

Ownership Structure, Independent Chair and Firm Performance

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ABSTRACT

The focus of this study was to examine the effect of ownership structure and the independent board chair as the moderating variable on the performance of companies in the finance industry of the Main Market of Bursa Malaysia. The study used a total of 185 observation data collected from 37 finance companies from the years 2007 to 2011. The results of the study showed that the independent board chair as the moderating variable had a negative relationship with the finance companies' Tobin's Q value. The literature advocates that the independent board chair has an influence on the monitoring of owner managers and in safeguarding minority shareholders' economic interest. On the other hand independent chair control and monitoring of company decisions can be affected by the dominant voice of the CEO, the majority presence of executive directors, the presence of owner manager and leverage.

Keywords: ownership structure, board of directors, independent board chair, firm performance, moderating variable

INTRODUCTION

The importance of studying corporate governance and its impact on the performance of companies has been re-emphasised by the recent crisis and bankruptcies of big finance companies,

which indicates the impact of poor governance on the performance of companies (Westman, 2009). Brennan and Solomon (2008) defined corporate governance as the process of ensuring that the management is managing the affairs of the company in such a way that the interest of the stakeholders is protected and they do this by supervising and controlling the actions of the management. Corporate governance was developed to oversee how the board is discharging its functions and

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to provide guidance to the board on how to discharge those responsibilities more effectively (Brown, Beekes & Verhoeven, 2011). In the case of finance companies, good practices of corporate governance mechanism are essential to oversee the activities of the companies are carried out with due care on the risk management (McConnell, 2012). Stakeholders' confidence on the companies' commitment to manage the business responsibly has been linked with the nature and structure of a corporate governance mechanism being set up (Jansson, 2005; Kim & Rasiah, 2010).

It is important that conduct related to corporate governance of banks is monitored due to the dominant role of the institutions in the management of the payment system (Capriglione & Casalino, 2014; Dermine, 2013). Loss of confidence in the soundness of the banking system could bring a negative effect to investment in the sector, severe problems to the accomplishment of the government's macroeconomic policy and great impact on the economic living of the depositors. Good corporate governance in financial institutions will ensure that small depositors and less informed investors are protected through continuous healthy existence of the financial system (Arun & Turner, 2004). For this role, the board of directors of a company has an important responsibility to the stakeholders to ensure that business activities are performed in a socially responsible manner (Jamali, Safieddine & Rabbath, 2008). The recent collapse of big

firms in different economies has questioned the effectiveness of the board of directors in properly discharging its role in leading companies and monitoring the activities of the management.

For instance, crises in the finance sector has affected economies of different countries at different times such as in Brazil, Mexico, Russia, Malaysia, Thailand and Indonesia (Bazdresh & Werner, 2000). These crises have emphasised the need for countries to support a sound financial system with good corporate governance practices. These corporate failures and financial crises increased the need for closer monitoring of financial institutions and for the regulatory authorities to reform their corporate governance. Some have undertaken the reform by issuing Sarbanes Oxley's Act of 2002 in the United States and in the United Kingdom by forming several committees such as Cadbury (1992), Greenbury (1995), Hampel (1998), Higgs (2003) and Smith committee (2003), whose recommendations were later harmonised into a combined code, to deal with several aspects of corporate governance (Leuz & Wysocki, 2008). One of the requirements of most corporate governance movements such as the combined codes (1998, revised in 2003, 2006, 2012), Kings report (1994, 2002) and the Sarbanes Oxley's Act of 2002, is the need for the strengthening of the role of the board in monitoring, particularly through board substructure. As a result of corporate fraud and the various economic and financial crises that led to companies'

failures and bankruptcy in different parts of the world, regulatory authorities and the accounting profession developed and improved corporate governance codes to strengthen corporate governance practice and establish measures to ensure compliance by companies (Ghazali, 2010).

The recent global financial crisis which affected economies of the world provided evidence of the various impact that can range from reduction in international trade, foreign direct investment, collapse of capital market, fall in value of currencies, increase in unemployment, large expenditure by the authorities to rescue the affected companies and ultimately a decrease in economic growth (Atik, 2009). The nature of ownership structure of a company which provided little incentive for monitoring by the dispersed shareholders and poor governing performance by the board of directors has been identified to contribute to the crisis (Westman, 2009). Poor performance of finance companies because of poor management could cause a liquidity problem in the financial system that in turn could lead to crisis in the economy and the eventual loss of confidence in finance firms (Htay, Ab. Rashid, Adnan, & Meera, 2011). According to Turlea, Mocanu & Radu (2010) stakeholders of finance companies have divergent goals and objectives. Equity holders, for example, are concerned about the value of their investment which could decrease if there was poor performance while debt holders and depositors, on the other hand, are interested in ensuring their investments and deposits are safeguarded.

The importance of relevant corporate governance in finance companies also relates to the fact that finance companies are closely related to each other and are transforming into one financial institution that offers similar services through its different subsidiaries (Gopinath, 2008). It is becoming difficult to differentiate between commercial and investment banks and insurance firms as banks diversify into finance firms that provide both retail and investment banking services as well as other finance-related services (Walter & Saunders, 2011). These changes in the nature of the business of the finance sector and the high level of risk involved as a result of expanding the scope of their business are requiring regulators to update and revise their regulation requirements regularly to enforce effective monitoring (Brighi & Venturelli, 2014).

Although finance firms in Malaysia were not seriously affected by the global financial crisis, some still felt the impact with regards to stock prices and profitability (Wasiuzzaman & Gunasegava, 2013). The recent global financial crisis has shown how connected and interrelated companies in the finance sector are and how governance problems in one part of the sector could have an impact on the entire economy (Erkens, Hung & Matos, 2012). This closeness in the companies could create problems since poor governance in one part of the sector could lead to its collapse and in turn affect the financial system and the economy at large (Becht, Bolton & Roell, 2012). This was evidenced from the recent

financial crisis, which started from one segment of the finance sector and spread to other segments and affected the economy of countries in the world such as US, UK, Belgium, The Netherlands, Austria, Spain, Germany, Ireland, Greece and Sweden (Becht *et al.*, 2012).

These and similar events have prompted the regulatory authorities to institute more safeguards on the governance of financial institutions in the form of guidance on board composition and appointments, establishment of committees, for example the risk management committee, and monitoring of risks of the entities (Becht *et al.*, 2012). Furthermore, governance of finance companies is unique due to the higher information asymmetry in such institutions, which requires greater monitoring to reduce the asymmetry (Zulkaffi & Abdul Samad, 2007). The banking segment of the finance industry is very important to the economies of developing countries because it is the main channel for raising finance by private investors (Sufian & Habibullah, 2010). Another factor that makes the finance companies more important in Malaysia is due to the over protection of the banking industry, which made other non-bank financial institutions less developed, and under development of the capital market and risk management exercise (Thillainathan, 1999).

The high information asymmetry in finance firms could arise due to the difference in the interest of shareholders,

depositors, investment account holders, managers and other stakeholders. Corporate governance of finance companies is very important because they are the main depository of the economy, due to complexity of their operations, interest of different stakeholders and their roles in an economy, which makes them subject to stringent regulations (Arun & Turner, 2004; Turlea *et al.*, 2010). The effectiveness of corporate governance mechanisms aimed at enhancing performance in finance companies is of interest to people because of the interest of different stakeholders and the extent of losses suffered by investors and the general public from the global financial crisis, the Asian financial crisis and the various corporate failures and crises in the finance sector. which seem to be a recurring event with crises occurring about 11 times in 30 years (Dermine, 2013). The difference in objectives and interest of stakeholders exists, for example, between shareholders, debt holders and regulators. Shareholders may be short-term focused and prefer investment that are risky but have high returns while debt-holders and regulators have long-term focus and may prefer low risk and stable investment (Mehran, Morrision & Shapiro, 2011). The depositors are interested in safeguarding their deposits, the investors are concerned about their investments and the management is concerned about their employment while the government is interested in continued existence and health of the finance sector and the economy in general.

The finance sector provides an intermediary role in the economy by channelling funds from surplus sectors to deficit sectors, therefore corporate governance in such sectors is important since poor corporate governance could lead to poor management of the business of the firms in the sector, thereby affecting their performance and the performance of other sectors that depend on them for financing (Htay *et al.*, 2011). People are concerned about corporate governance mechanisms aimed at protecting stakeholder interest as a result of the extent of losses suffered by investors and the general public from the global financial crisis, the Asian financial crisis and the various corporate failures and crises in the banking sector (Dermine, 2013). The study of finance companies in Malaysia is important because these companies play an important role in the implementation of government economic programmes and policies such as the national economic programme (National economic policy, 1971(NEP)/National development policy 1991 (NDP) “by channelling resources and loans through the banks to the desired economic sector” (Kim & Rasiah, 2010, p.16). In addition, the government has a significant investment in the sector and the sector makes the largest contribution to GDP after the manufacturing, trade and service sectors (Economic Planning Unit, 2011).

Prior studies have found that the relationship between corporate governance mechanisms and performance is inconclusive and is influenced by the

firm’s characteristics and other factors beyond the firms’ control, implying that the relationship between governance mechanisms and performance is not clear and differs within industries/sectors and between companies (Brown *et al.*, 2011). In addition, prior studies on the impact of ownership structure, independent chair and firm performance have reported varying results. This contradictory evidence on the impact of ownership structure and independent chair suggests that ownership structure and independence of board chair may not have direct effect on firm performance. In addition, from the agency theory perspective, duality may harm firm performance since the chair will perform roles both as CEO and board chair, which could hinder effective monitoring especially in firms with dispersed ownership. From another perspective, the stewardship theory suggests that combining board chair and CEO position will enhance coordination and speed in decision making since there will not be conflict of interest between CEO and board chair. Furthermore, combining the positions is more beneficial in firms with concentrated ownership since owners usually participate actively in managing the firms. This suggests that further study is needed. It further means that the independent chair may have a different effect on performance. Furthermore, previous studies did not give adequate attention to the moderating effect of the independent chair on the relationship between ownership structure and firm performance (Hsu, Wang &

Hsu, 2012). If the moderating role is not examined, the influence of both ownership and board attributes on firm performance may not be fully considered. This could explain the reason why prior studies are inconsistent since the impact of ownership and board attributes on performance may be dependent on other factors. Therefore this study included the moderating variable in order to put the moderating role of the independent chair in the relationship between ownership structure and firm performance in proper context.

The study contributes to literature by examining the moderating role of the independent board chair in the relationship between ownership structure and firm performance in finance companies. The study will enable investors to make informed decisions on the nature of governance in the firm in which they want to invest. The study provides policy makers and practitioners with a better understanding of the role of the independent chair in governance based on the nature of ownership in a firm. The study provides directors with information on the appropriateness of board leadership structure that is suitable to the nature of ownership structure in their company and enables them to organise their board according to the nature of ownership in the company. In addition, the study will enhance our understanding of the impact of board attributes on the performance of companies. Finally, the findings will enable regulators to know the appropriate mechanism to recommend for companies based on the ownership structure of a

particular company. The rest of the paper is organised as follows: Section 2 contains a review of literature and hypotheses development; Section 3 presents the research methodology; Section 4 contains the results of the study and Section 5 presents results from additional analyses while section 7 concludes the paper.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Ownership structure as a monitoring mechanism is both the internal and external monitoring mechanism of corporate governance. This is determined based on who owns controlling shares in a firm by either management/directors, founding family, institutional shareholders or government (Ghazali, 2010; Aguilera, Desender & De Castro, 2011). Prior studies have reported that the dispersed ownership structure is associated with poor performance in Western countries due to the high cost and low benefit associated with monitoring by dispersed shareholders (Haniffa & Hudaib, 2006; Mokhtar *et al.*, 2009). Furthermore, ownership structure determines the extent of monitoring of the company's affairs. Where there is concentration of ownership in the hands of a small number of shareholders, these shareholders or their representatives on the board are likely to be actively involved in performing control and service functions, thereby reducing agency problems and enhancing performance (Zahra & Pearce, 1989; Shan & McIver, 2011). On the contrary, Adnan, Htay,

Ab Rashid and Meera (2011) found that the concentration of shares is negatively related with performance especially where it is in the hands of insiders or institutional shareholders while Zulkafli and Abdul Samad (2007) found that all the types of ownership are negatively related with firm performance.

Institutional shareholders enhance firm performance due to their expertise and high monitoring of the companies (Aguilera *et al.*, 2011). Their main concern is to maximise financial gain from their investment. According to Haat Abdul Rahman and Mahenthiran (2008) investment by foreign institutional shareholders increases competition in the market and make firms improve their governance in order to attract those foreign investors. Thus, monitoring of managers by institutional investors helps to reduce agency problem (Gul, Sajid, Razzaq & Afzal, 2012). Praptiningsih (2009) found foreign institutional ownership is negatively related with firm performance. The ownership structure of finance firms in Malaysia is characterised by concentration of ownership with institutional shareholders, family or government as the controlling shareholders (Thillainathan, 1999). Mangena, Taurigana and Chamisa (2012) found that concentrated ownership is positively related with firm performance in a sample of 79 Zimbabwean firms.

The agency theory deals with the agency problem that emanates from the relationship between the agent and the principal that appoints him. The agency

problem results from the divergence of interest between the principal and the agent and the majority and the minority shareholders (Boyd, Haynes & Zona, 2011). From the agency theory perspective, duality indicates combination of decision making and control, which means the board will not be able to monitor the CEO effectively, especially in firms with dispersed ownership, thereby leading to poor performance. On the contrary, the stewardship theory suggests that managers are concerned about the welfare of the owners and overall performance of the company, and this contradicts the agency theory, which believes that agents are self-centred and individualistic (Donaldson & Davis, 1991). The theory suggests that managers will work hard towards the attainment of the goal of the owners (Boyd *et al.*, 2011).

Based on the stewardship theory, duality creates unity of command at the top of the firm thereby reducing problems since authority is concentrated in one person, therefore facilitating timely and effective monitoring. This is particularly applicable to firms in developing countries where ownership is concentrated and the owners participate actively in management of the firm. Therefore, as suggested by the assumptions of the stewardship theory, 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 results than would the

separation of the roles (Al Mamun, Yasser & Rahman, 2013). A study by Donaldson and Davis (1991) found that a company that has a unitary leadership structure has better performance, which is depicted by an improvement in the return on equity compared to a company that separates the two functions. This could be as a result of absence of conflict in positions of responsibility and authority, which could result if the two roles are separated.

Hypotheses development

Moderating role of independent board chair

The requirements of the Malaysian Code on Corporate Governance (MCCG) and the governance guide issued by the Central Bank requires the board chair to be separate from the CEO. In addition, the MCCG requires that the board should be independent and, where the chair is not independent, the majority of the board must be independent directors. Several studies have examined the impact of board attributes on the performance of companies (e.g. Pfeffer & Salancik, 1978; Pearce & Zahra, 1991; Abdul Kadir, 1999; Ghazali, 2010; Adnan *et al.*, 2011; Shan & Melver, 2011). However, the specific role of independent board chair in moderating the relationship between corporate governance mechanisms and firm performance has been given less attention (Hsu, Wang & Hsu, 2012). In addition, the results of prior studies, some of which will be discussed below, have also reported mixed results indicating that more research is needed to

test the indirect impact of the independent board chair in the relationship between ownership structure and firm performance. Therefore, this study examines the moderating role of the independent board chair in the relationship between ownership structure and firm performance.

The Malaysian code on corporate governance requires companies to have a separate board chair and CEO and where the roles are combined explanation should be given in the accounts (MCCG, 2007). The separation of the roles will ensure that no one person or group will dominate the board. The separation or combination of the role influences the speed and quality of directors' decisions and the potential board contribution to company performance (Zahra & Pearce, 1989). There is mixed opinion from the theoretical perspective and evidence reported by researchers on the impact of combining or separating the role of chair and chief executive of a company. Some argue that by combining the roles, management will be better monitored and efficiency will be enhanced due to the reduction in information asymmetry (Haniffa & Cooke, 2005). According to Ghazali (2010) separation of board leadership and management of the company may not be an efficient corporate governance mechanism especially in developing countries where the owners are involved actively in the day-to-day operations of the companies. In his experience as board of director members holding influential positions such as board chairman, CEO and both chairman and

CEO, William (2013), when observing the board of director as someone outside of the company, found that it is important to assess the conduct of independent directors, leaders of the board when the chairman and CEO positions were combined, leader of the board when the chairman position was distinct from CEO and CEO when the chairman position was distinct from CEO to understand how the board of directors managed and governed the company to achieve results. Evaluating their leadership responsibilities and their actions in determining what worked for the company, it was found that their knowledge, skills and experience contributed strategically to company value and helped in managing internal and external challenges facing the company. Succession planning can explain a lot about how the company benefitted from all these efforts. On the other hand, Gerrish (2014) analysed the board of chairmen of banks based on their types and traits to understand their management approach and leadership contribution to the company. He revealed that when the bank chairman was an independent member not holding an executive position in the bank, there was micro-management of the bank as the day-to-day operation of the bank was managed by the executives of the bank. On the other hand, if the bank chairman was its CEO, decisions at board level were vetted by the CEO. In terms of what needed to be done to improve the situation in banks, Pozen (2010) and Krawcheck (2012) consented for the bank's board of directors to be smaller in size; for the board to be led by professional

board members recruited on full-time basis so that they would commit their time to board responsibilities and for the bank executive's compensation to be tied to the bank's fixed earnings to align and manage their actions in accordance with the bank's risk sensitivity.

Listed firms in Malaysia categorise shareholdings by directors into direct and indirect ownership. Direct ownership is stake owned by a director directly in his name while indirect ownership is through a firm or firms controlled by the director. Prior studies examining impact of director ownership have examined such relationships based on proportion of ownership by directors without classifying it into direct and indirect ownership. Direct ownership by a director means he has a direct stake in the company while indirect ownership is shares owned by a director through the firm he controls or through the shareholders he represents. From the agency theory perspective, when a director has direct ownership he will be more interested in monitoring the firm because of the monetary loss he could suffer in the event the company runs into problems.

Ownership by institutional shareholders enhances performance through increased monitoring of the management (Brown *et al.*, 2011). Thus, monitoring of managers by institutional investors helps to reduce agency problem (Gul *et al.*, 2012) and encourages investment by outsiders. Conversely, monitoring by institutional investors could put a constraint on top executive decision-making because close monitoring may suppress a manager's

ability to make decisions (Aguilera *et al.*, 2011). In addition, institutional ownership may promote further problems between the majority and minority shareholders when the interest of the institutional shareholders differs from that of the minority shareholders and leads to poor performance since the majority shareholders will promote their own interest at the expense of the interest of the minority, thereby appropriating firm assets to themselves (Park & Jang, 2010). Institutional investors have access to better information compared to ordinary shareholders due to their quality research and analytical skills (Borisova, Brockman, Salas & Zagorchev, 2012). Zulkafli and Abdul Samad (2007) also found that ownership by large shareholders has a negative impact on performance of banks and non-finance firms while Praptiningsih (2009) found no relation in a sample of banking firms in some selected Asian countries.

Government owned companies have better governance practices because of the comprehensive supervision by the government that reduces the problem of information asymmetry and controls the actions of the managers (Samaha & Dahawy, 2010). On the contrary, Berger, Clarke, Cull, Klapper and Udell (2005), D'Souz Megginson and Nash (2007) and Praptiningsih (2009) argued that state ownership does not enhance firm value and the government is not an efficient monitoring mechanism. Karas, Schoors and Weill (2008) reported that domestic

public banks had better performance than domestic private banks in Russia. Demirguc-Kunt and Detragiache (2002) and Westman (2009) also found that state ownership is significantly related to profitability. Although state ownership is expected to enhance performance through enhanced governance in companies, their ownership in companies could affect performance due to the divergence in their interest and the shareholder value maximisation; government may, for example, employ more people to reduce unemployment even if the employment will not add value to the firms (Megginson, 2005). Borisova *et al.* (2012) found that state ownership reduced the number of committees in a company, increasing CEO power thereby reducing the monitoring mechanisms in the firm, while the presence of golden shares usually owned by the government caused damage to the governance of companies.

Bhagat and Bolton (2013) found that director ownership and CEO duality were positively and negatively related to operating performance while both did not have a significant relationship with market based measures of performance. In addition, Chhaochharia, Kumar and Niessen-Ruenzi (2012) examined the impact of foreign and local institutional investors on corporate governance in firms and found that firms with high ownership by local institutions had better governance and performed better due to the enhanced monitoring by the

local investors who had better access to information compared to the foreign investors. Gul, Sajid, Razzaq and Afzal (2012) investigated the role of ownership structure and corporate governance in mitigating agency cost based on a sample of 50 listed firms in Pakistan for the period 2003 to 2006. The result of the regression analysis showed that director ownership, institutional ownership and separate board leadership lower agency cost.

Ponnu (2008) found no significant relationship between duality and firm performance. Praptiningih (2009) and Zulkafli and Abdul Samad (2007) both reported negative relationship between duality and firm performance in both finance and non-finance companies. They added that CEO duality was harmful to the performance of a company. Unitary leadership structure made it difficult for the board to monitor and evaluate executive performance (Zahra & Pearce, 1989). Leadership of the board should ensure that the board carried its activities in the most effective way and that the board was provided with the necessary information on a timely basis (Brown *et al.*, 2011). On the other hand, the chief executive officer was the head of management of a company and was in charge of the day-to-day operations of the company as well as overall strategy and investment. Therefore, most corporate governance codes require the separation of the leadership roles in a company to ensure a balance of power and authority

and proper monitoring of activities of the management (MCCG, 2007). Based on these arguments, the following hypotheses were tested:

H1: Independent board chair positively moderates the relationship between direct director ownership and firm performance.

H2: Independent board chair positively moderates the relationship between indirect director ownership and firm performance.

H3: Independent board chair positively moderates the relationship between institutional ownership and firm performance.

H4: Independent board chair positively moderates the relationship between state ownership and firm performance.

METHODOLOGY

The population of the study comprised firms listed under the finance sector of the main market of Bursa Malaysia. The number of firms listed on the main market of Bursa Malaysia as at the time of data collection (2012) was 822, out of which 37 were finance firms. Since the number of finance companies listed on the main market was only 37, all the companies were used as the sample for this study. This comprised companies involved in commercial, investment and Islamic banking, Insurance, Takaful and other finance-related services. A summary of the distribution of the sample firms

according to segments of the industry is given in Table 1 below. The companies listed under the Ace market are not included due to their small number and because they are subject to different listing requirements.

The study used secondary data extracted from the annual reports of companies listed on the main market of Bursa Malaysia. The annual reports were downloaded from the website of Bursa Malaysia or company website. The data comprised corporate governance and finance data. The corporate governance data were manually extracted from the annual reports of the companies while the financial information was obtained from the Bloomberg data base. The unit of observation involved 37 finance companies and the observation period covered year end 2007 to 2011. Many finance firms around the world were affected by the impact of the global financial crisis. However, Malaysian finance firms felt the impact in the form of falling share prices, loan applications and low inflow of capital (Khoon & Mah-Hui, 2010). This study used both accounting (ROA) and market measure of performance (Tobin's Q) similar to prior studies such as Abdullah, (2004), Mokhtar *et al.*, (2009) and Zulkifli and Abdulsamad (2007). This is to ensure that one complemented the other since both had strengths and weaknesses. Although market measures of performance "are more objective than accounting based measures," they are

"also affected by some factors beyond control of the management" (Gani & Jermias, 2006; p.303).

TABLE 1
List of Sample Firms According to Segments of the Finance Industry

Segment	No of firms
Commercial banking	2
Islamic banking	1
Investment banking	6
Universal banking	10
Insurance	6
Takaful	3
Others	9
Total	37

Accounting based measures are preferable in the context of a corporate governance study because they reflect the ability of the management to add value to the firm (Hutchinson & Gul, 2004). According to Westman (2009), the starting point for evaluating the performance of banks is the efficiency of their operations. Similar to prior studies, in order to reduce the possibility of wrong conclusions that could result from omitting variables that can predict performance and also to reduce omitted variable bias and endogeneity problem, two control variables (firm size and leverage) were added to the regression model (Pathan, 2009; Praptiningsih, 2009; Tao & Hutchinson, 2012). Multiple regression analysis was used to test the relationship. The hypotheses developed above were examined by the following model:

$$\begin{aligned}
 FP_{it} = & a_0 + \beta_1 DDO_{it} + \beta_2 IDDO_{it} \\
 & + \beta_3 IO + \beta_4 GO_{it} \\
 & + \beta_5 DDO * IDB_{it} \\
 & + \beta_6 IDDO * IDB_{it} \\
 & + \beta_7 IO * IDB_{it} + \beta_8 GO * IDB_{it} \\
 & + \beta_9 FSIZE_{it} + \beta_{10} LEV_{it} + YD \\
 & + \varepsilon_{it}
 \end{aligned}$$

The variables in the research model were operationalised as follows:

- FP = firm performance (ROA and Tobin's Q)
 IDB = dummy variables of 1 if board chair is separate and independent zero other wise
 DDO = percentage of direct ownership by directors
 IDDO = percentage of indirect ownership by directors
 IO = percentage of ownership by institutional shareholders
 GO = percentage of ownership by government
 SIZE = log of total assets
 LEV = total debt over equity
 YD = year dummies

EMPIRICAL RESULTS AND DISCUSSIONS

Descriptive statistics

The descriptive statistics presented in Table 2 below indicates that the data was normally distributed since the skewedness and kurtosis values were less than ± 3.00 and ± 10.00 (Kline, 1998). In addition to the test of normality based on skewedness and kurtosis for individual variables, a group normality test was performed for the model and the result indicated that there was no normality problem. Furthermore, a heteroskedasticity test was performed and the heteroskedasticity and autocorrelation problem were addressed using the heteroskedasticity-consistent standard errors and white diagonal method for heteroskedasticity and autocorrelation respectively. The result of the descriptive statistics indicated that only 26% of the firms had an independent board chair, implying that the majority of the firms did not comply with regulatory requirement for independent board chair.

TABLE 2
Summary of Results of Descriptive Statistics

	ROA	DV	DDO	IO	GO	FS	LEV	CINED
Mean	0.024	0.007	0.030	0.503	0.117	0.043	0.064	0.260
Median	0.015	0.010	0.001	0.520	0.004	0.038	0.040	0.000
Maximum	0.079	0.013	0.240	0.900	0.845	0.088	0.310	1.000
Minimum	0.002	0.009	0.000	0.000	0.000	0.025	0.025	0.000
Std. Dev.	0.019	0.004	0.059	0.276	0.197	0.012	0.056	0.440
Skewedness	1.253	-1.134	2.106	-0.209	1.924	0.737	1.183	1.090
Kurtosis	3.265	2.362	6.144	1.675	5.916	2.675	4.725	2.190
Obs.	185	185	185	185	185	185	185	185

Note: ROA= return on assets, DV=Tobin's Q, DDO=direct director ownership, IDDO=indirect director ownership, IO=institutional ownership, GO=government ownership, FS = firm size, LEV = leverage, CINED=independent board chair

The linearity assumption of the OLS regression is also fulfilled since the values based on the Q-Q plot were within ± 3.00 range. Furthermore, the variables in the model showed no indication of a multicollinearity problem since none of the bivariate correlation is greater than 0.7 as presented in Table 3 below (Pallant, 2005).

TABLE 3
Results of Correlation Analysis

	ROA	DV	DDO	IO	GO	FS	LEV	CINED
ROA	1.000							
DV	-0.048	1.000						
DDO	-0.024	0.167	1.000					
IDDO	0.284	-0.228	0.070					
IO	-0.138	0.164	0.042	1.000				
GO	-0.182	-0.142	-0.195	-0.332	1.000			
FS	-0.003	0.064	-0.099	0.208	0.062	1.000		
LEV	-0.468	-0.356	-0.162	-0.138	0.445	0.082	1.000	
CINED	0.181	0.084	-0.206	0.060	-0.019	0.008	-0.132	1.000

Note: ROA= return on assets, DV=Tobin's Q, DDO=direct director ownership, IDDO=indirect director ownership, IO=institutional ownership, GO=government ownership, FS=firm size, LEV=leverage, CINED=independent board chair

Multivariate regression analyses

Results of regression analysis based on ROA

The result of Hausman's test indicated that the random effect model was the most appropriate model and the results presented in Table 4 indicate an adjusted R2 of 8.6%. The

f-statistics (f=2.722) obtained was large and the corresponding p-value was significant. However, none of the individual variables was significant while control variable leverage was significant but negatively related with ROA. The results indicated that none of the hypotheses was supported.

TABLE 4
Summary of Multivariate Regression Based on ROA

	OLS	REM	FEM
Constant	2.419(2.552)***	2.654(2.566)***	2.426(2.123)**
DDO	-0.003(-0.155)	0.018(0.414)	-0.004(-0.219)
IDDO	0.034(3.385)***	-0.035(-1.073)	0.034(3.134)***
IO	-0.007(-1.335)	-0.029(-1.175)	-0.007(-1.362)
SO	0.003(0.435)	0.042(1.276)	0.003(0.411)
DDO*CINED	11.9090(4.06)	-8.514(-0.377)	-14.73(-0.638)
IDDO*CINED	0.294(0.113)	0.040(0.010)	-8.365(-1.000)
IO*CINED	-1.249(-1.313)	-0.239(-0.188)	0.749(0.430)
GO*CINED	4.688(1.963)*	5.551(1.580)	11.086(1.864)*
Firm size	27.558(1.491)	11.755(0.621)	7.762(0.361)
Leverage	-23.825(-6.116)***	-18.822(-3.689)***	-13.618(-2.008)**
Year dummies	0.283(0.397)	0.287(0.580)	0.274(0.553)
Year dummies	0.376(0.526)	0.339(0.682)	0.329(0.659)
Year dummies	0.312(0.436)	0.354(0.708)	0.380(0.752)
Year dummies	1.516(2.098)**	1.581(3.134)***	1.638(3.236)***
R2	0.209	0.136	0.698
Adjusted R2	0.163	0.086	0.596
F-statistics	4.560***	2.722***	6.842***
Durbin-Watson	0.871	1.794	2.268
Hausman's Test	NA	16.129(0.096)	NA

NOTE: ***, **, * indicates significance at 1%, 5% and 10% respectively. DDO*CINED=interacting variable for direct director ownership and independent chair, IDDO*CINED=interacting variable for indirect director ownership and independent chair, IO*CINED=interacting variable for institutional ownership and independent chair, GO*CINED=interacting variable for government ownership and independent chair. CINED=independent board chair

Results of regression analysis based on Tobin's Q

The results presented in Table 5 indicate an adjusted R2 of 11% based on Tobin's Q for the model that tests the moderating role of the independent chair in the relationship between ownership and firm performance. The f-statistics ($f=3.360$) obtained was large and the corresponding p-value was significant. The result indicated that institutional ownership was negatively related with firm performance while independent board chair significantly ($p<0.01$) moderated the relationship between indirect director ownership and Tobin's Q although negatively. The negative association was theoretically contrary to the agency theory, which suggests that presence of an independent chair is a good monitoring mechanism since the independent chair would ensure that the interest of directors who are the majority shareholders was aligned with the

interest of other shareholders (Jensen & Meckling, 1976). In addition, the result is theoretically in line with arguments based on the stewardship theory, which suggests that separating the role of CEO and chair could stifle the CEO's innovativeness, lead to lack of coordination and cause delay in decision-making (Donaldson & Davis, 1991).

This shows that with majority shareholdings by directors, independent dual board leadership may not enhance market performance. This is supported by the stewardship theory, which suggests that dual board leadership may not be an efficient monitoring mechanism as independent directors may lack experience about the business or industry (Donaldson & Davis, 1991). The control variable leverage was significant but negatively related with Tobin's Q while the remaining variables were insignificant.

TABLE 5
Summary of Multivariate Regression Based on Tobin's Q

	OLS	REM	FEM
Constant	0.008(6.903)***	0.008(6.575)***	0.010(6.320)***
DDO	0.007(1.716)*	-0.000(-0.392)	0.001(0.262)
IDDO	-0.008(-3.473)***	-0.000(-0.359)	-0.005(-2.216)**
IO	-0.000(-0.279)	-0.002(-2.066)**	0.000(0.446)
SO	-0.001(-0.904)	-0.001(-0.845)	-0.002(-1.21)
DDO*CINED	0.013(0.347)	0.004(0.130)	0.001(0.045)
IDDO*CINED	-0.006(-1.970)*	-0.008(-1.869)*	-0.023(-1.944)*
IO*CINED	6.61E(0.053)	-0.000(-0.482)	-0.001(-0.843)
GO*CINED	0.005(1.928)*	0.004(0.906)	-0.000(-0.035)
Firm size	0.030(1.298)	0.026(1.042)	0.019(0.642)
Leverage	-0.030(-6.030)***	-0.032(-4.841)***	-0.035(-3.678)***
Year dummies	7.94E(-0.087)	0.000(0.188)	0.000(0.277)
Year dummies	0.001(1.099)	0.001(1.457)	0.001(1.503)
Year dummies	-0.000(-0.217)	-0.000(-0.329)	-0.000(-0.574)
Year dummies	-0.000(-0.725)	-0.000(-1.049)	-0.000(-1.128)
R2	0.212	0.162	0.623
Adjusted R2	0.167	0.114	0.497
F-statistics	4.676***	3.360***	4.940***
Durbin-Watson	0.815	1.335	1.748
Hausman's Test	NA	10.025(0.438)	NA

NOTE: ***, **, * indicates significance at 1%, 5% and 10% respectively. DDO*CINED=interacting variable for direct director ownership and independent chair, IDDO*CINED=interacting variable for indirect director ownership and independent chair, IO*CINED=interacting variable for institutional ownership and independent chair, GO*CINED=interacting variable for government ownership and independent chair. CINED=independent board chair

ADDITIONAL ANALYSIS

Evidence presented in the literature shows that there is time difference between the time a corporate governance mechanism is instituted and the time it creates impact on the performance of a company (Haniffa & Hudaib, 2006; Ntim, 2009). Therefore, similar to previous studies (Arellano & Bond, 1991) and in order to control for the potential problem of endogeneity, the model was re-estimated using generalised methods of moment to determine the extent to which the result presented was robust to any potential endogeneity problem. Estimating a model based on the generalised method of moments (GMM) is one of the ways in which endogeneity might be addressed. The results of the estimation based on the GMM model are presented side by side with the results based on the FEM model in order to enable comparison. The results of the estimation based on least squares for ROA and Tobin's Q are presented in column 2 and 3 while the

results based on GMM model are presented in column 4 and 5 respectively.

The results obtained from the least squares model were similar to the results presented in Table 6 for the GMM except for small cases of sensitivities. The coefficient of interaction between direct ownership by directors and the independent board changed from insignificant to statistically significant under ROA and from positive to negative under Tobin's Q. The coefficient for interaction between indirect ownership and board chair changed from positive to negative under ROA and from significant to statistically insignificant under Tobin's Q while the coefficient of interaction between institutional ownership and board chair changed from negative to positive under Tobin's Q but remained insignificant. The coefficient of firm size changed from positive to negative under ROA. Lastly, the coefficient of leverage changed from statistically significant to insignificant under Tobin's Q but remained in the same direction.

TABLE 6
Summary of Estimation Based on Generalised Method of Moments

	least squares models		Generalised method of moments	
	ROA(FEM)	Tobin's Q (FEM)	ROA	Tobin's Q
Constant	2.654(2.566)***	0.008(6.575)***	-	-
DDO*CINED	-8.514(-0.377)	0.004(0.130)	-0.187(-1.699)*	-0.037(-1.274)
IDDO*CINED	0.040(0.0105)	-0.008(-1.869)*	-0.126(-1.499)	-0.005(-0.485)
IO*CINED	-0.239(-0.188)	-0.000(-0.482)	-0.017(-0.919)	0.003(0.685)
GO*CINED	5.551(1.580)	0.004(0.906)	0.016(0.5377)	0.015(1.627)
Firm size	11.755(0.621)	0.026(1.042)	-0.011(-0.0759)	0.023(1.051)
Leverage	-18.822(-3.689)**	-0.032(-4.841)***	-0.038(-1.720)*	-0.012(-1.580)
2007	0.287(0.580)	0.000(0.188)	-	-
2008	0.339(0.682)	0.001(1.457)	-0.002(-0.6953)	0.000(0.814)
2009	0.354(0.708)	-0.000(-0.329)	-0.001(-0.5266)	-0.000(-0.419)
2010	1.581(3.134)***	-0.000(-1.049)	0.005(1.235)	-0.000(-1.632)
R2	0.136	0.162	-	-
Adjusted R2	0.086	0.114	-	-
F-statistics	2.722***	3.360***	-	-
Durbin-Watson	1.794	1.335	-	-
Hausman's Test	16.129(0.096)	10.025(0.438)	-	-
J-statistics	-	-	2.279(0.1311)	0.073(0.786)
Wald test	-	-	87.574***	51.294***

NOTE:*, **, *** Significance at 10%, 5% and 1% level. Coefficient presented first and t-statistics in parenthesis. ROA=return on asset, REM=random effect method, fixed effect method. DDO=direct director ownership, IDDO=indirect director ownership, IO=institutional ownership, GO=government ownership, FS=firm size, LEV=leverage, CINED=independent board chair

Finally, although some variables were sensitive to the estimation of GMM model, overall, the results showed that the majority of the variables in the model were robust for estimation based on the GMM model and robust to potential endogeneity problem. The sensitivity could be explained by the time lag between the time the mechanism was instituted and the time it took to create impact on the relationship between the independent board chair and firm performance. It could also be the result of the reduction in the number of periods of observation and lastly, the problem in the model such as omitted variable bias could have accounted for the sensitivities.

CONCLUSION

Previous studies examining the impact of corporate governance on firm performance have only examined the direct influence of corporate governance mechanisms on firm performance while the moderating effect was not examined. This has led to conflicting and inconsistent findings on the impact of corporate governance mechanisms on firm performance. Absence of research on the moderating role of the independent chair means that the role of the independent chair has not been fully explored and understood. This paper examined the moderating role of the independent board chair in the relationship between ownership structure and firm performance. The study used a sample of 37 finance companies listed on the main market of Bursa Malaysia from 2007 to 2011 and yielded results indicating that an independent board chair negatively moderated the relationship between indirect

ownership by directors and Tobin's Q. The study provided evidence for the interacting role of the independent board chair in the relationship between ownership structure and firm performance. The findings suggested that the independent board chair influences the strength and direction of the relationship between ownership structure and firm performance. The findings implied that the recommendation of the central bank for companies to have an independent board chair may not be appropriate for companies with high director ownership if the companies want to get high market valuation.

The study highlighted the fact that although corporate governance mechanisms may enhance performance, their impact on performance may be indirect and could be influenced by the nature of ownership in the firm. The study was robust to the potential problem of endogeneity since the results obtained based on GMM model estimation are similar to the estimation based on the least squares model with the exception of a few cases of sensitivities. The study was limited to only finance companies and based on data related to a five-year period from 2007 to 2011. Future studies could increase the sample and observation period. Inclusion of unlisted companies and taking a sample from other sectors and economies could provide more evidence and enhance generalisability of the findings.

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