Board Effectiveness and Company Performance in Malaysian Companies

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Abstract

The separation of ownership and control in companies limits the involvement of shareholders in management decision-making. Therefore, shareholders have to rely on the board of directors to evaluate and challenge management decisions. The way a board discharges their duties is referred to as the board process. This study examines the relationship between board process and company performance of Malaysian public listed companies. This study used two types of data; a questionnaire survey of Malaysian directors and data derived from company annual reports from 2007 to 2009. Based on a sample of 175 companies, the findings of the study reveal that board's risk oversight and performance of independent directors are positively correlated to company performance. However, CEO performance evaluation and directors' accessibility to information have no effect on company performance. Overall findings are expected to serve as a basis for more effective corporate governance policies and practices in Malaysia in ensuring the sustainability of the listed companies.

Keywords: Board process; Performance evaluation; Risk oversight; Independent directors; Company performance

1 Introduction

Most shareholders are unable to get involved in management decision-making due to the separation of ownership and control in modern public listed companies (Berle & Means, 1932). From the agency theory perspective, shareholders have to depend on board of directors as the board is one of the important mechanisms that monitors management decisions and protects shareholders interest (Jensen & Meckling, 1976). However, shareholders are disadvantaged if management decisions turn out to be inefficient and risky due to poor monitoring by the directors. The cases of Bear Stearns and Lehman Brothers in the United States and Satyam in India have shown the evidences that ineffective board lead to company failure.

In measuring the effectiveness of the board, attention is focus on how directors discharge their duties, referred to as the board process (Macus, 2008). As board structure alone does not reflect the quality of a board, studies related to the board process are highly demanded. This is supported by Stiles and Taylor (2001) in asserting that board structure is a pertinent variable to focus on, however, the real contribution comes from studying the credibility of the directors and how they work. The limited study on board process "is possibly due to the difficulty of gaining access to boards" (Wan & Ong, 2005, p. 287). The current study fills an important gap in board governance studies (Finkelstein & Mooney, 2003) as many areas of the topic in prior studies have not been explored fully. The difficulty in collecting data from directors is not an excuse, albeit a factor.

Pugliese, Nicholson and Bezemer (2015) and Leblanc (2004) stress that studying the board process will provide a better understanding of how boards work and their impact on company performance. Therefore, the objective of the study is to determine the relationship between board process and company performance. Four broad dimensions are identified as essential for representing board process: the performance of independent directors, board's risk oversight, CEO performance evaluation, and directors' accessibility to information.

The paper is organized as follows. In the following section, the predictions on the influence of board process on company performance are presented. The third section presents the research methodology followed by the research findings in the fourth section. Finally, the discussion and conclusion of the study is presented in the last section.

2 Literature Review

2.1 Board process - Board's risk oversight

Murphy and Brown (2009) argue that having a board with less responsibility on risk management can lead to company failure. Thus, a board's challenge is to manage risk effectively (Tricker, 2015; Cheah & Lee, 2009). Even though the ultimate responsibility for risk management is not on the board's shoulders, an effective board should provide "direction, authority and oversight to management" (Sobel & Reding, 2004: p. 31).

A board's influence on risk management is an important aspect of the board process particularly in decision-making activities (Tricker, 2015; Bostrom, 2003). A board should question management regularly on risks that the company perceives to face (Raber, 2003). Malaysian Code on Corporate Governance (MCCG, 2012) and Sobel and Reading (2004) point that a board must be actively involved in the risk management process by providing expertise and judgment to the strategic process, determining the risk tolerance in order to guide senior management to make good decisions, empowering senior management to manage risks within an accepted risk tolerance, and monitoring the risk management process. In supporting of these arguments, Zattoni, Gnan & Huse (2015) and Dulewicz and Herbert (2004) discover that a board that evaluates current and future internal and external risks of a company will have a positive impact on company performance. On the other hand, poor risk oversight by board members on actual business operation can produce huge losses for companies (Murphy & Brown, 2009).

2.2 Board process -Performance of independent directors

The essential functions of independent directors are to provide unbiased judgment that is in the best interest of shareholders and company (Yeap, 2009; Leblanc, 2004) and monitor the decision-making activities independently (Guo & Masulis, 2015; Cong, Fei & Min, 2015; Shamsher & Zulkarnain, 2011; Fama & Jensen, 1983). In order to become an effective non-executive director, such a group should also have an appropriate level of knowledge about the company and update their information on any major events that may potentially occur, for example, bankruptcy, merger or changes in regulations that affect the company (Finkelstein & Mooney, 2003). They also need an ongoing informal connection with the executives. Roberts, McNulty and Stiles (2005, p.13) refer to such relationship as "engaged but non-executive". Besides, they must also be able to provide outside practical input during board deliberations which derives from their own professional experience (Mueller, 1974).

In Malaysia, the Malaysian Code of Corporate Governance (MCCG, 2007), MCCG (2012) and Securities Commission urge independent directors to be effective and responsible when performing their roles. Effective independent directors should have broad skill sets and experience, capable of providing a check and balance during boardroom deliberation and understand the company business. Such characteristics will improve both company's value and its sustainability (Yeap, 2009). Hasnah and Hasnah (2009) provide evidence that those independent directors who are able to provide unbiased viewpoints contribute to positive company performance. Thus, performance of the independent directors is positively associated with company performance.

2.3 Board process - CEO performance evaluation

Performance evaluation is a process of managing performance wherein regular evaluation, feedback and counseling are incorporated (Tricker, 2015; Gomez, 2010). Agency theory supports that management actions and decisions should be monitored and evaluated by the board, and those evaluations will influence CEO behavior. The tools for measuring performance can be in the form of key performance indicators (KPI)[1].

This evaluation brings benefits to the CEO and the company as a whole. The evaluations will influence the decisions of promotions, transfers, or terminations. In addition, it identifies areas where a particular person needs assistance, for instance, additional self-development training. Further, the evaluation provides feedback to the CEO on how the company views his or her performance for a specific time period (Robbins & Judge, 2009; Dulewicz & Herbert, 2004; 1999). Further, board evaluation is able to become the basis for allocations of rewards (Robbins & Judge, 2009; Zahra & Pearce, 1989).

The MCCG (2007) recommends that the effectiveness and contribution of every director, including the CEO, needs to be assessed. Therefore, it is expected that effective performance evaluation will act as monitoring mechanism. A reflection of the CEO's performance can be seen from company profitability. CEO will place extra attention on the decision making process to bring wealth to the company. Kula and Tatoglu (2006) and Kula (2005) find that an effective performance evaluation contributes to positive company performance.

2.4 Board process - Directors' accessibility to information

Directors are more likely to have better quality of decision-making when having sufficient access to company information (Tricker, 2015). Adequate information enhances directors' knowledge and understanding of company business activities, financial performance, company strategies, and various other parties that have interest in the company. Therefore, directors will be able to ask and challenge the ideas of the CEO or senior management regarding any decision (Zahra & Pearce, 1989; Finkelstein & Mooney, 2003). It also can prevent management or controlling owner from manipulating other board members. Further, more information accessed by directors allows better problem-solving during board deliberations (Macus, 2008), establishment of sound strategies, accountability to shareholders (Kula, 2005) and preparation for discussion inboard meetings (Finkelstein & Mooney, 2003).

The MCCG emphasizes the importance of directors having access to company information. Directors are allowed to hire professionals for advice and the cost is borne by the company to enhance directors' knowledge. Hasnah and Hasnah (2009) find evidence on the relationship between board's role in acquiring company information and company performance. They find a positive association between these two variables. Besides, Kula and Tatoglu (2006) assert that directors' accessibility to information is the key component of company performance. Thus, an effective approach for accessing company information is expected to have a positive influence

[1] As suggested by Bursa Malaysia in *Corporate Governance Guide: Towards Boardroom Excellence*.

on company performance.

3 Methodology

This study aims to determine the relationship between board process and company performance. A combination of a survey approach and gathering of secondary data for three years; 2007 to 2009 were used. Public listed company is treated as the unit of analysis. There were 686 companies listed on the main board for the year 2009 (after excluding companies which are listed under financial sector, new companies that are listed in 2007, 2008 and 2009 as well as PN17 and Ammended PN17 companies. The year 2009 was chosen, as it was the latest financial year that all published annual reports were made available at the time data collection for this study began.

In relation to board process, previous studies have used the survey questionnaire to measure the effectiveness of directors (Hasnah & Hasnah, 2009; Kula & Tatoglu, 2006). The questionnaire was developed based on previous literature and inputs from three representatives of two regulatory bodies and three directors of public listed companies. Further, a pilot test was conducted to avoid any errors in the instruments and questions used in the questionnaire. Overall, 30 directors were involved in the pilot study. The full survey was conducted in June 2010.

Four copies of the questionnaires were sent to company chairmen, independent directors, non-independent non-executive directors, and executive directors via the company secretaries. The responses from those directors who represented the same company were averaged. Nevertheless, due to the difficulty of getting responses from directors, a minimum response from a single director was considered sufficient to represent the company. Then, the responses from the questionnaire were matched against secondary data for that particular company. This study used one initial mailing and two follow-up phone calls to company secretaries.

3.1 Measurements

3.1.1 Board process

In relation to board process, this study utilizes four board process; board’s risk oversight, performance of independent directors, CEO performance evaluation and directors’ accessibility to information.

With regards to board’s risk oversight, eight statements represented this construct. The first statement, “board communicates on risk tolerance to senior management” was taken from Sobel and Reading (2004). As suggested by Raber (2003), three statements were included, namely, “board raises concerns about risk management”, “board receives update from senior management on risk management matters” and “board requires senior management to deliberate on emerging risks that the senior management perceives the company will face”. Meanwhile, “members of board encourage senior management to use scenario analysis in identifying potential vulnerabilities” was taken from Finkelstein and Mooney (2003). Besides, the “board has necessary financial knowledge to analyze financial statement” was adopted from Murphy and Brown (2009) and “board reviews its strategy during crisis” was taken from Carey, Patsalox-Fox, and Useem (2009). Further, as suggested by Wyman (2009), the statement, “board attends relevant risk management training” was included. In measuring the board’s ability for risk oversight, 5-pointLikert-scale was used. The statements were measured on a scale ranging from strongly disagree = 1 to strongly agree = 5. Higher scores indicate higher ability of a board to monitor company risks.

Meanwhile, ten statements were adopted from Ingley and Van der Walt (2005) to represent the performance of independent directors. These statements include, for example, "quality of independent directors' contribution in board committees" and "independent directors' understanding of company business". The statements were measured using a Likert-scale ranging from very poor = 1 to outstanding = 5.These statements were measured using a Likert-scale ranging from very poor = 1 to outstanding = 5. Higher scores indicate greater independent directors' performance.

In relation CEO performance evaluation, eight statements were designed to represent the construct. Two statements were adopted from Dulewicz and Herbert (2004; 1999), namely "board communicates to the CEO on his/her success based on the evaluation result and "board communicates to the CEO on his/her failures based on the evaluation result". Additionally, two statements from Finkelstein and Mooney (2003) were included in the questionnaire; "board evaluates CEO by using key performance indicator" and "board establishes an exit mechanism tied to CEO's performance". Meanwhile, "board accepts feedback from CEO during the process of setting KPI" and "board provides avenue for CEO to explain the state of CEO's performance" were taken from Taylor, Tracy, Renard, Harrison, and Carroll (1995). A statement from Epstein and Roy (2005) was also included, namely, "board communicates their expectations clearly to the CEO". The statement "board implements a reward system based on long-term performance" was taken from Wyman (2009) and added to the questionnaire. The statements under this construct were measured using a 5-point Likert-scale ranging from strongly disagree = 1 to strongly agree = 5. Higher scores represent high effectiveness of a board when evaluating CEO's performance.

In measuring the directors' accessibility to information, five statements with a scale ranging from strongly disagree = 1 to strongly agree = 5 were used. Four of these statements were adopted from Sang-Woo and Il (2004) and MCCG (2007): "directors have access to information via management", "when directors need to refer to company business records and books of accounts, their access is denied", "when outside professional services are needed, the expenses will be borne by the company", and "directors receive sufficient materials/information before board meetings". Meanwhile, the statement, "directors discuss issues thoroughly with management" was adapted from Ingley and Van der Walt (2005). Higher score indicates good access of information by the directors.

3.1.2 Company performance

Return on equity (ROE) represents the company performance measurement. It is determined by dividing net profit with the average shareholders' equity. This performance indicator has been used in previous studies on board structures (Uadiale, 2010; Hsu-Huei, Paochung, Haider & Yun-Lin, 2008; Shamsul Nahar, 2004). Even though there is no consensus on the best measurement to use for financial performance, the most important criteria is that the result should reflect the shareholders and accounting returns (Cochran & Wood, 1984).

3.1.3 Control variables

Four control variables, namely sector, size of company, company age, and leverage were included in the study as these variables are likely to produce bias for the results. This study includes only five sectors in representing the control variable which are industrial products, trading/services, consumer products, construction and others. This study excluded companies that involved in financial, REITS and close-ended-fund industries, as they have a different nature of business and regulation. The sectors are represented by dummy variables. However, the number of dummies used is one less the number of sectors categories (m-1), leaving out the dummy variable for others. Thus, the usable sectors are industrial product, construction, consumer product and trading and services. Meanwhile, log of total assets is used as the proxy for company size (Noor Afza & Ayoib, 2009; Driffield, Mahambare & Pal, 2007). Company age is measured by referring to the year of listing and subtracted from the date of financial year ending in 2007, 2008, and 2009. Company leverage is represented by debt ratio in which total debts is divided by total assets. The measurement of company leverage has been used in previous studies (Noriza, 2010; Suto, 2003; Yu, Rwegasira & Bilderbeek, 2002; Berger, Ofek & Yermack, 1997; Friend & Lang, 1988).

4 Results

4.1 Survey Respondents

From 686 companies listed (after excluding companies listed in the financial sector, new companies listed in 2007, 2008 and 2009 as well as PN17 and amended PN17 companies), a total of 186 companies responded to the survey. Out of these, nine were incomplete and two companies returned the questionnaire, leaving 175 as usable sample. According to the company secretary of two companies that returned the questionnaires, the companies have to uphold to its policies dictating that board members are not allowed to disclose their practices to outsiders. As a whole, the response rate was 25%.

Out of 175 companies, 139 have single respondent and 36 companies with multiple respondents. Similar to Wan and Ong (2005), an inter-rater reliability test was carried out individually for every company that had more than one respondent to determine the level of agreement between directors in the same company. The interclass correlation coefficient shows a level of correlation coefficient (r) of board process variables in the range between 0.72 and 0.96. These values of correlation (r) are acceptable to indicate that the respondents do have the same direction or perception towards their boards as a whole. For analysis purposes, the average scores of questionnaire items were used for companies with multiple respondents.

4.2 Factor Analysis

A factor analysis on 31 items that relates to board process is conducted and four factors are extracted. The first factor (F1) consists of the statements on the effectiveness of independent directors. The second factor (F2) is labeled as CEO performance evaluation. The third factor (F3) refers to board's responsibility on risk oversight and the fourth factor is labeled as directors' accessibility to information. The scale reliability for each factor under board process was calculated. Internal reliability test presented strong Cronbach Alpha values for every factor ranging from 0.722 to 0.935; performance of independent directors (0.935), CEO performance evaluation (0.925), board's risk oversight (0.911) and directors' accessibility to information (0.722). Following Nunally (1978) suggestion, the values above 0.7 are acceptable. Thus, the four factors under board process demonstrate a satisfactory level of reliability. Table 1 presents the results of factor analysis.

Table 1. Results of factor analysis

Statements	**1**	**2**	**3**	**4**
Ability to provide strategic vision	0.775			
Effectiveness of independent directors in representing the interests of shareholders?	0.757			
Relationship with senior management	0.696			
Effectiveness of independent directors in representing the interests of stakeholders?	0.688			
Understanding of company business	0.677			
Contribution in board committees	0.650			
Record of constructively challenging and debating issues during board meetings	0.650			
Relationship with the CEO	0.601			
Ability to apply industries experience	0.601			
Interactive communication of independent directors with other board members	0.536			
Board communicates to the CEO on his/her success based on the evaluation result		0.835		
Board evaluates CEO by using KPI		0.786		
Board establishes an exit mechanism tied to CEO's performance		0.737		
Board implements a rewards system based on long term performance		0.724		
Board communicates to the CEO on his/her failures based on the evaluation result		0.721		
Board provides avenue for CEO to explain on the state of CEO’s performance		0.712		
Board communicates their expectations clearly to the CEO		0.708		
Board accepts feedback from CEO during the process of setting KPI		0.677		
Board requires senior management to deliberate on emerging risks that the senior management perceives the company will face			0.789	
Board receives updates from senior management on risk management matters			0.731	
Board raises concerns about risk management			0.712	
Board communicates on risk tolerance to senior management			0.699	
Board attends relevant risk management training			0.678	
Board reviews its strategy during crisis			0.648	
Members of board encourage senior management to use scenario analysis in identifying potential vulnerabilities			0.614	
Board has necessary financial knowledge to analyze financial statements			0.584	
Directors discuss issues thoroughly				0.830
Directors have access to information via managers				0.816
When directors need to refer to company business records and books of accounts, their access is denied				0.726
When outside professional services are needed, the expenses will be borne by the company				0.726

Table 1(continued)				
Directors received sufficient materials/information before board meetings				0.759
Eigen value	12.720	3.09	1.99	1.89
Percent variance explained	19.067	17.318	15.923	11.193
Cumulative per cent	19.067	36.385	52.309	63.501

Note: K-M-O measure of sampling = 0.911 Barlett's Test of Sphericity is significant; p<0.000

4.3 Descriptive Statistics

From the responses gathered and analyzed, the results indicate that industrial products represent the highest number of observations at 59, followed by trading/services (46), consumer products (23), construction (22) and others (25). A summary of the companies selected for this study along with their industry composition is shown in Table 2.

Table 2. Summary of the distribution of sample companies by sector

Sector	**N**	**Percentage (%)**
Industrial product	59	33.71
Trading/ services	46	26.29
Consumer product	23	13.14
Construction	22	12.58
Others	25	14.28

As shown in Table 3, the results indicate that the mean figure of ROE is 3.36. As the study data included years 2008 and 2009, most Malaysian companies were affected with the US financial crisis. The uncertainty market outlook led people around the world including Malaysian citizens to reduce their spending and this gave significant effect to company revenue. The sample companies have RM1,880 million of total assets and listed for 15 years on average. On average, the companies employ 42 per cent of debt financing in their capital structure.

Table 3. Descriptive statistics for company performance and control variables

Variables	**Denoted by**	**Mean**	**Std Deviation**
Return on equity	ROE	3.36	28.47
Company size (mil)	CSIZE	1,880,000	6,787,502
Company age	AGECO	15	11.64
Leverage	LEV	41.61	20.63
Consumer product	SECCON	0.1314	0.34
Industrial product	SECIP	0.3314	0.47
Construction	SECCONST	0.0686	0.25
Trading & services	SECTS	0.2629	0.44
Others	SECOTH	0.1143	0.32

Table 4 presents the descriptive statistics for the board process variables. With regards to the performance of independent directors, the mean value is 3.81, ranging from 2.58 to 4.80. The mean value for CEO performance evaluation and board's risk oversight is 3.83 and 3.97 respectively. The mean value for directors' accessibility to information is 3.68, ranging from 2.32 to 5.00.

Table 4. Descriptive statistics for board process variables

Variables	Mean	SD	Min	Max
Performance of independent directors	3.81	0.43	2.58	4.80
CEO's performance evaluation	3.83	0.46	2.48	5.00
Board's risk oversight	3.97	0.42	2.80	5.00
Accessibility of information	3.68	0.48	2.32	5.00

4.4 Regression Analysis

Before running the regression analysis, average leverage and company size were transformed into logarithm to dissuade the heteroscedasticity problem. Further, a test for assumptions multicolinearity was also carried out. Independent variables with variance inflation factor (VIF) values of more than 10 show a serious multicolinearity (Chatterjee, Hadi & Price, 2000). The test indicates that there is no evidence of multicolinearity since the VIF value ranged between 1.132 and 3.230.

Table 5. Regression results

	Coef.	t-value
CEO performance evaluation	0.009	0.111
Performance of independent director	0.177	2.190**
Board's risk oversight	0.169	2.073**
Directors' accessibility to information	0.075	0.960
Company size	0.184	2.477**
Company age	-0.122	-1.688*
Consumer Product	0.263	2.613**
Industrial Product	0.126	1.028
Construction	0.161	1.790*
Trading & services	0.339	2.848***
Others	0.164	1.667*
Leverage	-0.187	-2.204**
Adjusted R-square	0.195	
F statistic	4.519***	

***, **, *indicates regression analysis is statistically significant at 1%, 5% and 10% respectively

Table 5 shows a summary of the analysis on the relationships between board process and company performance. Out of twelve independent variables, nine variables indicate significant relationships to company performance. With regards to board process, board's risk oversight (BRISKO) and performance of independent directors (CID) are positively related to company performance at 5% significance level. The study fails to find any association between CEO performance evaluation (CEOPE) and directors' accessibility to information (ACCESSINF) on company performance as the p-value is greater than 10%.

For the control variables, the study finds that company size and companies involved in consumer products, trading and services, construction and others (properties, technology, plantation, infrastructure and hotel) have a positive relationship with company performance. However, age of company and company leverage are negatively related to company performance.

5 Discussion and Conclusion

This study seeks to determine the relationship between board process (board's risk oversight, performance of independent directors, CEO performance evaluation and directors' accessibility to information) and company performance. An analysis of 175 Malaysian public listed companies reveals interesting results.

The findings reveal that an effective risk management role by a board has a positive effect on company performance. The monitoring role played by the board is the key component of a risk management framework (Sobel & Reading, 2004). Thus, this study is supported by Zattoni, Gnan & Huse (2015) and Hasnah and Hasnah (2009) who assert that board's role in monitoring management decisions are associated to company performance. A good board risk oversight involves frequent updates from senior management on risk matters, emphasizes senior management to conduct a stress test or scenario analysis when identifying potential vulnerabilities, persuades senior management to deliberate on emerging risks that management perceives the company will be facing, and reviews company strategy overall during crisis. All these actions do encourage management to become both more cautious and more responsible when making decisions.

The results of this study also indicate that competent independent directors contribute to better company performance. In the same vein, Cong, Fei and Min (2015), Arosa (2010) and Petra (2005) assert that independent directors influence the strength of a company board and decision-making. Boards that effectively influence management in decision-making are found in companies with high performance (Hasnah & Hasnah, 2009). Independent directors who contribute effectively in board committees, leveraging their industries experience, accountable to shareholders and stakeholders and able to provide a strategic vision positively influence the decision-making process. The result supports the recommendation by MCCG on the importance of independent directors, as such directors can provide unbiased judgment and independent monitoring of management behavior and decisions.

On the other hand, the study does not support the relationship between CEO performance evaluation and company performance. This result is similar to Hasnah and Hasnah (2009) who found no differences between low or high return on assets (ROA) and a board's role in evaluating the performance of top executives of Malaysian companies. The possible reason is that the process used in evaluating the CEO may be different from one company and another. The established companies may have a more stringent and formal evaluation approach as they want to sustain ongoing sound company performance. Further, the ownership structure also influences the company evaluation process. Directors that have family ties with the controlling shareholders are more likely to reduce the procedure for CEO evaluation (Westphal, 1999).

The result also demonstrates that directors' accessibility to information and company performance is not related. This result appears to contradict the studies by Hasnah and Hasnah (2009) and Kula and Tatoglu (2006). However, the regression coefficient remains as predicted. The possible explanation for this insignificant result is that the effectiveness of a board in getting access to company information could be best identified in the event of a company faces a tough time of operation. During such event, directors are more likely to place extra attention towards monitoring management decisions. Directors' discussions, preparations and participation during board meetings tend to be more thorough when a business faces difficulties (Vafeas, 1999).

Additionally, company performance appears to have a positive relationship with the size of a company. Large companies have the ability to obtain more resources and generate business (Kula, 2005), increase investors' confidence in safeguarding their interests (Tam and Tan, 2007), attract good candidates to sit on their boards (Kula, 2005) and maintain a stable cash flow (Fu, Ke and Huang, 2002). In relation to the association between company leverage and performance, the results indicate a negative relationship between these two variables. Excessive leverage has an adverse effect on company performance during normal market conditions (Noor Afza and Ayoib, 2009) or uncertain market conditions (Suto, 2003). Meanwhile, the age of a company has a negative association with company performance. The rationale behind this finding is that older companies tend to be reduced in their value since these companies become more conservative in the strategies over time (Noor Afza, 2011).

Further, the trading and services sector is found to have a positive impact on company performance. Under the 9th (2006 to 1010) and 10th (2011 to 2015) Malaysian Plans, the Malaysian government has identified the trading and services business as one of the potential new growth sectors in the economy. This sector is expected to grow at 7.2% annually until 2015 (Malaysian Investment Development Authority, MIDA). The sector has been given various promotions to attract investors and incentives, which influence company performance. The result in this study is consistent with Haniffa and Hudaib (2006) and Noor Afza (2011).

The findings of this study suggest that the board process is an essential element for ensuring that shareholders are able to get sound risk adjusted returns from their investments. By understanding the different dimensions of the board process, a board will perform their role effectively. From a theoretical perspective, previous studies focused the application of agency theory on board structure, board composition and board characteristics. This study extended the application of agency theory within the context of board process. The effectiveness of directors is very essential today (Wan & Ong, 2005; Dulewicz & Herbert, 2004; Leblanc, 2004). As companies face greater challenges from uncertain economic conditions, the way that directors run a company's board really does matter.

With regards to future research, to date, research on the board process is still lacking. There is a high demand for exploring board process variables since aboard of directors is seen as a prominent mechanism for protecting the company as a whole. Thus, other board process variables, such as managing conflicts and communication skills may be included for future research. Additionally, to obtain a greater understanding of the board process, more interviews with company chairmen or CEOs is advantageous.

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