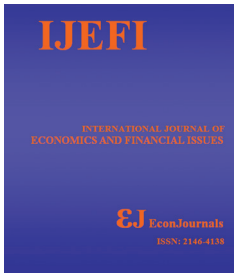

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Board Structure and Performance of Government-linked and Non-government-linked Companies: A Comparative Study of Selected Listed Companies' in Malaysia, India and Singapore

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ABSTRACT

This study examines the relationship between board structure (proxied by non-executive directors, chief executive officer duality, board size and independent directors) and company performance from the perspectives of profitability, liquidity and gearing amongst selected listed companies in Malaysia, India and Singapore. The study also determines the extent of similarities and divergences in the abovementioned relationships amongst the three countries. The results indicate that both Malaysia and India share similarities in most relationships but the reverse is documented for Singapore. It is conjectured that mere existence of governance may not be sufficient but its proper execution needs to be seriously considered by policy makers. This will ensure enhanced company performance and long-term survival and sustainability of companies.

Keywords: Board Structure, Governance, Performance, GLCs, Non-GLCs, Malaysia, India and Singapore
JEL Classifications: G3, G34

1. INTRODUCTION

Corporate governance research shields an extensive scope of governance issues; the role of anti-takeover measures, board structure, capital market governance, compensation and incentives, debt and agency costs, fraud, lawsuits, ownership structure, ordinance etc. From a liberal perspective, Rajan and Zingales (1998a) views governance systems as "the complex set of constraints that shape the ex post bargaining over the quasi-rents generated by the firm." Lopez-de-Silanes et al. (1997) define corporate governance as the "slipway in which suppliers of finance to corporations assure themselves of making a yield on their investment." Adopting a wide perspective on these issues, Gillan and Starks (1998) defined corporate governance as the system of legal philosophies, formulae and factors that control operations.

Hence, the importance of governance cannot be challenged, but the extent of implementation and conformance by companies varies between nations and that presents a justification for more research to be channeled out in this area. In that context, this study examines governance from the angles of board structure and is represented by non-executive directors, chief executive officer (CEO) duality, board size and independent directors. The similarities and the differences in the relationship between board structure and performance of selected listed companies (both government-linked and non-government-linked, hereafter GLC and NGLC) from three different countries, i.e., Malaysia, India and Singapore are examined. The contribution to extant literature is multi-fold. Firstly, it is one of the few works that explicitly investigates the relationship between board governance, in terms of board structure and performance from three different grounds of operation, i.e., profitability, liquidity and gearing. Secondly, the relationship is analyzed from the perspective of both the GLCs and NGLCs. Finally, the relationship is examined amongst three countries that are perceived to have varied level of governance.

Grounded by the aforementioned, this study will respond to the following research questions: Does board governance of GLCs and NGLCs affect the profitability, liquidity and gearing of companies in Malaysia, India and Singapore? To what extent similarities and divergences on the above mentioned relationships exist among the companies in Malaysia, India and Singapore?

The remainder of the paper is structured as follows. Section 2 discusses the hypotheses development. Section 3 presents the methodology and variables measurements. Section 4 presents the empirical results and discussion whilst section 5 concludes.

2. HYPOTHESES DEVELOPMENT

Universally, empirical studies measure the degree of internal governance along four dimensions: Board characteristics, ownership structure, managerial compensation and shareholders' rights. In that regard, this research aims to provide insights into the roles played by a company's board structure on their financial performance. The proxies used to measure the financial performance are profitability, liquidity and gearing.

Board structure has received enormous attention from the governance enthusiast. Studies have blended corporate governance with the fiscal structure, legal organization, external market discipline, etc. Anderson and Gupta (2009) documented that firm performance is enhanced when its governance structure embodies the requirements of the host country's financial structure and sound organization. On this note, many studies find that solid performance is negatively referred to board size, and the non-executive directors positively affect firm valuation, while others present contradicting evidence. Tian and Twite (2011) used a sample of Australian companies over the 2000 to 2005 period and examined the impact of national corporate governance on firm's total factor productivity, taking into account the interaction between internal organization and external market discipline. They found that internal corporate governance mechanisms (such as, efficient boards and greater CEO stock-based compensation) are efficient legal documents for improving firm productivity. They found weak empirical support for any association between ownership structure and performance.

The corporate governance literature also suggests that small corporate boards are more effective monitors than large boards because they hold a high level of membership coordination, less communication difficulties and a lower incidence of dangerous free-rider problems. It is indicated that board size and its other features (e.g., membership structure) seem to be significant elements in deciding the effectiveness of corporate organization (Lin and Lee, 2003). Furthermore, Jensen (1993) and Lipton and Lorsch (1992) argue that independent directors may not be capable to effectively involve decision making and control when boards size increases. Thus, large boards result in less effective coordination, increased information costs and confused decision-making. Additionally, large boards could be controlled by a dominant CEO who suppresses initiatives, objective debates and effective decision-making (Jensen, 1993). Similarly, Yermack (1996) and Conyon and Peck (1998) have given evidence that companies with smaller board structures have higher Tobin's Q. Boo and Sharma (2008), and Bushman et al., (2004) also found a negative association between board size and execution due to potential free riding, communication breakdown and inefficiencies.

Similarly, Eisenberg et al. (1998), based on 870 Finnish firms, instituted that larger boards are linked to a more modest market value. In firms with large boards, the responsibility of monitoring management is likely to become more distributed, as less of the onus falls on each director personally. In contrast, in smaller boards each individual board member will be more likely to accept personal responsibility for the board's monitoring of the adequacy of financial accounts and associated disclosures. Also, a smaller board size may be less burdened with bureaucratic problems and thus may be more useable and efficient. Therefore, a smaller board may offer better financial reporting oversight. Nevertheless, Mak and Kusnadi (2005) studied the impact of 550 Singaporean and Malaysian firms on performance (measured by Tobin's q) and established an opposite relationship. With regard to earnings in formativeness and board size, Vafeas (2000) provides evidence that the returns earnings relationship is greater for the firms with smaller board size. However, Coles et al., (2008) challenged these arguments, and found that complex firms have larger boards with more outside directors, and the operation of complex firms indeed increases the firm performance. Similarly, studies by Chiang, (2005) and Haniffa and Hudaib, (2006) and Siew et al. (2015) have also found a positive relationship between board size and firm performance. Kiel and Nicholson (2003), find an inverted U relationship between board size and company performance, whereby adding directors to a board benefits only to a certain point, after which the benefits will decline.

In terms of board independence, literature documents that it is supposed to provide a defense against the manipulative behavior by the controlling shareholders and directors. "Independence" have been taken by corporate governance codes as having "no relationships or conditions which could bear on the director's judgment" (Mallin, 2007. p. 102). Therefore, independent directors play a vital part in effective monitoring (Fama and Jensen, 1983; Johnson et al., 1996). Surveys in China utilizing the opinion of outside directors have found that institutional outside directors have a positive impact on firm performance, meaning an effective resourceful role played by these directors (Peng et al., 2003). Chen et al., (2006) also produce findings that outside directors are effective monitors, particularly in deterring corporate frauds in Chinese companies. Outside directors are found to be more assertive in confronting board decisions and can thus behave as a counterweight to inside directors (Johnson et al., 1996; Mallin, 2007). Moreover, they can bring in expertise and external knowledge to the firm, and more significantly, that resource dependence role allows them to furnish advice and resources in aiding the firm to succeed (Hillman and Dalziel, 2003; Pfeffer and Salancik, 1978; Yoshikawa and McGuire, 2008).

Similarly, Boo and Sharma (2008) indicated that independent directors monitor the company performance more effectively due to the financial interest of the public. Bedard and Johnstone (2004) also conjectured that higher representation of independent board members increases the vigilance of board monitoring. Independent directors also closely monitor and challenge management decisions and policies (Abbott et al., 2004; Klein, 2002). Bhagat and Bolton (2008) looked into the relationships between corporate governance, corporate performance, corporate capital structure, and corporate ownership structure. Stock ownership of board members improves corporate governance, but a negative relation

was found between board independence and future operating performance. Leng (2004) analyzed the impact of the proportion of non-executive directors, degree of ownership, the role of the CEO as both the CEO and the chairman of the board of directors and firm characteristics (size of firm, gearing ratio and the proportion of shares held by institutional investors) on firm performance based on Malaysian listed companies. It is found that size of a firm, the gearing ratio (i.e. scale of borrowing) and the proportion of shares held by institutional investors significantly influence firm performance. Based on the above literature, the following conceptual framework and hypotheses is developed.

Based on the framework (Figure 1), the following hypotheses are drawn:

- H1a: There is a positive relationship between non-executive directors and profitability
- H1b: There is a positive relationship between non-executive directors and liquidity
- H1c: There is a negative relationship between non-executive directors and gearing
- H2a: There is a positive relationship between CEO dual role and profitability
- H2b: There is a positive relationship between CEO dual role and Liquidity
- H3c: There is a negative relationship between CEO dual role and gearing
- H3a: There is a positive relationship between board size and profitability
- H3b: There is a positive relationship between board size and liquidity
- H3c: There is a negative relationship between board size and gearing
- H4a: There is a positive relationship between independent directors and profitability
- H4b: There is a positive relationship between independent directors and liquidity
- H4c: There is a negative relationship between independent directors and gearing
- H5a: There is a significant difference in the relationship between board structure and profitability amongst the GLCs and NGLCs
- H5b: There is a significant difference in the relationship between board structure and liquidity amongst the GLCs and NGLCs
- H5c: There is a significant difference in the relationship between board structure and gearing amongst the GLCs and NGLCs.

3. METHODOLOGY

The selection of company is largely based on data availability of selected companies in Bursa Malaysia, National Stock Exchange (India) and Singapore Stock Exchange. The variables used in this study are as shown in Table 1.

The dependent variables used as proxies for financial performance are; profitability, liquidity and gearing, whilst the independent variables are representing board structure are; non-executive directors, independent directors, CEO duality and board size. Information relating to board structure is obtained from the OSIRIS and data stream database and the individual company's annual report. Non-executive directors and independent directors are measured as a percentage of total directors, whilst the board size refers to the number of board members. CEO duality refers to whether the chairman of the company is also the CEO. A binary variable of 1 indicates that both the chairman and the CEO is the same person whilst 0 indicates otherwise. The measure of profitability is return on equity and return on assets whilst the liquidity positions of the companies are represented by current ratio and cash flow to debt ratio. The gearing of the company is based on the interest cover and the debt to equity ratio.

Panel data analysis is used in this study. All data have been winsorised to the 1 and 99 percentiles to control for extreme values and all reported t-values are corrected for heteroscedesticity using the White's (1980) method. For every country analyzed, a dummy of 1 for GLCs and 0 for NGLCs is considered to test on the presence of any significant difference between the relationship tested between the GLCs and NGLCs of the companies in the respective countries examined. Finally, all the three countries analyzed in this study, i.e., Malaysia, India and Singapore is compared laterally to determine the differences in the relationship between the board characteristics and performance, in terms of profitability, liquidity and gearing.

4. DATA ANALYSIS AND DISCUSSION

4.1. Relationship between Board Structure and Performance of Selected Listed Companies in Malaysia

Table 2 shows the relationship between board structure and performance of both the GLCs and NGLCs of selected listed companies in Malaysia. Board structure is represented by non-executive directors, CEO duality, board size and independent directors, whilst the performance are investigated from the perspectives of profitability, liquidity and gearing.

The empirical results indicate a significantly positive relationship between non-executive directors and CEO duality against the profitability and liquidity but a negative relationship is identified for gearing. Thus, H1a, H1b, H2a, H2b, H3a and H3b in the Malaysian context are accepted. The results indicate the importance of the monitoring role played by non-executive directors in all aspects of a company's performance. The positive relationship for the CEO duality signifies the prominence of the said position on the performance of companies. Board size documents a negative relationship on the profitability, liquidity and gearing. Hypotheses H3a, and H3b is rejected, whilst H3c is accepted. This points out that, big board sizes are not contributing towards profitability and liquidity as decision-making may be dispersed. Nevertheless, big board size has favorable effects on gearing. As for independent directors, the results seem to be mixed; independent directors do not bear any substantial relationship to profitability, but a negative relationship is documented for liquidity and gearing. Therefore, H4a and H4b are rejected but H4c is accepted. The

Table 1: Details of independent and dependent variables

Independent variables				
Board structure	Non-independent directors	Independent directors	CEO duality	Board size
Dependent variables				
Profitability	ROA	ROE		
Liquidity	Current ratio	Cash-flow to debt ratio		
Leverage	Debt to equity	Long-term debt to equity		

ROA: Return on assets, ROE: Return on equity, CEO: Chief executive officer

Table 2: Regression results on the relationship between board structures and profitability, liquidity and gearing - Malaysia

Board structure	ROA	ROE	CS	CFD	IC	DE
NED	0.02*** (3.37)	0.02** (2.04)	0.36*** (3.39)	0.25*** (3.50)	−0.02*** (−3.34)	−0.02*** (−3.56)
CEO duality	2.49*** (3.83)	2.57*** (3.86)	2.73*** (4.32)	2.59*** (4.07)	−3.10*** (−4.40)	−2.63*** (−4.16)
Board size	−2.02** (−2.23)	−2.21** (−2.05)	−2.22** (−2.44)	−2.24** (−2.47)	−2.23** (−2.23)	−2.18** (−2.37)
ID	0.04 (0.67)	0.01 (−1.28)	−0.13*** (−3.52)	−1.38*** (−2.75)	−0.00 (0.02)	−2.29** (−2.54)
DUM1	2.75*** (4.38)	2.64*** (4.13)	0.01 (0.31)	−0.01 (−0.27)	2.66*** (3.26)	2.72*** (2.98)
Firm age	3.26*** (7.97)	15.36*** (3.75)	0.31* (1.95)	2.86*** (−6.35)	−10.92** (−2.38)	0.14 (0.82)
Size	2.99*** (6.50)	0.07** (2.06)	−2.54*** (−3.96)	−0.73*** (−2.83)	0.57** (2.36)	0.01 (0.27)
Market condition	4.14*** (5.59)	3.93*** (5.56)	−0.31 (−1.55)	4.91 (1.03)	7.59 (1.46)	0.26 (1.30)
Adjusted R^2 0.24	0.20	0.18	0.27	0.22	0.28	

***.**.*Refers to significant levels at 1%, 5% and 10% respectively. Figures in parenthesis are the P value. Profitability - ROE: Return on equity, ROA: Return on assets. Liquidity - CR: Current ratio, CFD: Cash flow to debt, Gearing - DE: Debt to equity, IC: Interest coverage, NED: Non-independent directors, ID: Independent directors. DUM1 is a binary variable; whereby 1 denotes government-linked companies and 0 refers to non-government-linked companies

Table 3: Regression output on the relationship between board structure and the profitability, liquidity and gearing

Board structure	ROA	ROE	CS	CFD	IC	DE
NED	2.75*** (4.38)	0.31* (1.95)	2.66*** (3.26)	0.01 (0.31)	0.14 (0.44)	−0.006 (−0.09)
CEO duality	2.63*** (4.16)	2.83*** (4.50)	2.49*** (3.79)	2.15** (2.35)	−2.19** (−2.44)	−2.64*** (−4.17)
Board size	−2.18** (−2.42)	−2.08** (−2.31)	−2.17** (−2.40)	−7.59* (−1.56)	−4.14*** (−5.59)	−2.18** (−2.42)
ID	−2.29** (−2.49)	−2.66*** (−4.21)	−0.009*** (−9.88)	−0.001*** (−2.70)	−0.03*** (−16.17)	−2.30** (−2.49)
DUM2	−2.19*** (−2.76)	−0.16*** (−7.50	−0.13 (−0.84)	−0.91 (−1.49)	−0.05* (−7.50)	−1.44*** (−3.89)
Firm age	−0.72** (−2.01)	5.25*** (3.33)	−5.61 (−0.84)	11.00*** (6.48)	−0.03 (−1.32)	−0.03 (−1.41)
Firm size	−0.75** (−2.36)	0.08 (0.79)	−15.36*** (−3.32)	−0.47 (−1.47)	0.00 (0.34)	−3.19 (−0.37*)
Market condition	0.00 (1.38)	−0.05* (−1.78)	−0.32 (−1.55)	−0.87** (−2.09)	−0.04* (−1.69)	−1.44*** (−3.89)
Adjusted R2	0.33	0.27	0.30	0.26	0.26	0.29

***.**.*Refers to significant levels at 1%, 5% and 10% respectively. Figures in parenthesis are the P value. Profitability - ROE: Return on equity, ROA: Return on assets. Liquidity - CR: Current ratio, CFD: Cash flow to debt. Gearing - DE: Debt to equity, IC: Interest coverage, NED: Non-independent directors, ID: Independent directors. DUM1 is a binary variable; whereby 1 denote GLCs and 0 refers to NGLCs

Table 4: Regression output on the relationship between board structure and the profitability, liquidity and gearing

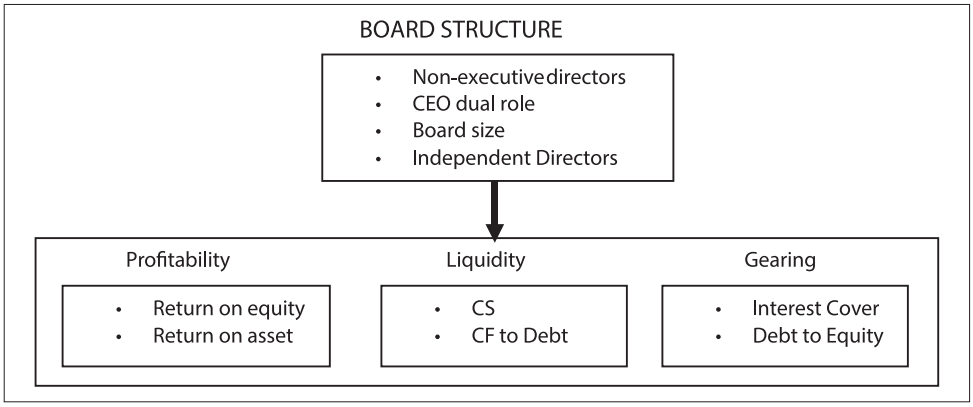
Board structure	ROA	ROE	CS	CFD	DE	IC
NED	9.00*** (13.45)	9.75*** (13.54)	9.49*** (13.32)	0.22*** (12.20)	−0.18*** (−9.28)	−0.72** (−2.01)
CEO duality	−38.66*** (−5.09)	0.17*** (8.38)	−0.02** (−2.54)	−0.002* (−1.98)	9.00*** (13.45)	9.38*** (13.04)
Board size	−25.58*** (−2.66)	−0.79** (−2.51)	−0.00* (−1.83)	−0.18*** (−9.03)	−0.20*** (−9.67)	−9.58*** (−13.05)
ID	−23.10*** (−2.42)	−38.66*** (−5.09)	−26.00*** (−2.71)	−24.00** (−2.48)	−2.59*** (4.07)	−2.30** (−2.49)
DUM3	−0.39 (−0.20)	0.00 (0.62)	0.00 (−0.05)	−0.10 (−0.73)	0.00 (−0.43)	0.00 (1.26)
Firm age	2.83*** (4.50)	2.49*** (3.79)	2.64*** (4.17)	2.74*** (4.20)	2.66*** (4.21)	−0.02*** (−3.05)
Firm size	−2.15** (−2.35)	−2.19** (−2.44)	−2.08** (−2.31)	−2.08** (−2.28)	−2.17** (−2.40)	−2.18** (−2.42)
Market condition	−0.05*** (−10.08)	−0.89*** (−17.43)	0.007*** (5.74)	0.00 (−0.05)	−0.06*** (−10.60)	0.003*** (9.98)
Adjusted R^2	0.38	0.32	0.33	0.36	0.29	0.28

***.**.*Refers to significant levels at 1%, 5% and 10% respectively. Figures in parenthesis are the P value. Profitability - ROE: Return on equity, ROA: Return on assets. Liquidity - CR: Current ratio, CFD: Cash flow to debt. Gearing - DE: Debt to equity, IC: Interest coverage. NED: Non-independent directors, whilst ID: Independent directors. DUM1 is a binary variable; whereby 1 denote family business and 0 refers to non-family business

results conforms with the expectation for gearing as independent directors are expected to play a more crucial role in monitoring the financing issues of companies as it may ultimately affect the long-term survival of companies.

DUM1 refers to the presence of any significant difference in the relationship for the parameters tested; between GLCs and NGLCs. Empirical evidence suggest a significant difference in the relationship for both the profitability and gearing but no significance is noted for liquidity. Thus, H5a and H5c are accepted but H5b is rejected. The findings are rather interesting because the political affiliation of board members in these GLCs could have contributed to the difference. Thus, board structures play a vital role in increasing the profitability amongst GLCs in Malaysia.

Figure 1: Impact of board structure on firm performance



As for the gearing, the significant difference between GLCs and non-GLCs needs intense consideration by companies and the regulatory authorities as it may affect the long-term survival of GLCs. The results indicate that GLCs have relatively higher gearing compared to the NGLCs. This indicates the possibility of weak management of long-term financing of GLCs and thus, the risk of the company in terms of debt financing increases.

4.2. Relationship between Board Structure and Profitability, Liquidity and Gearing of Indian Listed Companies

The results for the relationship between board structure and the profitability, liquidity and gearing of GLCs and NGLCs of selected companies in India is discussed below.

Similar to the empirical results documented in Malaysia, non-executive directors document a significant positive relationship with the profitability and liquidity. Table 3 indicates that no significance is noted for gearing. Thus, hypotheses H1a and Hb are accepted but H1c is rejected for India. Increased percentage of non-executive directors may increase the monitoring role and act as watchdogs to improve profitability and liquidity among the Indian companies. The empirical evidence on the relationship between CEO duality and profitability shows a significant positive relationship. A similar relationship is documented for the relationship between CEO duality and liquidity. A significant negative relationship is documented for the relationship between CEO duality and gearing. Hypotheses H2a, H2b and H2c are therefore accepted. CEO duality seems to be an important aspect in the board structure of Indian companies as it has favorable effects on all the indicators of performance. Board size and independent directors show similar effects across all performance categories, i.e., a significantly negative relationship are denoted for the relationship between board size and independent directors against the profitability, liquidity and gearing. Thus, hypotheses H3a, H4a, H3b and H4b is rejected but both H3c and H4c are accepted. DUM2 refers to the presence of any significant difference in the relationship for the parameters tested, between GLCs and NGLCs amongst the selected companies in India. Similar to the study outcome between GLCs and the NGLCs in Malaysia, significance in the differences are documented for profitability and gearing, whereby a negative relationship has been identified for profitability, whilst a positive for gearing. Therefore, H5a and H5c are accepted. In both the circumstances, the results are not favorable in terms of performance as it indicates that GLCs profitability is expected to be lower as compared to the NGLCs with regard to the relationship with board characteristics. Similarly, the gearing of GLCs are higher compared to the NGLCs, thus increasing the risk of the GLCs in long-term. This may indicate that the board members may not be playing an effective monitoring role as seen in the NGLCs. Alternatively, it could be due to the fact that external "invisible hands" have their presence and influence which may prevent constructive decision-making by board members.

4.3. Relationship between Board Structure and Profitability, Liquidity and Gearing in Singapore

The following section analyzes the relationship between board structure and the profitability, liquidity and gearing of GLCs and NGLCs in Singapore.

As for Singapore, the relationship between non-executive directors and CEO duality on profitability, liquidity and gearing are the same as in Malaysia and India; a positive relationship for profitability and liquidity, whilst a negative relationship for gearing (Table 4). Therefore, H1a, H1b and H1c are accepted. Board size and independent directors show a negative relationship on all three indicators of performance, i.e. profitability, liquidity and gearing. Thus, H3a, H3b, H4a, H4b are rejected, whilst H3c and H4c are accepted. This indicates that smaller board size is preferred in Singapore, indicating efficient management and decision-making. Nevertheless, the negative relationship between independent directors and performance and liquidity is contrary to expectation as independent directors are expected to create a "check and balance" and monitoring role, thus ensuring higher profitability and better working capital management. As for the difference between GLCs and NGLCs, DUM3 indicates no significant differences between both categories of companies analyzed. Thus, hypothesis H5c is rejected in the Singaporean context.

5. CONCLUSION

This study tests a conceptual framework to establish the significance of governance (board structure) on the financial performance of government-linked and non-government-linked companies in Malaysia, India and Singapore. The board structure

(which is a proxy of governance) is further analyzed in terms of non-executive directors, independent managers, CEO duality and Board size. Firm characteristics are age, size and external auditors. As for the operation of the company, it is analyzed from three main perspectives, i.e., the profitability, liquidity and gearing.

Based on the empirical evidence and the aims of this study, two main conclusions can be drawn. Firstly, comparison of companies within each country between government-linked and non-government-linked suggests that there are differences in the relationship between board structure and the profitability, liquidity and gearing in Malaysia and India. However, the empirical results of government-linked and non-government-linked companies in Singapore suggest that there are no major differences in the relationship amongst the variables tested. This may be ascribable to the stringent rules and regulation practiced by the Singapore Authorities and the potency of the implementation of all policies and practices are put in office. Secondly, a further comparison amongst the three countries show that Malaysia and India have a similar relationship between board structure and the performance in most cases but the reverse is documented for Singapore. Therefore, this study conjectures that board governance have important impacts on the overall operation and performance of a company but the relationship differs between countries. The nature and extent of the impact is very much dependent on the institutional arrangement of a country. Thus, governance and its proper execution need to be seriously considered by policy makers to further enhance company performance and ensure sustainability.

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