CEO'S NETWORKS AND COMPANIES' PERFORMANCE: EVIDENCE FROM MALAYSIA

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ABSTRACT

This study seeks to examine the relationship among CEO's networks and companies' performance. Accordingly, two contradicting theories are rooted in this study that estimates the opposing results respectively. In proportion to social network theory, some would predict a positive linkage between the CEO's networks and performance of entities; whereas the agency theory anticipates a negative relationship exist in the CEO's networks and financial performance of the companies. Derived from the measures that employed in this study to evaluate the CEO's networks effect, the empirical results for 100 non-financial companies in Malaysia suggest that CEOs with longer tenure build stronger networking and the companies with large board size are keenly looking for CEOs with an outsized social network. As well, it is observed that the CEO's networks have significant effect on companies' performance particularly sales growths in positive manner. However, neither any significant relationship can be observed between the CEO's networks and return on assets. Lastly, some facts are able to ascertain in Malaysia context for the argument that better-connected CEOs delivery value to companies performance in the course of their social network as consistent with social network theory. In future study, it is suggested to employ different and large sample size in same setting, or different site location in addition to considering different boundary condition of social ties.

Keywords: CEO, Social Networks, Companies Performance

ABSTRAK

Kajian ini bertujuan untuk mengkaji hubungan antara rangkaian ketua pengawai eksekutif (CEO) dan prestasi syarikat. Sehubungan itu, dua teori yang bertentangan dilandaskan dalam kajian ini masing-masing menjangkakan dapatan hasil kajian yang menentang. Selaras dengan teori rangkaian sosial, ada yang akan meramalkan hubungan positif antara rangkaian CEO dan prestasi kewangan entiti; manakala teori agensi pula menjangkakan hubungan negatif antara rangkaian CEO dan prestasi kewangan syarikat. Bertitik tolak daripada ukuran telah diterapkan oleh kertas kerja ini untuk meninjaui kesan rangkaian CEO, keputusan empirik bagi 100 syarikat-syarikat bukan kewangan di Malaysia telah menunjukkan bahawa CEO dengan tempoh lebih lama membentuk rangkaian lebih kuat dan syarikat-syarikat dengan saiz lembaga yang besar secara giat mencari CEO yang memiliki rangkaian luas. Selain itu, adalah diperhatikan bahawa rangkaian CEO mempunyai kesan nyata terhadap prestasi syarikat terutamanya pertumbuhan jualan secara positif. Akan tetapi, tiada sebarang hubungan yang ketara dapat ditemui antara rangkaian CEO dan pulangan ke atas aset. Akhir sekali, beberapa fakta dapat dikenalpasti dalam konteks Malaysia dan berhujah bahawa CEO yang terhubung baik membawa nilai kepada prestasi syarikat menerusi rangkaian mereka dan ini selaras dengan teori rangkaian sosial. Bagi kajian masa depan, adalah dicadangkan menggunakan saiz sampel yang berbeza dan besar dalam persekitaran yang sama, atau lokasi berlainan di samping itu mempertimbangkan keadaan sempadan hubungan sosial yang berbeza.

Kata Kunci: CEO, Rangkaian Sosial, Prestasi Syarikat.

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Wong Voon Leong

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LIST OF ABBREVIATIONS

CEO	Chief Executive Officer
Duality	CEO Duality
GDP	Gross Domestic Product
IOB	Independent Directors of the Board
LEVERAGE	Debt Leverage Ratio
LOGASSET	Natural Logarithm of Total Assets
LOGNW	Natural Logarithm of CEO's Networking
LOGSG	Natural Logarithm of Sales Growth
MTB	Market to Book Ratio
ROA	Return On Assets
SOB	Size Of Board
TENURE	CEO Tenure
VIF	Variation Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Does a social network have an effect on the companies' performance? And if it so, it is relevant to further predict: how do the social networks of a key executive director in a corporate such as connected chief executive officers (CEO) will be at the company stage? Common belief proposes that CEOs regularly hold their position embeddedness via the course of personal relation instead of vivid performance in career area (Fracassi & Tate, 2012). A favouritism pattern of CEO appointment course in this relations manner sometime raise some concerns of intimate threat which conflict with best practice in director nominating process and undermine the strength of corporate governance (Ferris, Jagannathan & Pritchard, 2003; Fich & Shivdasani, 2007; Fracassi & Tate, 2012; Hwang & Kim, 2009; and Kramarz, and Thesmar, 2013). In contrast, such network of key executives also values added to the company performance in the way of shaping a valuable conduit to access key information and resources (Cohen, Frazzini, & Malloy, 2010; Engelberg, Gao & Parsons, 2012; Fang, Francis & Hasan, 2012; Hochberg, Ljungqvist & Lu, 2007; and Lacker, Eric & Wang, 2013).

Accordingly, this study seeks to initiate an empirical study to verify whether a common belief concerning CEO's personal relations is merely an idea possible be perceived as the trendy fallacy or perhaps it, in fact, a vivid expression to the actual state of affairs. Specifically, this study aims to

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APPENDIX

Appendix 1: Proportional of Companies in Sample per Industry (N=100)

Industry	Number of Companies	Percentage
Construction	2	2%
Cousumer Products	12	12%
Hotels	1	1%
Industrial Products	12	12%
Infrastructure Project Compauy	4	4%
Plantation	8	8%
Properties	10	10%
Real Estate Investment Trust	4	4%
Technology	4	4%
Trading-Services	43	43%
TOTAL	100	100%

Appendix 2: List of Top 100 Companies in the Sample of Study (N=100)

No	Company	Category
1	Tenaga Nasional Berhad	Government-linked
2	Sime Darby Berhad	Government-linked
3	Petronas Chemicals Group Berhad	Government-linked
4	IHH Healthcare Berhad	Private-Owned
5	Axiata Group Berhad	Private-Owned
6	Maxis Berhad	Private-Owned
7	Digi.Com Berhad	Private-Owned
8	Genting Berhad	Family-Owned
9	Petronas Gas Berhad	Government-linked
10	Genting Malaysia Berhad	Family-Owned
11	MISC Berhad	Government-linked

No	Company	Category
12	IOI Corporation Berhad	Family-Owned
13	Kuala Lumpur Kepong Berhad	Family-Owned
14	Petronas Dagangan Berhad	Government-linked
15	Telekom Malaysia Berhad	Government-linked
16	Hap Seng Consolidated Berhad	Private-Owned
17	Nestle (Malaysia) Berhad	Private-Owned
18	PPB Group Berhad	Family-Owned
19	YTL Corporation Berhad	Family-Owned
20	Malaysia Airports Holdings Berhad	Government-linked
21	Astro Malaysia Holdings Berhad	Private-Owned
22	KLCC Property Holdings Berhad	Government-linked
23	Westports Holdings Berhad	Private-Owned
24	Gamuda Berhad	Private-Owned
25	British American Tobacco (Malaysia) Berhad	Private-Owned
26	IJM Corporation Berhad	Private-Owned
27	Airasia Berhad	Private-Owned
28	YTL Power International Berhad	Family-Owned
29	IOI Properties Group Berhad	Family-Owned
30	Dialog Group Berhad	Family-Owned
31	Hartalega Holdings Berhad	Family-Owned
32	S P Setia Berhad	Government-linked
33	Sunway Berhad	Family-Owned
34	Fraser & Neave Holdings Berhad	Private-Owned
35	Genting Plantations Berhad	Family-Owned

No	Company	Category
36	Batu Kawan Berhad	Family-Owned
37	MMC Corporation Berhad	Government-linked
38	Top Glove Corporation Berhad	Family-Owned
39	QL Resources Berhad	Family-Owned
40	UMW Holdings Berhad	Government-linked
41	Felda Global Ventures Holdings Berhad	Government-linked
42	IGB Real Estate Investment Trust	Family-Owned
43	Heineken Malaysia Berhad	Private-Owned
44	United Plantations Berhad	Private-Owned
45	Lafarge Malaysia Berhad	Private-Owned
46	Boustead Holdings Berhad	Private-Owned
47	Time Dotcom Berhad	Government-linked
48	UEM Sunrise Berhad	Government-linked
49	Malakoff Corporation Berhad	Private-Owned
50	Pavilion Real Estate Investment Trust	Private-Owned
51	Sunway Real Estate Investment Trust	Family-Owned
52	KPJ Healthcare Berhad	Private-Owned
53	Carlsberg Brewery Malaysia Berhad	Private-Owned
54	UOA Development Berhad	Family-Owned
55	Bumi Armada Berhad	Private-Owned
56	Cahya Mata Sarawak Berhad	Private-Owned
57	Pos Malaysia Berhad	Government-linked
58	Kossan Rubber Industries Berhad	Private-Owned
59	Oriental Holdings Berhad	Family-Owned

No	Company	Category
60	Yinson Holdings Berhad	Family-Owned
61	IGB Corporation Berhad	Family-Owned
62	Gas Malaysia Berhad	Private-Owned
63	Dutch Lady Milk Industries Berhad	Private-Owned
64	Mah Sing Group Berhad	Family-Owned
65	DRB-Hicom Berhad	Government-linked
66	Berjaya Sports Toto Berhad	Family-Owned
67	Lingkaran Trans Kota Holdings Berhad	Private-Owned
68	Aeon Co. (M) Berhad	Private-Owned
69	Malaysian Pacific Industries Berhad	Private-Owned
70	Unisem (M) Berhad	Family-Owned
71	MSM Malaysia Holdings Berhad	Government-linked
72	Bintulu Port Holdings Berhad	Government-linked
73	IJM Plantations Berhad	Private-Owned
74	Magnum Berhad	Private-Owned
75	Malaysian Resources Corporation Berhad	Government-linked
76	Tan Chong Motor Holdings Berhad	Family-Owned
77	Shangri-La Hotels (Malaysia) Berhad	Family-Owned
78	Kian Joo Can Factory Berhad	Private-Owned
79	Uchi Technologies Berhad	Family-Owned
80	TSH Resources Berhad	Family-Owned
81	Eastern & Oriental Berhad	Private-Owned
82	Selangor Properties Berhad	Private-Owned

No	Company	Category
83	Globetronics Technology Berhad	Family-Owned
84	Amway (Malaysia) Holdings Berhad	Private-Owned
85	Berjaya Land Berhad	Family-Owned
86	Malaysia Marine and Heavy Engineering Holdings Berhad	Government-linked
87	Star Media Group Berhad	Government-linked
88	Dayang Enterprise Holdings Berhad	Family-Owned
89	MBM Resources Berhad	Private-Owned
90	Media Prima Berhad	Government-linked
91	Mulpha International Berhad	Private-Owned
92	Parkson Holdings Berhad	Family-Owned
93	UMW Oil & Gas Corporation Berhad	Government-linked
94	Sapura Energy Berhad	Private-Owned
95	Press Metal Aluminium Holdings Berhad	Family-Owned
96	MY E.G. Services Berhad	Government-linked
97	Inari Amertron Berhad	Private-Owned
98	Eco World Development Group Berhad	Private-Owned
99	Scientex Berhad	Family-Owned
100	GD Express Carrier Berhad	Private-Owned

Appendix 3: CEO's Networks

CEO's network (LGNW) is a collective measure that computing by accumulate all direct ties of the CEO has built across her lifetime. This study follows the suggestion of Fracassi and Tate (2012) to take account all forms of current engagement tie, previous engagement tie, other activity ties, and education tie. Current engagement tie denotes the connection from existing employment of minimum one common company the director and CEO is externally engaged with. Previous engagement tie denotes the connection from past employment of minimum one common company the director and CEO were externally engaged with. Other activity ties signify that the connection from joint membership of minimum one nonprofessional bodies that director and CEO together actively engaged with. Education tie indicates that the connection from same alumni of minimum one schools that director and CEO together attended with at any time, excluding the interval of graduation year more than two years.

For example, a CEO from Batu Kawan Berhad is currently served externally as director in the boardroom of Kuala Lumpur Kepong Berhad (KLK), Synthomer Pie and See Sen Chemical Berhad. Besides, he holds some level of interest in Wan Hin Investment. In prior, he started his career path as purchasing officer in KLK and served before in the broad of Asia Pacific Specialty Chemicals Ltd and Heitech Pudu Berhad. Also, he acts as President for Perak Chinese Maternity Association, and trustee of several foundations such as Yayasan KLK, Yayasan De La Salle and Tan Sri Lee Loy Seng Foundation. He was graduated as bachelor holder from London School of Economics and Political Science and Master Degree of Stanford

University. Accordingly, the networks of such CEO for each tie are computed as below:

	Number of Ties
Current engagement tie:	
a) Kuala Lumpur Kepong Berhad: - Tan Sri Dato' Seri Lee Oi Hian (Director) - Dato Yeoh Eng Khoon (Director) - Mustafa Bin Mohamad Ali (Director)	3
b) See Sen Chemical Berhad - Dato Yeoh Eng Khoon (Director)	1
c) **Wan Hin Investment** - Tan Sri Dato' Seri Lee Oi Hian (Shareholder)	1
	5
Previous engagement tie:	
a) **Synthomer Plc** - Tan Sri Dato' Seri Lee Oi Hian (Director) - Mustafa Bin Mohamad Ali (Director)	2
	2
Other activity ties:	
a) Yayasan KLK - Tan Sri Dato' Seri Lee Oi Hian (Trustee) - Dato Yeoh Eng Khoon (Trustee) - Mustafa Bin Mohamad Ali Trustee (Trustee)	3
b) Tan Sri Lee Loy Seng Foundation - Mustafa Bin Mohamad Ali Trustee (Trustee)	1
	4

Education tie:	
a) London School of Economics and Political Science - Quah Chek Tin	1
	1
Total Ties	**12**

From the table in above, the CEO has 5 current engagement ties, 2 prior engagement ties from past employment, 4 other activity ties, and 1 education tie. The ties linked with same person but different connection are duplicated and computed as well. Hence, the total networks of CEO for Batu Kawan Berhad are computed by adding up all ties in above and it is 12 connections in this case. To confine the outliner effect, this study uses natural logarithm value.