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**Nomination Committee Attributes and Firm
Performance: Evidence from Finance Companies in
Malaysia**

By Basiru Salisu KALLAMU [†]

Abstract. The paper examines the impact of nomination committee attributes on the performance of finance companies in Malaysia. Our panel data is composed of annual data for finance companies listed on the main market of Bursa Malaysia over the period 2004 to 2011. The result indicates that finance expertise of directors' on nomination committee influences accounting returns positively while membership of executive on nomination committee affects accounting returns negatively. This indicates that the requirement of Bank Negara that nomination committee should be composed of non-executive directors is appropriate and suggests that the regulators should recommend companies to include directors with finance expertise in the nomination committee in future policy formulation.

Keywords. Nomination committee, independent directors, finance companies, firm performance.

JEL. E62, H54, O40.

1. Introduction

The recent slow-down in world economy which resulted from the global financial crisis has affected economies in several ways (Atik, 2009). Diverging opinions have been given about the reasons for the occurrence of the recent financial crisis. Among the possible reasons for the crisis includes the diversification of finance companies into non-traditional financial services, US subprime crisis, government guarantee and financial innovations which have led to the emergence of new and highly complex financial products (Moosa, 2008). Evidence from literature have suggested that the board of directors contributed to the crisis due to poor monitoring by its monitoring subcommittees which enabled the management of firms to engage in non-value adding activities which led to adverse effect on firm performance (Kashyap, Rajan & Stein, 2008). Aftermath of the crisis has further indicated the importance of good corporate governance practices in finance companies.

The year 2007 marked the beginning of the crisis and the eventual fall or bankruptcies of many giant financial institutions, recession and economic problems in some countries especially in the West (Becht, Bolton & Roell, 2011). In order to save the troubled companies, protect the financial system and the entire economy, authorities intervene with various rescue packages to save the troubled companies.

[†] Putra Business School, University Putra Malaysia, 43400 UPM Serdang, Selangor Darul Ehsan, Malaysia.

☎. 0537 27 27 50

✉. bkallamu001@yahoo.com

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This led to the injection of the public funds into such institutions to prevent total collapse of the system. Furthermore, authorities instituted committees to look into the reasons behind such problems and to come out with recommendations that have become laws and regulations to guide the governance of financial institutions. Some recommendations of these committees include the enhancement of the functions of the monitoring committees. The Asian financial crisis of 1997-1998, the corporate scandals in different parts of the world and the recent financial crisis has affected the performance of finance companies and motivated the research and interest in corporate governance of such companies.

Finance companies play an important role in economic activities of developing countries. They serve as a source of capital to start a business, source of credit to purchase homes, cars and other consumer durables and serve as a secure place for the safekeeping of people's assets (Sufian & Habibullah, 2010). As a result of their importance, regulatory agencies provide strict supervision to ensure that the companies are governed well to safeguard the financial system and ensure that the companies fulfill their fiduciary responsibilities. The finance companies contribute to the development of the financial system and overall economic growth through their roles in the economy which includes monitoring of other companies, identification of profitable investment projects and mobilizing funds which facilitates trade and investment (Ferreira, 2008). Finance companies are the most vulnerable business organization in all economies all over the world due to their central role in an economy (Soomro, Gilal & Jatoi, 2011). They facilitate and influence various economic activities which include poverty elimination and resource allocation among others. The finance sector is very important due to the level of investment of the government in the sector, its contribution to the economy through contribution to the GDP and the importance of the sector in terms of implementation of government economic policies and programmes aimed at developing specific sector of the economy (Kim & Rasiah, 2010). This shows the significance of good governance in finance companies to the government.

The Asian financial crisis of 1997/1998 and prior corporate scandals affected investors' confidence in capital market and necessitated the move to enhance the corporate governance practice by companies in Malaysia. This move started with the setting up of a finance committee on corporate governance to deal with the issue of establishing codes and principles to guide the companies (Ghazali, 2010). One of the outcomes of the committee was the introduction of the Malaysian Code on Corporate Governance in March 2000. The finance committee also established the Malaysian institute of corporate governance which operates as a nonprofit public company limited by guarantee. This move was aimed at restoring confidence of investors in capital market. Compliance with the codes developed from this initiative was initially voluntary but later made mandatory by the revised listing requirements of Bursa Malaysia in 2001. The main aim of the first version of the Code was to establish governance structures and processes for the effective running of companies. Such structures and processes include board composition, recruitment and remuneration of directors and the establishment of board subcommittees (Securities Commission Malaysia, n.d.). Since coming into existence, the Code has been revised twice in 2007 and 2012 to enhance its significance and make it in line with the changing needs of the market.

The revision to the Code in October 2007 was done to improve the quality of the board of public listed companies (PLCs) by emphasizing on the enhancement of the role of board of directors, stipulating the role of nomination committee (NC) and qualification required for people to be appointed as directors and strengthening the audit committee (AC). The second revision issued in March 2012 was aimed at *'strengthening board structure and composition, recognizing the role of directors*

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as active and responsible fiduciaries' (MCCG, 2012, p.1). It provides recommendations for best practices of corporate governance and its recommendations serve as a general guide for listed companies in Malaysia. The revised Code was aimed at enhancing board effectiveness through board leadership and independence. As could be observed from the above discussion the MCCG was issued and revised in order to ensure that companies have governance mechanisms that are capable of safeguarding the interest of various stakeholders especially in finance companies where there is high agency problem coupled with complex operations, structures and products. This has shown the commitment of the SCM in ensuring sound capital market which will enhance the confidence of investors in the market and attract more capital into the market and ensure that Malaysia remains one of the best destinations for foreign capital.

Despite the important role nomination committee plays and the impact of its attributes on its performance and performance of the board and the company at large, few studies have examined the impact of nomination committee attributes on firm performance especially in finance companies of a developing nation (Carcello, Hermanson & Ye, 2011). Hence, the study of the relationship between nomination committee attributes and performance of finance companies is significant because it will highlight the characteristics of the committee that enhance the effective monitoring of a firm by the board of directors. Thus, this study examines the attributes of NC which have influence on the performance of finance companies in Malaysia. The main objective of the paper is to determine the impact of nomination committee attributes on the performance of finance companies in Malaysia and to examine such impact in the period before and after the Malaysian code on corporate governance (MCCG) was revised. The study provides empirical evidence on the impact of nomination subcommittee on the performance of finance companies and compares the period before and after the revision to the MCCG.

Unlike prior studies, this study provides evidence on the impact of governance mechanisms on the performance of finance companies as a whole and not limited to banking segment of the financial sector thereby including other segments such as insurance which are usually excluded in prior studies. In terms of practical significance, the study provides regulatory authorities with an insight into the nomination subcommittee attributes that influence performance and improves investors' confidence in finance companies. The result of the study provides regulators with empirical evidence on the nomination committee attributes that enhances performance in finance companies so that the regulators will include them in future policy formulation so that the confidence of the investors in companies will be restored or enhanced. The study would enable directors to improve their monitoring functions through enhanced functioning of the various monitoring subcommittees by enhancing the composition of the subcommittees. The rest of the paper is organized as follows. Section 2 contains literature review and hypotheses development. Section 3 explains the research methodology. Section 4 presents the result from empirical analyses. Section 5 contains result from analysis to address potential endogeneity problem while section 6 concludes the paper.

2. Literature review

Agency relationship according to Jensen & Meckling (1976, p.308) '*is a contract under which one or more persons (the principal (s)) engage another person (the agent) to perform some services on behalf of the principal which involves delegating some decision making authority to the agent*'. Agency relationship results from the separation of ownership and control which was

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brought by the industrial revolution that led to the emergence of large organizations and therefore the delegation of responsibility and authority (Berle & Means, 1932). The shareholders as principals appoint agents to manage the business on their behalf and this separation of ownership and control could result into the agents taking decisions that are not in the interest of the principal (Jensen & Meckling, 1976). In addition, the separation of ownership and control could create further problems in firms especially finance companies due to the diverse interests of different stakeholders in finance companies which include investors, shareholders, depositors and the agents (Bhandari, 2010).

This delegation of decision making to the agents may bring problems in the relationship as a result of the difference in the interest of the principals and the agents and decision taken by the agents and those that will promote the interest of the principals. The theory suggests that the principal can reduce the problem that could arise due to divergence of interest of the agent and the principal by monitoring the agent. These monitoring mechanisms that are put in place in firms include corporate governance mechanisms such as board and board subcommittees (Ntim, 2009). These mechanisms provide monitoring to prevent or reduce the opportunistic behaviour of the agent in companies which results from information asymmetry problem, difference in objectives and the difference in risk appetite of the principal and agent (Boyd, Haynes & Zona, 2011). The agent may engage in self-interest activities which will reduce the wealth of the principals (Cuevas-Rodriguez, Gomez-Mejia & Wiseman, 2012).

The stewardship theory is based on the assumption that managers are concerned about the welfare of the owners and overall performance of the company and this contradicts agency theory which believes that agents are self-centered and individualistic (Donaldson & Davis, 1991). The theory suggests that managers will work hard towards the attainment of the goal of owners (Boyd et al., 2011). Based on assumptions of stewardship theory, Ntim (2009) argued that firm performance will be enhanced if the executive have more powers and are trusted to run the firm. The theory believes that the combination of board chair and CEO will increase effectiveness and produce superior result than the separation of the roles (Al Mamun et al., 2013). A study by Donaldson and Davis (1991) found that a company that has unitary leadership structure has better performance which is depicted by an improvement in the return on equity compared to another company that separates the two functions. This could be as a result of lack of conflict in position of responsibility and authority which could result if the two roles are separated.

Stewardship theory assumes that the steward is capable of unifying the different interests of stakeholders and that the steward willingly act in a way that will protect the interest and welfare of others (Hernandez, 2012). In other words, the theory assumes that the actions of the steward are aimed at protecting the long term welfare of the principal. He also added that the theory assumes that people are motivated to perform their work by the intrinsic reward they derive from their jobs. Thus, the nature of the reward is different from the agency theory where the focus of the reward to managers is extrinsic in nature. In line with the assumptions of stewardship theory, evidence from empirical studies have shown that presence of executive directors on the board and board subcommittees will enhance performance of companies as a result of the technical knowledge and information advantage of the inside directors (Ntim, 2009). In the context of finance firms, and based on the assumptions of the stewardship theory, the inside directors will be able to contribute more in decisions of board subcommittees due to their technical expertise, experience and knowledge about the company and the finance industry.

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The Malaysian Code on Corporate Governance (2007) requires board to have Nomination committees. The Bank Negara corporate governance guide (2013) requires the NC to be composed of five members with at least four non-executive directors with an independent chair. The committee is responsible for assessing the performance of directors on a continuous basis, assessing skills, experience and competencies needed by the board and proposing new nominees to the board (MCCG, 2007). Kaczmarek, Kimino & Pye (2012) examined the influence of NC on board diversity based on a sample of FTSE300 firms from 1999 to 2008 and reported that increasing the diversity of NC is likely to increase the diversity of board and that presence of CEO on the NC will have an influence on NC independence. The NC ensures that the board is composed in such a way that it will be able to perform its duties appropriately (Kaczmarek et al., 2012). Although, the NC is responsible for selecting people to be appointed to the board, sometimes the appointment is made based on the recommendations of the CEO, thus, a powerful CEO can influence appointments to the board (Pearce & Zahra, 1991). Carcello et al. (2011b) found that the benefit of having independent and expert directors on audit committee is absent when the CEO is involved in director selection. Involvement of the CEO in the appointment of directors will affect the independence and effective monitoring of the board and its committees since there is high probability that the CEO will support the appointment of only those who will promote his interest (Carson, 2002). This CEO influence is highly likely in firms where the CEO is on NC and in NC dominated by inside directors (Shivdasani & Yermack, 1999).

Carson (2002) examined factors that determine the formation of board subcommittees based on a sample of 361 Australian firms. The results indicate that the formation of board subcommittees is determined by presence of big 6 audit firms, non-executive directors chairman and ownership structure. Eminent & Guedri (2010) examined the impact of NC existence and NC independence on the rewards and sanctions given to the directors by the labour market for being active monitors on a sample of 200 public firms in France. The results indicate that the directors' subsequent appointment to a nomination committee dominated by independent directors which also excludes the CEO is influenced by the director's reputation in actively monitoring the management. Thus, independence of NC will enhance transparency in the process of director selection and enhances independence of the board as a whole and its decisions. The presence of independent directors on the NC will ensure highly qualified directors are selected and ensure enhanced monitoring of the management (Yeh, et al., 2011). In addition, the independence of the various subcommittees, the board and the overall firm performance is enhanced by the presence of more independent directors on the NC because their presence will prevent the management from dominating the board which is possible by dominating the process of appointing new directors (Carcello et al., 2011).

According to Jiraporn, Manohar & Lee (2009) the effectiveness of the board in performing its functions is enhanced when the board has subcommittee. The committee of the board includes operating committees which advice the management on matters relating to day to day operations of the company and the monitoring committee which monitor the activities of the company in order to ensure that the interest of various stakeholders are protected (Harrison, 1987). From agency theory perspective, the presence of independent nomination committee will ensure that quality directors are appointed to the board and board subcommittees (Chhaochharia & Grinstein, 2009). The establishment of nomination committee was not common among Malaysian companies before the MCCG was issued. However, after the MCCG was issued, the number of board subcommittees has increased from the time when only audit committee was in

existence to present situation where we have other monitoring committees such as nomination, remuneration and risk management committee (Harrison, 1987). The establishment of subcommittee is a requirement for most corporate governance codes or guideline given by regulators such as stock exchange and Central Bank. One important feature of most of these committees that made them very important is the presence of outside directors on such committees. According to Ntim (2009) the presence of board committees has no impact on performance of companies in South Africa except nomination committee (NC).

Board subcommittees are very important monitoring mechanism because one of the ways shareholders can control management is through the choice of board and committee structure (Chhaochharia, Kumar & Ruenzi, 2012). The corporate governance guidance issued by Central bank requires all licensed financial institutions to have a nomination committee which is saddled with the responsibility for the selection and appointment of directors and CEO and for the continuous evaluation of the performance of CEO and the effectiveness of each director and the board as a whole. The guide requires that the committee should be composed of a minimum of five members for all licensed companies except money broking firms, four of whom must be non-executive and chaired by independent director. The committee is responsible for establishing requirements for board, recommending and assessing nominees for board appointment, overseeing the composition of the board and recommending the removal of a director, CEO or management as a result of ineffectiveness.

Based on the recommendation of Bursa Malaysia, board of directors is required to have a nomination committee (NC) composed mainly of non-executive directors with majority INEDs. The committee is responsible for assessing the performance of directors on a continuous basis, assessing skills, experience and competencies needed by the board and proposing new nominees to the board (MCCG, 2007). Although, the NC is responsible for choosing people to be appointed to the board, sometimes the appointment is made based on the recommendations of the CEO. Thus, powerful CEO can influence appointments to the board (Pearce & Zahra, 1991). This depends on how powerful the CEO is and power of the CEO could be determined by the time he spent in that position, his shareholding in the company and whether he is part of the founding family of the company.

This involvement of the CEO in the appointment of directors will affect the independence and effective monitoring of the board since there is high probability that the CEO will support the appointment of only those who will promote his interest. This CEO influence in the selection of directors is highly likely in companies where the CEO is a member of the NC, in companies with small board and in boards dominated by inside directors (Shivdasani & Yermack, 1999). Chhaochharia & Grinstein (2009) found that board committee has a positive impact on firm performance. Vefas (1999) reports that subcommittees have a negative impact on firm performance due to the extra cost to be incurred in the form of meeting allowance, travel cost and directors time. In addition, Klein (1998), Vefas & Theodorou (1998) and Bozec (2005) all found no relationship between monitoring committees and firm performance. Prior empirical studies (such as Yeh, Chung & Liu, 2011; Carson, 2002; Shivdasani & Yermack, 1999; Patton & Baker, 1987) have also reported the impact NC attributes could have on its performance and performance of the board, subcommittees and the company as a whole.

3. Hypotheses development

Independence of NC will enhance the transparency in the process of director selection and enhances independence of the board as a whole and its decisions

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(Ntim, 2009). Independence is important in enhancing the role of nomination committee in identifying competent directors and reviewing performance of the directors. If the executive have influence over the selection of a director, effective discharge of the functions or monitoring role of the board and its committees could be hampered since the directors may be obliged to protect the interest of those who supported their appointments (Carson, 2002). The nomination committee will ensure that highly qualified and independent directors are appointed to the board (Carson, 2002). Vefeast, (1999) reported that the existence of nomination committee has a positive impact on the quality of new directors appointed to the board. This implies that NC improves the quality of the board and its committees which ultimately enhances firm performance. Thus, the following hypothesis was tested:

H1 There is a positive relationship between nomination subcommittee with independent directors and performance of finance companies.

The involvement of CEO in director selection removes the importance of independence and expertise of directors in effectively discharging their oversight functions (Carcello et al., 2011). Furthermore, where the CEO is involved in director selection, the presence of AC with independent and expert directors will not ensure the provision of quality accounting information and will not reduce the incidence of accounting restatements. Therefore, the presence of independent director as committee chair on the NC will ensure that the committee is independent, enhances the ability of the committee to resist CEO influence in director selection, ensure that highly qualified management are selected and ensures enhanced monitoring of the management (Yeh, et al., 2011). The independence of the various subcommittees, the board and the overall firm performance is enhanced by the presence of independent chair on the NC because his presence will prevent the management from dominating the board which is usually possible by dominating the process of appointing new directors to the board (Patton & Baker, 1987). Thus, we hypothesized as follows;

H2 There is a positive relationship between independent chair of nomination subcommittee and performance of a finance company.

The expertise of directors enhances the ability of directors in nominating competent directors to the board and in discharging their oversight functions effectively (Carcello et al., 2011). Raber (2003) and Dionne & Triki (2005) reported that the ability of the directors to perform their functions on the board and board committees depends on their expertise. The complex nature of the operations and products of the finance companies requires directors with technical expertise to be appointed to board committees to provide efficient monitoring. This could be enhanced if the directors in charge of the selection are expert in the field so that they will be able to identify qualified candidates for appointment to the board and its various committees. Therefore, we hypothesized as follows;

H3 There is a positive relationship between nomination subcommittees' expertise and performance of finance companies.

The directors on NC need to have experience in order to provide effective monitoring and to be able to evaluate the activities and performance of the board, CEO and individual director. Akhigbe & Martin (2006) and Tao & Hutchinson (2012) found that experience of directors enhances their monitoring ability. This is due to the complex nature of the products, services and operations of finance companies which require some expertise or experience to ensure directors provide adequate monitoring. The following relationship was hypothesized;

H4 There is a positive relationship between presence of NED with executive experience on nomination subcommittee and performance of finance companies.

Carcello et al., (2011) found that the presence of executive especially the CEO on nomination committee may affect the effectiveness of the directors in monitoring the management even if the directors are independent and have the required expertise. On the contrary, the presence of executive on the committee will provide the committee with inside information that may help the committee in its monitoring activities and enhance company performance (Tao & Hutchinson, 2012). In another perspective, Klein (1998) found that companies that increased the number of executive directors on board committees had an increase in the return on their investments. The following hypothesis was tested;

H5 There is a positive relationship between membership of executive on nomination subcommittee and performance of finance companies.

4. Methodology

The study used panel data of 37 finance companies listed on the main market segment of the Bursa Malaysia. The companies in the sample comprised of companies in different segments of the finance sector. The observation period covers period from 2004 to 2011. The data includes both data on committee attributes and financial data. The information on the committee attributes was manually extracted from the annual report of companies obtained from the website of Bursa Malaysia or website of the individual company. Financial data was obtained from Bloomberg database. Multiple regression analysis was used to analyze the data.

In order to control for omitted variable bias, size is added as a control variable since prior studies have shown that size of a firm could determine its profitability due to the ability of large finance companies to make provision for non-performing loans, ability to increase customers through advertising and ability to hire experienced and highly skilled workers which could lead to enhanced profitability (Garcia-Herrero, Gavila & Santabarbara, 2009). The hypotheses outlined above were tested using the following regression model;

$$Fp_{it} = \alpha + \beta_1 CC_{it} + \beta_2 CINED_{it} + \beta_3 FE_{it} + \beta_4 EE_{it} + \beta_5 EPE_{it} + \beta_6 FS_{it} + \beta_7 LEV_{it} + YD + \varepsilon_{it}$$

The variables in the research model were measured as follows:

FP=	Return on Assets (ROA) and Tobin's Q.
CC=	proportion of independent directors to total number of directors on the subcommittee
CINED=	dummy variable of one if the subcommittee chair is independent director zero otherwise
FE=	proportion of directors with accounting qualification on the subcommittee
EE=	proportion of directors with executive experience on the subcommittee
EP=	proportion of executive on the committee
FS=	Log of total assets
LEV=	Ratio of total debt to total equities

5. Empirical results

5.1. Descriptive statistics

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The results of the descriptive statistics presented in Table 1 below indicates that the data is normally distributed since the values for all the variables except executive membership of committee are normally distributed. The independence of the NC members ranges from a committee with no INED to a committee with 100% INEDs. The results also indicate that 82% of the companies have NC with independent chair. Finance expertise and executive experience of directors' range from a minimum of zero to a maximum of 100% with an average of 28% and 25% for expertise and experience respectively. Furthermore, membership of executive on the committee range from a committee with no executive, to a committee composed of 20% executive directors with an average of 1%.

Table 1. Result of descriptive statistics

	ROA	TQ	CC	CINED	FE	EE	EP	FS	LEV
Mean	0.024	0.008	0.613	0.829	0.282	0.256	0.012	0.042	0.064
Median	0.014	0.010	0.600	1.000	0.200	0.200	0.000	0.036	0.037
Maximum	0.130	0.013	1.000	3.000	1.000	1.000	0.200	0.088	0.310
Minimum	-0.048	0.009	0.000	0.000	0.000	0.000	0.000	0.025	0.002
Std. Dev.	0.028	0.004	0.327	0.423	0.265	0.287	0.049	0.012	0.062
Skewness	1.411	-1.395	-0.721	-0.504	0.613	0.889	3.533	0.731	1.417
Kurtosis	5.327	3.041	2.540	7.011	2.421	2.773	13.48	2.685	5.197

Notes: ROA=return on assets measured as PBT divided by total assets, CC=committee composition defined as the proportion of Independent directors to total number of directors on NC, CINED=chair independent non-executive director defined as a dummy variable that takes one if committee chair is independent zero otherwise, FE=finance expertise measured as the number of directors with accounting expertise or finance industry experience divided by the total number of directors on NC, EE=executive experience measured as the number of directors with executive experience divided by the total number of directors on NC, EP=membership of executive defined as the number of executive directors on NC divided by total number of directors on NC, FS=firm size (log of total assets), LEV=leverage measured as total debt divided by equity.

The result of correlation analysis presented in Table 2 indicates no multicollinearity problem since none of the bivariate correlation is equal to or greater than 0.9. The linearity assumption is also fulfilled since the values obtained are within the ± 3.00 threshold. The test of heteroskedasticity indicates the null hypothesis of no heteroskedasticity problem is supported when ROA is used as the predicted variable while the hypothesis is rejected when Tobin's Q was used. The white heteroskedasticity consistent standard error was used to correct the problem. The results also indicated autocorrelation problem in the models. The problem was addressed by using white diagonal method.

Table 2. Summary of correlation analysis

	ROA	TQ	INED	CINED	FE	EE	EP	FS	LEV
ROA	1.000	-0.074	-0.074	-0.189	0.034	-0.170	-0.148	0.112	-0.407
TBQ	-0.074	1.000	-0.112	-0.063	0.088	-0.168	0.080	0.171	-0.106
INED	-0.074	-0.112	1.000	0.537	0.555	0.243	-0.065	-0.264	0.311
CINED	-0.189	-0.063	0.537	1.000	0.387	0.243	-0.002	-0.255	0.201
FE	0.034	0.088	0.555	0.387	1.000	0.371	-0.041	-0.101	0.092
EE	-0.170	-0.168	0.243	0.243	0.371	1.000	0.077	-0.034	0.120
EP	-0.148	0.080	-0.065	-0.002	-0.041	0.077	1.000	0.136	0.096
FS	0.112	0.171	-0.264	-0.255	-0.101	-0.034	0.136	1.000	0.053
LEV	-0.407	-0.106	0.311	0.201	0.092	0.120	0.096	0.053	1.000

Notes: ROA=return on assets, TQ=Tobin's Q ratio, INED=independent non-executive directors, CINED=chair independent non-executive director, FE=finance experience, EE=executive experience, EP=membership of executive, FS=firm size, LEV=leverage.

5.2. Multivariate regression analysis based on ROA

The results of Hausman's test indicated that REM was the most appropriate method to use for this model. The adjusted R^2 of 0.137 implies that the variables collectively explain approximately 13% of the variation in firm performance. The f-statistics (3.654) was large and the corresponding p-value was highly significant

($p < 0.01$) or lower than the alpha value of 0.01. This indicates that the slope of the estimated least squares regression model line is not equal to zero confirming that the research data fits the proposed seven predictor model of the study. As shown by the result presented in Table 3 below and based on REM only three variables were significant in explaining accounting returns. Leverage made the largest single contribution in explaining the dependent variable (ROA) with a coefficient contribution of -0.168 and a corresponding t-statistics of -3.341. It suggests that one standard deviation change in leverage is followed by -0.168 standard deviation change in performance.

We predicted a significant relationship between expertise of directors on NC and firm performance. The results obtained indicate a significant positive relationship between expertise of directors on NC and firm performance. Empirically, the results are in line with evidence reported by Defond, Hann & Hu (2005), Sharma, Naiker & Lee (2009) and Aldamen et al., (2012). By contrast, the positive sign does not support evidence from Knapp (1987) and Cohen, Krisnamoorthy & Wright (2002) who reported that expertise of directors on a subcommittee does not affect performance since lack of expertise of the directors will be compensated when the service is outsourced to external party. Hypothesis 5 predicted a significant relationship between executive membership of NC and ROA. The significant negative relationship ($p < 0.1$) indicated by the result is in line with agency theory and supports results reported by prior studies such as Shivdasani & Yermack (1999) who argued that executive membership of NC will enable them to influence director selection. Leverage is significantly negatively related with ROA while the remaining variables were insignificant.

Table 3. Summary of multivariate regression analysis based on ROA

	Pooled (OLS)	REM	FEM
Constant	0.028(2.242)**	0.033(2.770)***	0.029(1.677)*
Committee composition	0.008(0.655)	-0.008(-0.721)	-0.011(-0.840)
CINED	-0.021(-2.056)**	-0.011(-1.437)	-0.007(-1.072)
Finance expertise	0.019(1.541)	0.031(1.946)*	0.041(1.636)
Executive experience	-0.0007(-0.107)	-0.001(-0.178)	-0.003(-0.265)
Executive presence	-0.086(-3.894)***	-0.077(-2.824)***	-0.068(-1.914)*
Firm size	0.329(1.998)**	0.161(0.980)	0.146(0.847)
Leverage	-0.200(-5.742)***	-0.168(-3.341)***	-0.138(-2.045)**
Year dummy	0.016(2.335)**	0.014(2.850)***	0.013(2.770)***
Year dummy	0.000(0.120)	-0.001(-0.315)	-0.003(-0.510)
Year dummy	0.002(0.462)	0.000(0.217)	7.03(0.018)
Year dummy	0.002(0.393)	0.001(0.419)	0.001(0.303)
R squared	0.277	0.189	0.708
Adjusted R squared	0.230	0.137	0.607
F-statistics	5.990***	3.654***	7.020***
Hausman's test	NA	8.412(0.675)	NA
Durbin Watson stat	0.996	1.829	2.313

Notes: Coefficient in front and t-statistics in parenthesis. *, **, *** indicates significant at 10%, 5% and 1% respectively. OLS=ordinary least square, REM=random effect method, FEM=fixed effect method, 2007 is used as the base year. ROA=return on assets, TQ=Tobin's Q, CC=committee composition, CINED=chair independent non-executive director, FE=finance expertise, EE=executive experience, EP=executive membership, FS=firm size, LEV=leverage.

5.3. Results of regression analysis based on Tobin's Q

The results of Hausman's test indicated that REM was the most appropriate method to use. The adjusted R^2 of 0.0907 implies that the variables collectively explained 9.1% of the variation in firm performance. The f-statistics (2.479) was large and the corresponding p-value was highly significant ($p < 0.01$) or lower than the alpha value of 0.01. This indicates that the slope of the estimated least squares regression model line is not equal to zero confirming that the research data fits the proposed seven predictor model of the study. Firm size made the largest

contribution in explaining the dependent variable (Tobin's Q) the coefficient obtained was 0.040 with a corresponding t-statistics of 1.743.

It suggests that one standard deviation increase in leverage is followed by 0.040 standard deviation change in performance. However, none of the committee attributes has a significant relationship with firm performance. The control variable firm size shows a significant ($p < 0.10$) positive association with firm performance. This could be explained by the availability of more resources to the company and because of the extra monitoring by the different stakeholders who are interested in the activities of the company.

Table 4. Results of multivariate regression analysis based on Tobin's Q ratio

	Pooled (OLS)	REM	FEM
Constant	0.006(4.654)***	0.007(5.024)***	0.010(4.336)***
Composition	-0.001(-1.284)	-0.001(-0.866)	-0.003(-1.215)
Chair independent	-0.000(-0.350)	-0.000(-0.379)	-0.000(-0.949)
Finance expertise	0.003(2.602)**	0.001(0.798)	-0.002(-0.628)
Executive experience	-0.002(-2.117)**	-0.001(-1.227)	-0.001(-0.61)
Executive presence	0.006(1.084)	9.71(0.017)	-0.007(-0.775)
Firm size	0.032(1.318)	0.040(1.743)*	0.031(1.240)
Leverage	-0.003(-0.767)	-0.008(-1.279)	-0.016(-2.144)**
Year dummy	0.002(2.862)***	4.29(0.0457)	0.000(0.217)
Year dummy	0.001(1.303)	0.002(4.020)***	0.002(3.879)***
Year dummy	0.001(1.486)	0.001(1.529)	0.001(1.823)*
Year dummy	0.000(0.287)	0.001(1.506)	0.001(1.762)*
R squared	0.149	0.152	0.569
Adjusted R ²	0.087	0.090	0.405
F-statistics	2.423***	2.479***	3.471***
Durbin Watson stat	1.039	1.545	1.973
Hausman's test	NA	12.997(0.293)	NA

Notes: coefficient in first row and t-statistics in parenthesis. *, **, *** indicates significant at 10%, 5% and 1% respectively. OLS=ordinary least square, REM=random effect method, FEM=fixed effect method.

5.4. Comparison of the results of statistical analyses for the period before and after the revision to MCCG

In this section and based on data obtain for three years (2004 to 2006) before and three years after (2009 to 2011) the MCCG was revised, we compared the result of statistical analyses for the period before and after the revision to MCCG. The composition of NC range from a maximum of 100% to a minimum of zero with an average of 28% and 64% for the period before and after the revision respectively. The result further shows that 58% and 81% of the NC have independent chair in the period before and after the revision. This depicts an improvement in the independence of the NC which will enable the committee to perform its role properly which was one of the aims of the revision to the code.

In contrast, the maximum value for expert directors on NC is 100% with a minimum of zero and an average of 38% and 28% for the period before and after respectively. This shows that less expert directors were appointed to the NC. The maximum value for the directors with executive experience is 66% and 100 with an average of 4% and 28% for the period before and after the revision. The maximum proportion of executive directors on NC is 100% with a minimum of zero and an average of 37% and 0.7% for the period before and after the revision. This indicates that the companies have responded positively to the requirements of the revised code by reducing the number of executive directors on the NC.

The results of the Hausman's test indicate that REM is the most appropriate for the NC based on ROA for both periods. However, the adjusted R² obtained for the period before the revision is approximately 1%, the f-statistics was 1.638 and the p-value is insignificant. With regards to the period after the revision, the adjusted R² was approximately 10%, the f-statistics was 2.337 and the corresponding p-value

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was significant ($p < 0.05$) at 5% level. With regards to individual variables, Independent committee chair was significant ($p < 0.01$) but negatively related with ROA while the remaining variables were insignificant.

Table 5. *Multivariate regression based on ROA for both periods*

	REM	REM
Constant	0.068(4.182324)***	2.824(2.679)***
Committee composition	-0.002(-0.165)	1.279(1.385)
CINED	-0.000(-0.031)	-2.051(-2.867)***
Finance expertise	-0.008(-0.743)	0.862(0.783)
Executive experience	0.004(0.239)	-0.239(-0.245)
Executive presence	-0.012(-1.258)	-0.499(-0.104)
Firm size	-0.830(-1.892)*	21.167(1.469)
Leverage	0.000(0.845)	-10.757(-2.747)
Year dummy	-0.005(-1.122)	0.089(0.308)
Year dummy	-0.001(-0.321)	6.87E-05(0.000)
R-squared	0.087	0.173
Adjusted R-squared	0.006	0.099
F-statistic	1.080	2.337**
Durbin-Watson stat	1.638	2.268

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

5.5. Multivariate regression based on Tobin's Q

The results of the regression analysis presented for both periods are based on FEM as suggested by the results of the Hausman's test. The adjusted R^2 obtained was 47% and 64% for the period before and after respectively, the f-statistics is 3.218 and 5.148 and the corresponding p-value was significant or lower than the alpha value of 0.05. Membership of executive on NC is significant ($p < 0.05$) and positively related with firm performance in the period before the revision while the remaining variables were insignificant. In the period after the revision, only finance expertise is significant ($p < 0.05$) but negatively related with firm performance while the remaining variables were insignificant.

Table 6. *Multivariate regression for NC based on Tobin's Q for the two periods*

	FEM	FEM
Constant	0.005(2.495)***	0.008(2.545)**
Committee composition	0.001(0.794)	-0.001(-0.463)
CINED	0.000(0.638)	0.001(0.940)
Finance expertise	-0.000(-0.107)	-0.008(-2.225)**
Executive experience	0.000(0.275)	0.005(1.440)
Executive presence	0.002(2.291)**	-0.018(-1.154)
Firm size	0.065(1.136)	-0.005(-0.133)
Leverage	-3.56E(-0.179)	-0.006(-0.596)
Year dummies	-0.000(-1.797)*	0.001(2.114)**
Year dummies	-0.000(-1.201)	0.001(1.921)*
R-squared	0.690	0.800
Adjusted R-squared	0.475	0.645
F-statistic	3.218***	5.148***
Durbin-Watson stat	2.178	2.784

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

5.6. Additional analysis

To address issues related to the endogeneity of corporate governance variables, we used generalized method of moments using lagged values of explanatory variables as instruments and re-estimate the model based on both measures of performance. With regards to the coefficient of the individual variables, the coefficient of committee composition has remained insignificant but changed from negative to positive under both measures of performance. The coefficient of independent committee chair has become significant under ROA while executive

experience has become significant under Tobin's Q but remained in the same direction.

Executive membership has changed from positive to negative under Tobin's Q but remained insignificant, firm size has become significant under ROA and insignificant under Tobin's q but remained in the same direction while leverage has changed from insignificant to statistically significant under Tobin's Q but remained in the same direction. Overall the results based on GMM indicate that our results based on least squares model are robust to potential endogeneity problem. Finally, the result from sargan test indicates that our instruments are valid.

Table 7. Summary of regression based on generalized method of moments

	ROA(REM)	Tobin's Q	ROA(GMM)	TQ(GMM)
Constant	0.033(2.770)***	0.007(5.024)***	0.038(3.624)***	-0.200(-1.334)
CC	-0.008(-0.721)	-0.001(-0.866)	0.009(0.986)	0.000(0.058)
CINED	-0.011(-1.437)	-0.000(-0.379)	-0.022(-3.707)***	-0.000(-0.607)
FE	0.031(1.946)*	0.001(0.798)	0.018(1.825)*	0.000(0.141)
EE	-0.001(-0.178)	-0.001(-1.227)	-0.000(-0.121)	-0.005(-1.73)*
EP	-0.077(-2.824)***	9.71(0.017)	-0.078(-1.704)*	-0.008(-1.252)
FS	0.161(0.980)	0.040(1.743)*	0.311(1.679)*	0.006(0.377)
LEV	-0.168(-3.341)***	-0.008(-1.279)	-0.201(-5.086)***	-0.005(-1.69)*
2008	0.014(2.850)***	4.29(0.0457)		
2009	-0.001(-0.315)	0.002(4.020)***	-0.005(-0.991)	-0.000(-1.206)
2010	0.000(0.217)	0.001(1.529)	-0.006(-1.051)	-0.000(-1.260)
2011	0.001(0.419)	0.001(1.506)	-0.008(-1.359)	-0.001(-1.952)*
R ²	0.189	0.152		
Adjusted R ²	0.137	0.090		
F-statistics	3.654***	2.479***		
DW statistics	8.412(0.675)	1.545		
J-statistics			4.767(0.028)	6.890(0.228)
Wald test			31.585***	107.525***

Notes: ROA=return on assets, CC=committee composition, CINED=chair independent non-executive director, FE=finance expertise, EE=executive experience, EP=membership of executive on NC, FS=firm size, LEV=leverage, DW= Durbin Watson statistics.

6. Conclusion

The paper examined the impact of NC attributes on the performance of finance companies listed on Bursa Malaysia. The results indicate that directors with finance expertise significantly influence accounting returns while executive membership of NC affects accounting returns negatively. The result implies that companies that want to enhance their profitability should appoint directors with finance expertise on NC. Therefore, companies should consider including directors with finance expertise on NC while the regulators should consider recommending companies to include finance experts in their NCs. In addition, the result shows that membership of executive on nomination committee may not be appropriate for companies seeking to increase their accounting performance. Thus, this implies that the recommendation included in the Central Bank corporate governance guide which requires NC to be composed of non-executive directors is appropriate for finance companies.

The findings contribute to literature and our understanding of the influence of nomination committee attributes such as independence, expertise and experience of the directors on the committee by showing an association between directors' expertise, independence and positive firm performance. Management and board of companies may use the findings to make appropriate choices about nomination committee attributes and governance mechanisms to improve performance particularly with regards to expertise of directors. In addition, the evidence will assist directors in structuring the nomination committee in a way that enhance its effectiveness and contribute to the performance of the finance company. Investors may find the evidence useful in understanding Malaysian finance firms in terms of

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their governance and make appropriate investment decisions. The findings could be useful to regulators in other jurisdiction who are looking at ways to enhance the effectiveness of nomination committee, overall firm governance and enhance investors' confidence in the firms. The study is limited to listed finance companies in Malaysia; future studies could examine the impact of nomination committee attributes on the performance of unlisted companies, companies in other sectors and economies. Future studies could examine other committee attributes such as size, individual characteristics of the directors on the committee and the internal processes of the committee.

Appendix

Table 8. *Descriptive statistics for the period before revision to MCCG*

	Composition	CINED	Finance expertise	Executive experience	Executive presence
Mean	0.277	0.576	0.381	0.047	0.3704
Median	0.333	1.00	0.333	0.00	0.333
Maximum	1.000	1.00	1.00	0.666	1.00
Minimum	0.00	0.00	0.00	0.00	0.00
Std. Dev.	0.208	0.496	0.395	0.156	0.396
Skewness	0.029	-0.309	0.608	3.182	0.492
Kurtosis	2.650	1.096	2.173	11.62	1.703

Table 9. *Descriptive statistics for the period after the revision to MCCG*

	INED	CINED	FE	EE	EP
Mean	0.6424	0.8090	0.2796	0.2806	0.0072
Median	0.6666	1.00	0.2000	0.2000	0.00
Maximum	1.00	1.00	1.00	1.00	0.1000
Minimum	0.00	0.00	0.00	0.00	0.00
Std. Dev.	0.3153	0.3948	0.2613	0.2998	0.0376
Skewness	-0.9002	-1.5729	0.6221	0.7493	4.9535
Kurtosis	2.9828	3.4740	2.4846	2.3697	25.537

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