shown an increased significant level for the board of directors' structure best practice relationship with the family firm's performance that resulted indirectly from moderated effect by CEO choice. Thus, Tobin's Q is different from economic value added and return on assets models, in the sense that the earlier measurement model takes into consideration the intangible assets in measuring the family firms' performances.

Among the three family firm's performance models in Malaysian family-controlled firms, Tobin's Q measurement model is the most relevant with family listed firms' performances that suited all the study objectives. Thus, the current study finding supports Sunday (2008) who suggested that the bigger the size of the sample, the better the chances are that it will have the average value and more accurate results can be produced. Secondly, in the Tobin's q model also, MCCG is not suitable for family controlled firms because none of the governance elements have given direct impact significantly to their firms' performances except for the board of directors' structure best practice in which it has significant negative impact on their firms' performances.

Furthermore, in economic value added measurement model, such direct impact is negatively related to governance element of MCCG (communication with shareholders). Thirdly, outsider CEOs rather than insider CEOs have proven to be negatively associated with one element of MCCG (board of directors' structure best practice) with regards to independency and accountability in the decreased family controlled firms' performances.

The main objective of this study that inspires a contributive finding on moderation effect is achieved. The contribution can be seen in the sense that although outsider CEO choice is an increasingly popular trend globally especially amongst Malaysian family-controlled firms with opportunity for expropriation and highly persuasive cash-flow rights, consequently in the absence of outsider CEO, the decision on insider CEO choice alone has proven to be inappropriate governance mechanism which has impaired their firms' performance.

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