An investigation of the control role and effectiveness of independent non-executive directors in Malaysian public listed companies

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Abstract

Purpose – The purpose of this study is to ascertain the control role of independent non-executive directors (INEDs) in Malaysian public listed companies (PLCs), as prescribed in the Malaysian Code on Corporate Governance (MCCG).The MCCG (2000) requires substantive involvement of INEDs on the audit, nomination and remuneration board sub-committees. The study also examines the effectiveness of INEDs in discharging their monitoring roles in these sub-committees.

Design/methodology/approach – A qualitative research design consisting of a series of interviews with board members of Malaysian-owned PLCs on the board of Bursa Malaysia was used.

Findings – Interviews with 27 company directors reveal that, due to their independence, INEDs are crucial in safeguarding the interests of smaller investors if situations arise in which shareholders' interests may be threatened. The interviews also disclose that the audit committee possesses the most authority among the sub-committees, as it derives its power not only from the Listing Requirements but also from statute, as well as being involved in areas of the company not traditionally associated with the committee. The study also reveals the differences in opinion between executive directors and INEDs with regard to the extent of INEDs' effectiveness.

Research limitations/implications – This research utilises interviews. Generalisation may be an issue when interviews are used as the method of inquiry. In addition, the sample is not random, as access to many directors is dependent on recommendations. In addition, the respondents have been consciously selected to cover various board positions, including independent and non-independent directors.

Practical implications – The findings from this research suggest that INEDs are able to discharge their responsibilities in overseeing the conduct of executives and protecting the interests of investors. In addition, the interviews disclose that the effectiveness of INEDs depends on how non-executive directors view INEDs being on the board. Rather than focusing solely on their control role, INEDS are expected to have a more proactive and progressive role in ensuring sustainable growth and the expansion of the business entity.

Originality/value – There are limited studies using qualitative research design in investigating the effectiveness of INEDs in the control role of the board in developing countries. Prior studies were predominantly based upon the experience of Western economies.

Keywords Corporate governance, Malaysia, Interview, Effectiveness, Independent non-executive director sectors, Public listed companies

Paper type Research paper

Managerial Auditing Journal
Vol. 30 No. 6/7, 2015
pp. 582-609

0268-6902
DOI 10.1108/MAJ-09-2013-0936

1. Introduction

In the past two decades, much attention has been paid to a new paradigm of corporate governance reforms, particularly in developed countries, around the premise that a stronger governance system would ensure sustainable corporate accountability and performance (Taylor, 2004). The efforts undertaken by these countries to enhance the governance structures has resulted in the establishment of Corporate Governance Guidelines, such as the Cadbury, Hampel and Higgs reports in the UK, the Bosch Report in Australia and the Business Roundtable in the USA (Haniffa and Hudaib, 2006). The awareness of the importance of best practice in corporate governance has spread around the globe, encompassing developing nations, such as South Korea, Thailand, Indonesia and Malaysia. This awareness arose generally as a result of persistent corporate scandals in those countries, which intensified during and after the economic debacle of the East Asian Financial Crisis in 1997. Consequentially, the UK experience in reforming the corporate governance system, particularly through the Cadbury and Hampel reports, has had a major influence on Malaysian corporate governance strategy and reform (Ow-Yong and Guan, 2000)[1].

In Malaysia, ownership concentration is generally very high, and, as a result, the market for corporate control is not active (Thillainathan, 1999; Haniffa and Hudaib, 2006). This means that as ownership is significantly held in the hands of a few large shareholders, such as family owners, governments and institutions, monitoring by the market is less relevant. For example, Mat Zain and Subramaniam (2007) find that the Malaysian environment is characterized by a high power distance culture and communications between the heads of the internal audit function and the audit committee (AC) are infrequent and informal. Furthermore, they highlight the importance of a clear reporting line between the internal audit function and the AC (Mat Zain and Subramaniam, 2007).

The increased involvement of INEDs should provide a check and balance mechanism on the board. The Malaysian Code on Corporate Governance (MCCG) places high expectations on INEDs, whereby INEDs are expected to perform their controlling role on the company's management without any fear or favour by means of their involvement on the audit, remuneration and nomination committees. On the AC, the main function of INEDs is to evaluate the appropriateness of the system of internal accounting control[2]. Therefore, they must possess adequate knowledge and expertise and should be appointed based upon appropriate criteria, through a formal and transparent process involving a nomination committee. Based on the MCCG's (2007) requirements, INEDs are also expected to take the lead in setting executive remuneration through their involvement with the remuneration committee. Apart from demonstrating their commitment to the cause of the company, INEDs are to be supported by the company, most notably the company secretary to the board of directors to be uninhibited by any limitations in the effective performance of their duties. Spira and Bender (2004) state that, in the UK, the board's control role is performed by the audit, remuneration and nomination board committees; similarly, the MCCG recommends the same approach.

From the brief discussion above regarding the responsibilities of INEDs in the Malaysian corporate governance context, it appears that the fundamental recommendation of the MCCG is the monitoring of the actions of management. This view is consistent with the argument of agency theory in which an independent person is needed to solve agency conflict between the managers and shareholders. The recommendation was considered to be consistent at the time because the MCCG was established due to an urgent demand for businesses to exhibit greater transparency and accountability necessitated by the East Asian Financial Crisis (Ow-Yong and Guan, 2000). The theory emphasises that by performing a monitoring or controlling role, knowledgeable and expert independent directors and large shareholders would be able to prevent the management of a company from pursuing activities that benefit themselves rather than the shareholders (David and Kochhar, 1996; Hart, 1995; Hill and Snell, 1988; Ingley and van der Walt, 2004; Mallin, 2004; Solomon and Solomon, 2004; Shleifer and Vishny, 1997; Zahra and Pearce, 1989).

Using a qualitative or triangulation method, research in the USA and the UK has investigated other issues concerning INEDs apart from their influence on company performance, corporate disclosure or financial distress, which has resulted in a much fuller understanding of the nature and extent of their involvement in the corporate governance of the companies. Furthermore, Turley and Zaman (2004) and Cooper and Morgan (2008) have argued for a qualitative research design using the interview method for a better understanding of the proper functioning of the Board. Thus, having a similar research approach from a Southeast Asian country, which has been recognised as a high power distance nation (Hofstade, 1980; Mat Zain and Subramaniam, 2007) with a high concentration of corporate ownership, will provide a fuller understanding of the roles of these INEDs. This is especially important, as the MCCG has made significant reference to the UK's experiences, which are characterized by dispersed ownership. In addition, cultural variations have been argued to potentially impact on corporate governance practices in a multinational environment (Cohen *et al.*, 2004). Additionally, it will provide a wider platform for international comparison of accounting research (Wallace and Gernon, 1991), generalization of previous research findings and an opportunity for developing meaningful theories (Goodwin and Yeo, 2001).

Apart from studies pertaining to the association between variables, descriptive studies on issues relating to the involvement of INEDs in Malaysia are limited. The available Malaysian qualitative studies (Liew, 2007; Mat Zain and Subramaniam, 2007) on corporate governance do not focus on the roles of INEDs. For instance, while Liew (2007) investigates the concept of corporate governance within the Malaysian context as a whole, Mat Zain and Subramaniam (2007) only focus on understanding the perceptions of internal auditors concerning their interactions with the members of the AC, which mostly comprises INEDs (i.e. AC's effectiveness). In a similar Australian study using a qualitative approach, McCabe and Nowak (2008) only provide an insight into the concept of the independence of independent directors and not the roles they play on the board. Thus, this research sets out to fill the gaps in the current understanding of the Malaysian scenario by providing a detailed assessment exploring the nature and extent of the controlling role of INEDs on board sub-committees (i.e. AC, remuneration committee and nomination committee) of public listed companies (PLCs) in Malaysia, and the effectiveness of INEDs in performing their functions.

2. Literature review and research questions

This section reviews prior literature on the roles of board sub-committees (specifically the audit, nomination and remuneration committees [RCs]), paying particular attention to the role of independent directors within these committees. The control role entails independent directors overseeing the conduct of managers on behalf of shareholders and consists of determining executive pay and selection of board members, and ensuring managers do not expropriate shareholders' interests (Zahra and Pearce, 1989; Johnson *et al.*, 1996; Pye and Camm, 2003). According to Fama (1980), Mizruchi (1983) and Zahra and Pearce (1989), the oversight or control functions are often described as the most critical of the directors' roles. Due to the possibility that management may undertake actions that will be in their own interests instead of the shareholders (Wade *et al.*, 1990), the presence of INEDs on the board will ensure that there would not be any divergence of interests between the two parties. Correspondingly, this control role is spearheaded by the remuneration, nomination and ACs (Spira and Bender, 2004; Roberts *et al.*, 2005), whose composition is made up of a majority of INEDs. In Malaysia, the requirements for board sub-committees' composition have been clearly spelled out in the MCCG (2007). For the nomination and ACs, all members should be non-executive directors, majority of whom are independent (Principle VIII, Section AA, Part 2, and Principle I, Section BB, Part 2 of MCCG, 2007). As for the remuneration committee, the composition should comprise wholly or mainly of non-executive directors (Principle XXIV, Section AA, Part 2 of MCCG, 2007).

Along with the MCCG recommendation, research pertaining to INEDs in Malaysia has also largely applied agency theory as the fundamental line of reasoning. In addition, research on INEDs is predominantly focused on their impact on company performance through the controlling role that they perform. The proportion of INEDs on the board or board composition has either been shown to positively or negatively impact company performance (Abdullah, 2004; Ameer *et al.*, 2010; Kamardin and Haron, 2011; Haniffa and Hudaib, 2006; Rahman and Haniffa, 2003; and Tam and Tan, 2007). Other than company performance, their impact on firms' accounting disclosure (Haniffa and Cooke, 2002) and financial distress (Abdullah, 2006) has also been documented. The research design of the previous literature, including those in Malaysia, has been largely quantitative. On the other hand, there is a group of literature, such as Cohen *et al.* (2010), Beasley *et al.* (2009), and Turley and Zaman (2007), that has called for further in-depth research about corporate governance, particularly the AC, using interviews.

2.1 Audit committee – ensuring company's accountability

The rise of the AC is an international phenomenon and its formation is mandatory in many countries, such as the USA, Canada and even Malaysia, and is heavily advocated in the UK (Carson, 2002). However, the definitions of the AC are varied and are normally framed in terms of the membership and responsibilities of such committees, either broadly or in detail (Collier, 1997). Although there is no ideal definition of an AC, almost all the available definitions concur that the AC is a sub-committee of the board of directors, consisting predominantly of INEDs (Spira and Bender, 2004; MCCG, 2007). According to Bosch (1995) and Klein (1998), the primary function of the AC is threefold: to review the financial statements and financial reporting process; oversight of the external and internal audit process; and appraisal of the internal control system. Spira (2002) added that the AC would appear to represent the means by which the conformance role of the board might be more effectively achieved and, hence, the committee is to focus on issues of control and accountability[3].

To be effective in such an oversight role, the AC should comprise INEDs, as independence would enable the committee members to question the management actions or judgement, thereby helping to give assurance that the AC is functioning properly (Verschoor, 1990; O'Malley, 1994; Mallin, 2004; MCCG, 2007). In addition, Cotter and Silvester (2003) state that an independent AC can reduce agency costs by minimising the opportunistic selection of financial accounting policies, and by increasing the credibility and accuracy of financial reporting. Beasley (1996) reveals that firms not committing financial statement fraud are more likely to have an AC comprising a majority of INEDs. Dechow *et al.* (1996), Klein (2002) and Xie *et al.* (2003) show that an INED-led AC constrains earnings management practices, while Carcello and Neal (2003) report that AC independence reduces the likelihood of firms receiving a going concern report. Research has also shown that the AC enhances auditor independence (Beattie *et al.*, 2000; Fearnley and Beattie, 2004; Knapp, 1987). In turn, Spira (2002) indicates that external auditors may exert more influence in encouraging their clients to establish ACs, as they believe that, at no cost to the audit firms, the establishment of the committee enhances auditor independence.

Another factor that is claimed to enhance AC effectiveness is the background of the AC members. Principle I, Section BB, Part 2 of MCCG (2007) clearly states that for the members of the AC to effectively discharge their function, all members must be able to read, analyse and interpret financial statements. Chan and Li (2008) state that the USA Sarbanes–Oxley Act 2002 mandates corporate boards to include directors with financial expertise on their ACs. Spira (2002) states that the Cadbury Code in the UK highlights that the effectiveness of ACs will be reduced if the members lack the understanding of how to deal adequately with auditing and accounting matters. The academic literature tends to support this line of argument. Kalbers and Forgaty (1993) suggest that knowledge of the firm or industry can lead to an effective AC, which they define as the competency with which the AC carries out its specific oversight responsibilities. In turn, Knapp (1987) suggests that the general business background and accounting knowledge are more important in assisting audit members to perform effectively. Chan and Li (2008) find that expert INEDs in ACs enhance the firm's value, while Xie *et al.* (2003) find that AC members with a corporate and financial background are more likely to limit executives when engaging in earnings management. Defond *et al.* (2005) find significant positive abnormal returns around the appointment of accounting financial experts to the AC, but not around the appointment of non-accounting financial experts and directors without any financial expertise. Further, Soh and Martinov-Bennie (2011) provide similar evidence for ACs' possession of appropriate skills with emphasis on accounting and IT knowledge.

Despite the support shown in the above studies towards AC effectiveness, Spira (2002) argues that the results and discussion of effectiveness may become meaningless because, apart from reasons attributable to statutory requirement, there is a lack of research and findings regarding the purpose of the AC. This led Collier (1997) to suggest that the existence of the committee is a curious phenomenon. Hence, an important contribution and finding of the purpose of the AC is presented by Spira (2002) in her study that utilises the interview technique. She argues that an important and unacknowledged role of the AC is in the provision of comfort, through the process of ceremonial performance. The AC provides comfort to the main board through its specialist focus on delegated tasks. Comfort is then passed on by the board of directors to the external users of financial statements and the public report of the existence and activity of the AC boosts confidence that the company has high standards of corporate governance. She asserts that the AC performs a ceremonial role in addition to its practical operation, and that the ceremonial performance of the committee's existence is used by the full board to legitimise the company in the eyes of the external suppliers of finance, as well as act as a symbolic deterrent to fraud and incompetence within the company. The comfort generated by the performance of the audit role thus generates support for claims of organisational legitimacy and facilitates resource access. A similar approach was used by Beasley *et al.* (2009) to evaluate the oversight functions of the AC. They find that the AC performs both monitoring and ceremonial roles, using six specific AC process areas in their evaluation of its effectiveness. Cohen *et al.* (2010) report that the corporate governance environment has improved significantly in the post-SOX period, in that ACs are more substantially active and diligent. In the Malaysian context, Mat Zain and Subramaniam (2007) find reliance of the AC on the internal audit function as an essential ingredient for its effectiveness.

2.2 Remuneration committee – evaluate and determine executive pay

Executive remuneration is an area in which the interests of shareholders and management clearly conflict (Carson, 2002). As such, according to Mallin (2004), the area is always an issue that attracts a lot of attention from investors and the press. Consequently, because of this attention and an increase in demand for greater company accountability, there has been a substantial growth in the formation of RCs (Bosch, 1995). RCs are designed to determine and review remuneration packages for senior company officers (Carson, 2002), taking into consideration the company's needs and the interests of its shareholders (Cotter and Silvester, 2003). According to Kesner (1988), the responsibility of the RC is part of the central monitoring or control role of the directors. Therefore, an RC composed of INEDs would be able to minimise the risk of executives determining their own pay and, hence, reduce agency costs (Cotter and Silvester, 2003). Principle XXIV, Section AA, Part 2 of MCCG (2007) clearly mentioned that executive directors should play no part in decisions on their own remuneration.

Research pertaining to executive remuneration has been extensively investigated in the USA and the UK (Main *et al.*, 2008). Much of the research in this area has focused upon searching for economic relationships between top management pay, company performance and firm size (Veliyath, 1999). Apart from company performance, executive remuneration has been studied in connection with organisational strategy, tenure, the structure of internal incentives, social comparison process and intra-executive tournaments, the dimensions of board structure and control and information disclosure (Perkins and Hendry, 2005). However, Carson (2002) points out that there has been little research pertaining directly to the role of RCs or factors associated with the presence of RCs. The review of the literature resulted in the findings of several studies that have empirically examined the issue, either quantitatively or qualitatively. The findings indicate that RCs should be truly independent (Yermack, 1997; Vafeas, 2000), by assuring compensation levels are reasonable (Monks, 2001) to uphold shareholder interests. Conyon and Peck (1998) ascertain that the composition of the RC is important in aligning management pay and corporate performance. Newman and Wright (1995) find that RCs that had at least one executive member paid 20 per cent more to the chief executive officer (CEOs) than firms with independent RCs. This study is supported by Newman and Mozes (1999), who discover that the relationship between firm performance and CEO compensation is more favourable to the CEO when insiders belong to the committee. Belliveau *et al.* (1996) find that the chairman of the RC has a strong influence on CEO compensation.

An important fact relating to executive remuneration, as pointed out by Perkins and Hendry (2005), is that pay is largely defined by the market. Stiles and Taylor (2002) state that market forces work in executive remuneration by comparing the level of pay of other executives in relevant industry labour markets. Perkins and Hendry (2005) add that comparisons are achieved through the use of remuneration consultants, who conduct surveys and come up with benchmarks. In relation to this, Main *et al.* (2008) argue that the determination of executive pay may be a result of adherence to norms or rules of thumb that have become established practice rather than by virtue of the remuneration arrangements involving the INEDs of the RCs. Because these institutional factors may affect executive pay, Perkins and Hendry (2005) argue that, in rewarding the executive, the consideration that is most important for the INEDs is how the rewards will appear to the shareholders or public at large and not whether performance is being overvalued.

2.3 Nomination committee – identify and nominate directors

In the past, directors were often appointed based on personal connections[4], which often did not provide the company with directors with appropriate abilities for the particular board to which they were appointed (Mallin, 2004). In addition, Vafeas (1999) points out that, although, in theory, directors are appointed by shareholders, in practice, shareholders simply ratify candidates selected by the board. At the same time, Lee *et al.* (1992) note that although the board is legally authorised to ratify and monitor managerial decisions, they may be dominated by management through its influence over the selection of outside directors.

Hence, recognising that the nomination process is critical in making appropriate appointments of directors, various initiatives, such as the Combined Code in the UK and the MCCG in Malaysia, have advocated a formal, rigorous and transparent procedure to be undertaken by a sub-committee of the board, namely, the nomination committee (NC). Carson (2002) states that the NC has two functions. First, it is responsible for establishing what skills are required of a replacement or additional director and for approaching potential candidates. The second function, which, according to Carson (2002), is more critical than the first, is to review the performance of the board on a regular basis. There are certain benefits related to the formation of the NC. For instance, Andrews (1987) suggests that the use of the NC would enhance board independence. Also, Vafeas (1999, p. 200) advocates two advantages that could lead to the effectiveness of the appointment process by virtue of having an NC. First, NCs are likely to be more focused on the task at hand in comparison to nominations discussed at the full board level. Second, the environment within which an NC operates has limited or no insider participation and, hence, nominations are more likely to be consistent with shareholder interests. The above two functions of the NC have been clearly stated in MCCG (2007). The MCCG stresses that directors' abilities, knowledge and expertise are important criteria for INEDs to be appointed to the board via a fair process of appointment. The MCCG advocates these criteria, as they will enable the INEDs to effectively carry out the controlling and monitoring role that the MCCG recommends. In addition, MCCG (2007) also stresses on the importance of assessing directors on an ongoing basis (MCCG Principle VIII, Section AA, Part 2).

However, apart from suggestions concerning the NC's effectiveness, very limited attention has been given to it in terms of empirical research. Spira and Bender (2004, p. 498) even state that "[…] we are not aware of any studies which focus on NCs". Cotter and Silvester (2003) argue that NCs are not selected for their study because, first, unlike ACs and RCs, NCs do not have a distinct monitoring function that is related to management, as they are only concerned with the board. Second, NCs do not have legislative and institutional bases underlying their role, unlike the other two committees. The literature reviewed produced two noteworthy studies. O'Neal and Thomas (1995) conducted interviews with directors of US companies to study the effect of the directors' selection process on the board's strategic role, while Vafeas (1999) utilised statistical analysis to investigate the nature of NCs and their role in corporate governance. Two main findings from the O'Neal and Thomas (1995) studies reveal that NCs may not be effective. First, O'Neal and Thomas (1995) find that the directors' selection process in US companies often depends upon director networks, with the selection criteria mainly based on factors that do not contribute to board strategic effectiveness. Second, O'Neal and Thomas (1995) also find that board NCs had relied almost exclusively on the recommendations of current board members and that company directors kept a list of potential candidates who might serve their companies. Vafeas (1999), however, did prove the positive effect of having an NC. First, the NC can influence the independence of outside directors by selecting fewer affiliated or grey directors. Second, the study reveals that when NCs are formed, they are staffed by directors who have reputational worth and knowledge and who are most likely to guard shareholder interests. In addition, in another study, Lynall *et al.* (2003) and Hillman *et al.* (2000) find that companies alter the configuration of their board members as a response to changes in their external environment.

2.4 Effectiveness of INEDs in their monitoring role

The previous sections have discussed the expected monitoring roles of the INEDs in the various board's sub-committees (i.e. audit, nomination and remuneration committees). For example, in the AC, INEDs are expected to ensure company's accountability to shareholders. Furthermore, the issue of effectiveness of INEDs in discharging their monitoring role is also important to examine. The MCCG (2007) has clearly required the composition of an AC to fully comprise non-executive directors to strengthen the effectiveness of the AC[5]. Furthermore, the NC is also entrusted to ensure effectiveness of the board as a whole (Section X of Part AA of Part 2 of MCCG, 2000, 2007). This provides a motivation to examine the effectiveness of the INEDs in discharging their monitoring roles in various board sub-committees.

Klein's (1998) study is among the early studies that look into the directors' roles in board sub-committees. She finds little association between firm performance and overall board composition. However, by looking into the workings of the board via board committee composition, she finds a significant association between firm performance and the percentage of inside directors in the finance and investment committees. Similarly, Daily *et al.* (1998) assess the relationship between the composition of a firm's compensation committee and CEO compensation. However, they find no significant relationship between the variables. Earlier studies on board sub-committees have not been focused and comprehensive, as, at that time, there were still no comprehensive guidelines on board sub-committees. With the issuance of recent guidelines on corporate governance such as the MCCG (2000, 2007), discussions on board sub-committees have focused on three common sub-committees, which are the AC, NC and RC. Similarly, research has also developed further by looking into the roles of independent directors in these three sub-committees.

Abdullah *et al.* (2010), for example, examine the influence of AC and NC independence on financial restatements in Malaysia. Results are weak as AC independence is found to be associated with the likelihood of financial misstatement. However, minimal support is found where the NC of the firms that restated results is found to be less independent with higher managerial ownership. Pucheta-Martinez and Narro-Fores (2014), on the other hand, examine whether the composition and activity of the appointment and remuneration committee influence the remuneration of the members of the board of directors. Again, they failed to find a significant result between composition of the committee and directors' remuneration. They concluded that the committee in Spain is not effective in determining directors' remuneration.

The gaps in the previous literature on the effectiveness of independent directors in board sub-committees could be summed up into a few factors. First, a majority of the previous studies used quantitative approaches in addressing the issue. Second, much of the previous literature looked into individual sub-committees such as AC (Sun *et al.*, 2014; Kang *et al.*, 2011; Lary and Taylor, 2012) or RC (Pucheta-Martinez and Narro-Fores, 2014) or NC (Vafeas, 1999), in isolation from the other sub-committees of the board. With the requirements of MCCG (2007), the issue of effectiveness of board sub-committees should be addressed together. Finally, results of the previous literature on effectiveness of board sub-committees are still limited in Malaysia, as most of the studies are done in developed countries (Marciukaityte *et al.*, 2009) and are inconclusive (i.e. mixed findings) (Sun *et al.*, 2014; Capezio *et al.*, 2011; Kakabadse *et al.*, 2010). This current study re-examines again the issue of effectiveness of independent directors in board sub-committees using a qualitative approach. It is hoped that this study will be able to provide an alternative perspective in understanding the roles of independent directors and their effectiveness in discharging their duties.

2.5 Research questions

Based on the above discussion, the central research question of this study is – what is the nature and extent of INEDs' controlling role in the corporate governance of Malaysian listed companies? This will be addressed by the following research questions:

- *RQ1*. What is the nature of the control and monitoring role performed by independent directors, particularly within board sub-committees, in the Malaysian context?
- *RQ2*. How effective are independent directors in performing their control and monitoring roles in the Malaysian context?

3. Methodology

The purpose of the research is to ascertain the performance of the control role of INEDs in Malaysian PLCs as suggested by the MCCG. After considering the aims of this study and how similar prior studies were conducted, a qualitative approach, consisting of a series of interviews with board members, was chosen. This approach is also in line with the suggestion of having a more qualitative type of study in understanding how boards work (Cooper and Morgan, 2008; Pettigrew, 1992; Tricker, 1994; Turley and Zaman, 2004 and Leblanc, 2004). The selection of the sampling frame was done according to Hill (1995), McNulty and Pettigrew (1999) and Stiles (2001). The sampling was not done randomly, as it is not practical for this type of research design (Hill, 1995; McNulty and Pettigrew, 1999), as most access to board members is by way of recommendations and contacts due to the need to cover various board positions to enhance reliability. One of the problems associated with interviewing is a lack of accuracy in interview answers given by board members. Governance researchers have endeavoured to lessen this effect. McNulty and Pettigrew (1999), in investigating the degree of influence and power of part time board members, did not limit their interviews to those types of board members only. They also included interviews with inside directors, as these insiders, due to their proximity with and observation of the part-timers, will enhance the reliability of the interview results derived from interviews with the part time members. Judge and Zeithaml (1992) stressed that the combined assessment of all types of board members represents an improvement over methods that have surveyed only single board members. Hence, selection of the sampling frame was based according to Hill (1995), McNulty and Pettigrew (1999), Stiles (2001) and Kakabadse *et al.* (2010).

As with Stiles (2001), the sampling frame was made as large as possible consisting of board members who sit on PLCs of the main board, as well as being Malaysian-owned. The PLCs involved in the sample range from small, medium to large, based on the market capitalization. Nine of the companies are large, eight are medium-sized and the rest are small. Almost all the companies are Malaysian-owned to provide a good control for cultural and multi-ethnic effects on the roles of INEDs. Semi-structured interviews with the aid of an interview schedule were used to collect data (Appendix 1). The interview questions were developed based on a questionnaire survey that was developed based on the prior literature. This questionnaire survey was subjected to pilot testing to ensure that it was able to adequately cover the issues investigated, was applicable to the Malaysian corporate governance scenario and could be easily answered with a view to achieving a good usable response rate. Interviews were then conducted to gather much more in-depth discussions on the issues. Interviews were conducted with 27 directors from different PLCs in Malaysia (Table I) over a period of two months[6]. Interviews were conducted by the researcher himself. Nineteen of the interviews were introduced through recommendations, while eight agreed to participate via solicitation letters written to them. The interviewed directors include ten INEDs, eight CEOs, four executive directors, one executive chairman, two independent chairmen and two non-executive directors (NEDs). Interviewees have combined directorship experience of 414 years (simple average of 15.3 years) and sit on a total of 118 boards (74 current and 44 former), with the maximum being nine and the minimum one board. Based on the information presented in Table I, it is clear that the range of years of experience and the number of directorships are wide enough to provide views from different perspectives.

Independent directors provide benefits to the firm depending on whether their inclusion aids in establishing legitimacy by bolstering the public image of the firm. Bazerman and Schoorman (1983) state that an organisation's reputation can be affected by who serves on the board of directors and to whom the organisation is seen to be linked. Daily and Schwenk (1996) and Hambrick and D'Aveni (1992), in studies of firms facing bankruptcy, find support that directors may enhance the reputation and

Table I.
Background of directors who participated in interviews

Company PLCs	Board position of interviewee (and title awarded) Directors	Company size[7] Small to large	Experience in function as a director Years	No. of directorships Present	Past
C1	INED	Large	15	4	1
C2	CEO (Datuk)	Large	35	1	1
C3	CEO (Dato')	Large	30	3	5
C4	INED	Large	26	2	1
C5	INED (Dato' Seri)	Large	12	9	–
C6	INED (Tan Sri Datuk)	Large	5	5	1
C7	Independent chairman (Tan Sri)	Large	21	3	1
C8	CEO (Dato')	Large	12	2	–
C9	NED (Tan Sri)	Large	12	2	1
C10	INED (Dato')	Medium	5	2	–
C11	Executive chairman (Dato')	Medium	22	1	5
C12	CEO	Medium	25	1	–
C13	Independent chairman (Dato' Seri)	Medium	25	6	7
C14	CEO	Medium	15	1	–
C15	INED (Dato')	Medium	16	4	3
C16	CEO (Dato')	Medium	12	6	3
C17	ED	Medium	10	1	–
C18	ED (Dato')	Small	9	1	–
C19	CEO	Small	19	1	4
C20	NED	Small	5	1	–
C21	CEO	Small	10	2	2
C22	ED (Dato')	Small	7	1	1
C23	ED	Small	10	1	–
C24	INED	Small	11	2	3
C25	INED	Small	10	2	4
C26	INED (Dato')	Small	5	6	–
C27	INED (Dato')	Small	30	4	1
Average			15.33	2.74	1.63

credibility of the firm. In addition, D'Aveni and Kesner (1993) note that social status or reputation represents a significant measure of social capital, and D'Aveni (1990) argues that this type of social capital (i.e. status and prestige) can be established through membership of networks of boards of directors. The reputation and prestige of directors, in turn, can enhance the credibility and performance of the firm. Pfeffer and Salancik (1978, p. 145) succinctly argue that:

> Prestigious and legitimate persons or organizations represented on the focal organization's board provide confirmation to the rest of the world of the value and worth of the organization.

In Malaysia, the status of directors which in turn elevate the prestige of the organizations is obtained, among other ways, through the conferment of awards on them by the state of Federal Government in recognition of their achievements, either through business accomplishment or public services and contributions (e.g. Datuk, Dato', Dato' Seri, Tan Sri).

Twenty-three interviews were tape-recorded and transcribed, while notes were taken for the other four. Each interview lasted an average of one and a half hours. The responses were analysed using a cross case approach, as in Miles and Huberman (1994). This approach is a result of combining case-oriented and variable-oriented types of analysis. The data were reduced through coding and themes were extracted using a deductive method. Afterward, the data from the coded transcripts were entered into relevant matrices for data display to assist in the process of forming conclusions.

The summary of findings for each research question is presented in the following sections. Specifically, the discussions related to *RQ1* will be addressed in Sections 4.0-4.3, while discussions related to *RQ2* will be addressed in Section 4.4.

4. Control role of independent non-executive directors

The executives and non-executives interviewed for this study agreed that all NEDs are there to ensure that overall control is in place to safeguard the interests of the shareholders. Many of the interviewees drew attention to the importance of distinguishing between the types of NEDs present on the board – INEDs and non-independent non-executive directors. Both INEDs and non-independent NEDs performed a controlling role. However, many Malaysian companies are controlled by either a family or a group of shareholders who own, if not a majority, a substantial amount of holdings (Claessens *et al.*, 2000). As such, non-independent NEDs have a tendency to protect either their own interests or the interests of the majority shareholders who appointed them, while INEDs would place more emphasis on safeguarding the minority shareholders. An INED with a small company remarked:

> To say that we are there to protect the entire shareholdings is only theoretically true, because the executives and non-independent directors, who in Malaysia are also normally shareholders, would be looking more at their own interests. Hence, it is more correct to say that we are there to make sure that the interests of the minority shareholders are looked after.

The interviewees also agreed that board sub-committees (the audit, remuneration and nomination committees) are the means by which INEDs discharge their controlling function. This finding is consistent with the view proposed by Spira and Bender (2004), who revealed that INEDs were involved in ensuring accountability, determining executive pay and nominating board members. As noted by an INED of a large company:

> I strongly believe that executive or NEDs must be involved in the company through committee membership. By just being on the main board is not enough because sometimes a board meets less than 10 times a year, or, at the most, once a month. This is already considered to be very regular. But, even then, you cannot actively participate because you don't know what goes on within a month. So, by being in these committees, especially the AC, you get to know more about the operations, the strategy and the risks faced by the company. You get to be more involved with more information provided to you.

These committees present INEDs with a forum to make a fair and sequential process regarding respective areas of concern. INEDs represent either all or the majority of members in these committees, with the most senior of them elected as the Chairman of the respective committee. It was not unusual for the interviewees to explain in detail how their companies' sub-committees operate, some in accordance with the committees' terms of engagement and some through reference to the MCCG.

4.1 Audit committee – ensuring company's accountability to shareholders

All of the interviewees agreed that the AC is vital in upholding the company's accountability, which is consistent with the views of Spira (2002), Bosch (1995) and Klein (1998). Because compliance with accounting standards is mandatory, the committee will ensure that the company's accounting policies and reporting systems are adequate, which would then be verified by external auditors during the annual audit. The interviews also disclosed that INEDs would not, however, look into the details of the accounts, as this assistance is provided by the internal audit department, which is also involved in conducting control tests to determine the applicability of the systems and to identify any deficiencies. The MCCG (2000, 2007) states the need for the board to establish an internal audit function, which reports directly to the AC (Section 7 of Part BB of Part 2).

An INED with a small company remarked:

> Based on the report that we receive from the internal audit, we get the feel for the situation. Unless we suspect something is not right, we do not go beyond that in normal circumstances.

The above statement implies that INEDs in small companies, due to their limited resources, might rely more heavily on the reports by the internal auditors than INEDs in large companies.

Apart from ensuring that systems, procedures and processes are in place, the AC also ensures that management employs reliable, capable and knowledgeable personnel to work in internal audit and appoints appropriate external auditors. The interviews further disclosed that financial accounting and reporting systems are not the only preoccupations of ACs. The majority of the interviewees were of the opinion that the role of the AC nowadays has evolved, to a large extent, to encompass other areas of the company that include company strategy, and is not merely confined to its traditional role of overseeing the preparation of annual reports. The above view of the interviewees is consistent with the findings of prior literature on the enhanced role of the AC (Turley and Zaman, 2004; Mat Zain and Subramaniam, 2007). An INED with a large company remarked:

> The AC is involved in almost every aspect of the company. It has more to do than just be interested in checking whether the annual reports are prepared accordingly. We are also involved in strategic planning, from the earlier stage right through to monitoring its results.

Consequently, this finding may not be consistent with that of the study of Hoitash and Hoitash (2009), who state that the AC's task is to focus solely on ensuring the quality of the financial reports and its processes in the preparation of the financial reports. The interviews further disclosed that AC members would also be expected to meet on a more frequent basis now as Bursa Malaysia requires PLCs to report on a more frequent basis such as providing quarterly reports. Before the board gives its approval for any information, financial or non-financial, to be released by the company through announcements made in the public media, the committee is responsible for scrutinising the information to make sure it is reliable and complies with the requirements set by the regulators. Finally, the interviews revealed more information related to the accounting background of the AC members as interviewees noted that experience as an accountant, either formerly or currently in practice, would benefit the company greatly. These findings support Chan and Li (2008), Knapp (1987), Soh and Martinov-Bennie (2011), Xie *et al.* (2003) and Defond *et al.* (2005) who find that AC effectiveness is linked to having accounting and finance expert INEDs on the board. Nevertheless, concerns were expressed with regards to over-dependence on accountants on ACs. The reservations came about as a consequence of the new role of ACs, as discussed above, whereby the committee is now expected to be involved in strategic planning and control. Accountants were thought to be normally reserved in their estimates and outlook and may unwittingly be too calculative in their approach, thus restricting rather than enhancing the strategic process.

4.2 Nomination committee – select board members by nominating directors

The interviews disclosed that compared to the number of meetings that ACs have in a year, NCs only convene meetings when there is a need to consider the appointment of a new director. The interviews also revealed that the candidates for the post are vetted by analysis of his or her CV, as well as through information gathered from directors' networks. In addition, requirements that are usually examined and are of primary importance include experience and past achievements as well as the skills and knowledge considered vital to add extra value to those currently on the board[8]. These findings are supportive of Carson (2002) who states that the NC is responsible for establishing the required skills of a potential director and for approaching potential candidates.

The interviews disclosed that deliberations among NC members would focus upon the characteristics of the potential candidate. An interesting finding relates to the deliberations by NC members of expected contributions of potential candidates, either in the short- or long-term perspective of the company. Although they would have passed all the relevant criteria, some board members may only be contributory in the short-term. Once changes start to happen in the market or industry, his or her presence may no longer be attractive in the long-term. This last point is consistent with Lynall *et al.* (2003) and Hillman *et al.* (2000), who find that companies alter the configuration of their board members as a response to changes in their external environment. In the event of a tie in voting at the committee level, the Chairman of the NC will decide whether the candidate's application should or should not be brought to the full board for consideration. The Chairman of the board will put his vote to decide the appointment in the event of a tie at the full board level.

In contrast, 26 per cent of the interviewees, all of whom were from small companies, disagreed that the NCs of their companies operate in a way consistent with the MCCG's requirement that one of the responsibilities of the NC is to assess and recommend to the board the candidature of the directors (Principles VII – X of Section AA (The Board of Directors) of Part 2, MCCG (2000, 2007). These include the competencies of NEDs and the effectiveness of the board as a whole. The revised MCCG (2007) further strengthens the responsibilities of the NC to include assessing the independence of NEDs, although there is no specific threshold suggested by the Code. Instead of identifying potential candidates and making suggestions to the full board to consider, sometimes, it is left to either the Executive Chairman or the executive directors or the major shareholders, who will search for a candidate and recommend somebody to the committee, who will only then go through the verification process. After the verification process, the suggestion goes back to the parties who had made the recommendation for clearance purposes. This finding supports O'Neal and Thomas (1995), who find that the NCs of companies in their sample relied almost exclusively on the recommendations of existing board members. A CEO of one of the small sized companies provided an illustration of this point when he said:

> In this company, the Executive Chairman of the board will usually look for candidates and then will relay the names to the committee, which would then assess these candidates and present their findings and opinions. Although the candidates may not be appropriate for the posts, their recommendations may still be overruled when there is a "strong voice" present. The Chairman of the board will decide, and, generally, the committee will "rubberstamp" these decisions.

Consequently, this finding highlights the importance of appointing suitable and highly qualified INEDs who will add value to the board. This is further supported by Mallin (2004) who finds that directors who are related to the company often did not provide the company with appropriate expertise for the particular board to which they were appointed. NEDs who were nominated by majority shareholders or directors appointed through political appointments may not necessarily fit in with the balance of the board, which is where the INEDs may be required to put in extra time and effort in performing their role. On the other hand, it appears that the decisions to nominate the executive directors, who are usually selected from within by the CEOs or the Executive Chairmen, is a consequence of them being more knowledgeable in the overall operations of the company to a greater extent than the INEDs; in such cases the INEDs may not have much to say.

4.3 Remuneration committee – evaluate and determine executive pay

Moving on to RCs, 85 per cent of the interviewees agreed that executive remuneration is determined by the RC. Consistent with Conyon and Peck (1998), who ascertained that the composition of the RC is important in aligning management pay and corporate performance, the interviews disclosed that the committee is staffed by a majority of INEDs for the purpose of ensuring a fair remuneration process of the executives. The INEDs are expected to develop pay structures that are non-excessive and, at the same time, motivating, a finding that is in line with the suggestion made by Monks (2001).

The interviews further revealed that the RC is responsible for making recommendations regarding the basic salary at the beginning of each year and for proposing any salary increment or adjustment plus bonus payments, *vis-à-vis* key performance indicators at the end of the financial year. In developing key performance indicators, it is very important to develop indicators that are tangible and measurable, so that the directors know clearly what is expected from them. Therefore, more time is available to be spent on activities that will further enhance the value of the company. Consistent with Stiles and Taylor (2002), and Perkins and Hendry (2005), the interviews also disclosed that executives' pay is a matter of market mechanisms. Data from the interviews showed that this is generally done through benchmarking the pay with other similar sized companies in the industry. This is done to reflect the directors' market value. These data were often collated by the human resource (HR) department with the help of the company secretary.

In many circumstances, and consistent with Perkins and Hendry (2005), although INEDs' experience and knowledge will finally determine executive directors' remuneration, assistance was also sought from external consultants such as HR consulting firms. This finding supports the social comparison theory suggested by O'Reilly *et al.* (1988). The theory states that, due to the increased time commitment of directors, they will make comparisons with their own salary or the salary of other similar directors in determining the level of compensation. This is also supportive of Main *et al.* (2008) who argue that the determination of executive pay may be a result of adherence to norms or rules of thumb that have become established practice rather than by virtue of the RCs. The interviews also revealed that it is not difficult to set executives' remuneration as the committee is supported by the help of external consultants. A CEO with a medium-sized company typified the general feeling when he said:

> The remuneration process is not really time consuming. Most of the work is being done by the experts. We would ask the human resource manager to obtain samples or a survey of remuneration from HR consulting firms, after which we would review and choose the right package.

From the interviews, it was discovered that the difficult part of the whole process is in making recommendations and satisfying shareholders on directors' remuneration, especially regarding a package that is likely to be seen as excessive but, in actual fact, is reflective of remuneration principles. This finding is consistent with Perkins and Hendry (2005) who argue that in rewarding executives the consideration that is most important for INEDs is how the reward will appear to the shareholders or public at large, and not whether performance is being over-valued. Similarly, difficulties might exist in convincing fellow directors that their remuneration is adequate. The latter seldom arises, however, as an INED with a small-sized company stated:

> If they are not happy, they should have brought it to our attention. I think pay is something that people don't show so much disagreement about. At the executive level or the Chairman level, they are quite well rewarded through their fees and performance based bonus. It can be very lucrative.

The interviews disclosed that remuneration should be based on the performance of the company. However, the interviews also disclosed that the performance of the company should not be taken at face value and that great care should be applied in taking into consideration possible moderating external factors that may intervene in the company's actual performance, such as companies experiencing a turnaround or during general economic downturns.

On the other hand, 15 per cent of the interviewees (three from small companies and one from a medium-sized company) held the view that there are limitations on the effectiveness of the monitoring role of the INEDs in determining executives' remuneration. These INEDs would only review the recommendations of executive pay submitted by management, rather than establishing their own proposals. The interviews with this group revealed that this is done at a level just below the board, with the reason being that the management would be able to better evaluate their own performance, as they are involved in the day-to-day operations. The interviews disclosed that INEDs would not normally dispute these recommendations unless they appear to be extraordinary, in which case, probing questions would be asked to understand the reasons why. However, the CEO of a medium-sized company provided a damning argument on this point when he said:

> To me RCs are a waste of time. At the end of the day, the major shareholder or executive directors will still make the decision as to how much each director will get. The committee always takes direction from the major shareholder, and, more often than not, they are purely documenting what has been effectively decided by the major shareholder.

Finally, data from the interviews also indicated that there could be a link between the NC and RC in some of the companies. This link is established predominantly due to the same INEDs sitting on both committees and the existence of key performance indicators that could be set by the NCs and used as a basis by the RCs for salary adjustments and bonus payments.

4.4 Effectiveness of INEDs

The above findings establish that INEDs perform a control role. However, the interviews revealed that there is a difference in opinion between executive directors and INEDs in terms of the extent to which INEDs perform these roles[9]. Executive directors were of the opinion that INEDs should seek to achieve a more balanced act in performing their duties and should not be overly influenced by the MCCG's main thrust, which is directed more towards the element of control. The control role as contained within the MCCG is thought of as being passive while a more proactive and progressive role is welcome. Apart from focusing their time and efforts to safeguard the interests of the shareholders, INEDs must also ensure that shareholders value is delivered and achieved through sustainable growth and expansion. Some of the interviewees also believed that, by enhancing the value of the company through the performance of the other role (i.e. advising role), they would, in fact, indirectly safeguard shareholders' interests. Executive directors believed that too much focus on the monitoring role had somewhat blunted the overall effectiveness of INEDs, which eliminates their greater involvement in other important areas of the company, especially through their involvement in strategic decision-making. This is consistent with the findings of this study in that INEDs should be involved in more than just monitoring functions, which include involvement in strategic discussions. There were also indications from the interviews that a company must divert many potential resources, either financially or time-wise, to tighten procedures and comply with regulations. A CEO of a medium-sized company strongly advocates the need for INEDs to look beyond the monitoring role:

> The law talks about the protection of shareholders' interests but what is required by the market is something different. The directors must ensure that the organization operates within the acceptable limits of corporate governance, without losing focus on the strategic issues. It is more on risk management rather than risk avoidance, because in any business you cannot run away from risk. If the board of directors want to so called protect their position by avoiding risk, and, at the same time, avoid taking business opportunities, then you are not really serving the best interests of the shareholders.

The interviews also disclosed that some INEDs either lack the necessary knowledge and expertise or do not contribute as much as the board would like, despite possessing the required abilities. The commonly mentioned INEDs who lack knowledge are those who are either formerly or currently serving in the civil service. A CEO with a medium-sized company lamented:

> Former government servants must change their mind-set from government to corporate if they are to serve on corporate boards. We are talking about competitive advantage and

globalization and a director must be able to see the whole picture and be able to deal with new challenges and expectations. The problem is when a politician who comes from nowhere or an individual is appointed as a reward for being a top government servant just sits there on the board. You do not know where to push him, so you have to take him in.

In another area of concern, the interviews disclosed that INEDs could be too involved in the company's operations, over and above what is normally expected of them. It is considered to be crucial that INEDs are able to differentiate the fine line between being effectively involved at the board and at the management level. The interviews disclosed that it is imperative that the Chairman of the board takes charge of and understands the situation so that there is a very clear line concerning the separation of power and responsibility between the management and the INEDs.

On the other hand, INEDs were of the opinion that they had effectively performed roles expected of them and disagreed with the views put forward by the CEOs and other executive directors. INEDs believe that compliance and performance are equally important. Laws and regulations need to be complied with and followed and should not be set aside just so that the company could meet certain goals. INEDs believe that it depends on the attitude of executive directors to how they perceive the appointment of INEDs onto their boards. INEDs were of the opinion that if executive directors perceive that bringing in outside perspectives constitutes an impediment, they will be more reluctant to work co-operatively and may view INEDs as being of less importance. They would also negatively perceive the role of INEDs in overseeing their work. Consequently, executive directors prefer that certain board activities be kept within management, keeping INEDs more focused on compliance issues. INEDs emphasise the importance of board cohesiveness and they were also of the opinion that a good board is one in which every board member participates in board deliberations. Interviews with INEDs also disclosed that the role of INEDs is more to do with steering the company forward, and it is the management who are responsible for making things happen. An INED with a small company remarked:

To some extent we are effective. For one thing, we are not there everyday. We are just there for the meetings, usually four times a year at minimum. Your contribution is limited to these meetings. You are expected to give out ideas during these meetings, but how much can it be in such a limited time. The most you can do is to talk and suggest the next actions to be taken when the company is not performing. It's the management that runs the company and makes things happen and if nothing happens there is nothing much the INEDs could do.

The interviews disclosed that, in certain circumstances, INEDs might be constrained from contributing effectively by the set up and outlook of the company itself. In some companies, the management and activities have been defined by the government, while, in certain other companies, by the company's tradition, such as a company managed by the owners who have built the company up to become a listed entity. Because these companies have their own philosophy in place concerning how the company is run, INEDs in these companies would have to try as best as they could to discharge their duties and perform within the parameters that have been established.

The interviews also disclosed that as a consequence of having different types of directors on the board, there may come a time when differences of opinion occur. There were suggestions from some of the interviewees of groups forming among the directors. It was thought that this is not healthy for the proper functioning of the board and amicable solutions must be found for any course of action that will have an impact upon the shareholders, one of which is reflected through informed voting. This is where the Chairman plays an important role in making sure that the agenda is always right, all relevant issues are meticulously considered and every director is allowed the opportunity to voice their opinion. There were also suggestions that the Chairman's role is often underestimated, although, in reality, and in most circumstances, they hold a commanding presence on the board.

From the above, it appears that INEDs and executive directors may differ in their assessment on the extent of INEDs effectiveness. Executive directors were of the opinion that INEDs could be better utilised on the board in terms of how INEDs approach their work by wisely using their intuition and knowledge. INEDs, on the other hand, agreed that they have been performing to the standard expected of them and could have achieved more than the minimum required if they had received full management support and if there had been no outside interference. The interviews revealed that directors' evaluation programmes should be conducted annually to match directors' performance against the targets and to identify any gap in performance so that necessary action can be taken. This annual process should be taken seriously by all board members concerned and should not be treated as merely a box ticking exercise. The interviews also disclosed that directors are sent for training normally organised by the Bursa Malaysia Berhad or the Securities Commission, which come under the Mandatory Accreditation Training Programme. They agreed that, apart from being awarded mandatory points by the Securities Commission for participating in the programme, the programme is seen as a refresher course and as a means of escaping from work pressure, in creating or bolstering awareness of the importance attached to the directors' role and concomitant accountability. Interviewees were of the opinion that by attending the courses there could also be something new to learn that could increase or update their knowledge and which could contribute to their board effectiveness in a small way. In addition, there were indications that directors without financial and business backgrounds or relevant academic qualifications would benefit from attending this programme. Although some of the interviewees feel awkward when attending the training, they believe that those with plenty of experience could contribute through dialogue and two-way communication during the course of the programme.

5. Discussion and conclusion

The interviews revealed the importance of distinguishing between the two types of non-executive directors in Malaysian PLCs, INEDs and non-independent NEDs. The latter are appointed to the board primarily to monitor the interests of large, often family or government, shareholders. Due to their independence, it is the INEDs who are crucial in safeguarding the interests of smaller investors if situations arise in which their interests may be threatened (Wade *et al.*, 1990; Mallin, 2004; Dechow *et al.*, 1996; Klein, 2002). The interviews also disclosed that the AC possesses the most authority among board sub-committees. There is a clear indication that there is a differing level of authority with which the committees perform their roles. This difference in authority among the three committees was clearly mentioned by four (15 per cent) of the interviewees when they associated the AC with being more powerful and its INEDs with being more authoritative in their job, as compared to the NC and RC. Another six (22 per cent) interviewees also generally agreed with the above opinion, albeit without explicitly using the word "powerful". The main reason given by these respondents is that an AC is not only a listing requirement but is also statutory a requirement under the Companies and Securities Commission Acts. The finding is consistent with Cotter and Silvester's (2003) description of board committees in Australia. It was also disclosed that the impact of the AC is felt in areas of the company not traditionally associated with the committee. This includes being involved in company strategy, especially in the monitoring of progress and the evaluation of final outcomes. This finding may not be consistent with Spira (2002), who states that the AC focuses solely on issues of control and accountability. Meanwhile, RCs and NCs are positioned more towards a best practice approach rather than a strict requirement. This point was highlighted by Shim (2006) and is consistent with Cotter and Silvester's (2003) description of board committees in Australia, although neither study documented the different power that exists as a result of this arrangement. Another possible reason given by some of the interviewees is the fact that ACs predominantly deal with tangible and measurable activities, such as the annual reports, while there is more subjectivity involved in selecting suitable candidates and in determining executive salary and bonuses. In addition, the influence of the AC is seen to be expanding to encompass more areas of the company, such as in company strategy, unlike the other two, which are more restricted in their functions. At the same time, in some of the interviewees' companies, the NC and RC were subjected to the influence of management, calling their credibility and existence into question.

The study also reveals differences in opinions between executive directors and INEDs with regard to the extent of INEDs' effectiveness. The main contention of executive directors pertains to INEDs being more focused on conformity and control, which may preclude their active participation in performance aspects of the company, most notably company strategy. Another comment concerns INEDs who lack necessary knowledge and expertise, mostly directed towards those who were previously government servants, as well as directors who, on occasion, are not inclined to contribute, despite having the appropriate background to do so. Executive directors also voiced their displeasure in instances when INEDs were seen to be too involved in the company's operations. On the other hand, INEDs believe that they are very effective in their role and insist that although they are first and foremost there to ensure rules and regulations are followed, they are also very supportive in other areas. The interviews disclose that INED effectiveness depends on how executive directors view INEDs being on board, with positive views leading to the cohesiveness of the board and a higher level of tolerance. The INEDs were also of the opinion that in some companies they could perform better than they were currently doing if they were not constrained by the management and set up of the company.

In conclusion, despite the distinctive ownership structure of Malaysian listed companies, and taking a broad view of the findings, the roles played by INEDs are similar to those in developed nations. However, a closer observation of the interview responses concerning how these roles are being performed in highly concentrated ownership contexts serves as a major contribution of this study. For example, the interviews revealed that in government- and family owner-controlled companies, the effectiveness of INEDs is influenced by the intervention of the government and family owners. The government and family owners usually maintained significant ownership of the companies. The study also revealed that the effectiveness of INEDs depends on the communication between INEDs and non-independent NEDs in these companies, as there is anecdotal evidence that the appointment of non-independent NEDs is usually a proxy of large shareholders such as the government and family owners. Because of that there is a possible tension or problem in the communication between INEDs and non-independent non-executive directors. In addition, the study is among the few qualitative studies on the roles of INEDs. Further, because the study was on Malaysian PLCs on the board of Bursa Malaysia, the findings may not be generalised to private companies or unlisted companies. In addition, the study sought the perceptions of only directors, who do not necessarily represent the views of other stakeholders in companies. Thus, there is a need for further research on the perceptions of shareholders, institutional investors, analysts (foreign and local) and regulatory agencies for further insights on the issue.

Notes

1. This has been clearly stated in the Malaysian Code on Corporate Governance (2000).
2. This requirement is legislated through the Listing Requirements for public listed companies.
3. In relation to this, Spira (2002) argues that the very existence of an AC and chances of detailed enquiry by its members may be sufficient to discourage potential mismanagement and fraud and effectively secure sound corporate governance. Menon and Williams (1994), however, assert that ACs need to be active and merely requiring the formation of the committees may not achieve their intended purpose.
4. O'Neal and Thomas (1995) provide some evidence that directors' personal, professional and social networks play an important role in their director selection process.
5. This is clearly stated in the Principle I of Section BB of Part 2 of MCCG (2007).
6. The exact period is from November 2006 to January 2007. It is considered an appropriate period, as the MCCG (2000) already stressed the substantive involvement of INEDs on all three board sub-committees (i. e. audit, nomination and remuneration). This has been further increased in the revised MCCG (2007).
7. Based on market capitalization, the top 100 companies are considered as the large companies. The companies that ranked between 101 and 500 are considered as medium companies. Those companies that ranked higher than 500 are considered as small companies. This is consistent with the approach used by the report of the Minority Shareholder Watchdog Group (2012) in 2012.
8. Conspicuously, academic qualifications are not high on the list of priorities.
9. Opinions of non-independent NEDs could not be formed, as there were only two non-independent NEDs and, therefore, their views were limited.

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Appendix 1. Interview guide: research into the nature and extent of involvement of independent non-executive directors in the corporate governance of companies listed on the main bourse of Bursa Malaysia Berhad

Interview Survey Questions for members of the board of directors

Interview schedule
Date: _____________

Time: _____________

Place: ____

Introduction.
Thank for time and effort.
Mention nature, relevance and importance of survey.
Assure interviewee of absolute confidentiality.

SECTION 1: BACKGROUND INFORMATION

Name of participant: ____

Name of organization: ____

Current position: ____

Number of years experience as a board member:__________________________Years

Number of directorships in public listed companies served:

Currently: _____________________ Formerly: _________________

SECTION 2: ROLES OF INDEPENDENT NON-EXECUTIVE DIRECTORS

1. Do you believe that safeguarding the interests of all shareholders (i.e. enhancing company accountability to shareholders) is arole and responsibility of independent non-executive directors?

- If 'yes',how do they discharge this role?
- If 'yes', do you think board committees (audit, remuneration, nomination) are means of safeguarding these interests? In what way each committee contribute to this cause?
- If 'not', why not?

2. On the overall, do you think your independent non-executive directors are effective in the performance of the following role?

    i. ensuring company's accountability to shareholders
    ii. selecting board members thorough the identification and nomination process
    iii. evaluating and determining executive pay

    - If 'yes', why do you think they are not effective?

    - If 'not', why not?

Figure AI.