

BOARD SIZE, BOARD COMPOSITION AND PROPERTY FIRM PERFORMANCE

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Abstract

In light of the 1997 Asian financial crisis, the effectiveness of good governance in Asian economies has been a confronting issue. Agency problems arise when ownership is separated from management. This situation raised the key issue in corporate governance of how to effectively monitor managers and to exercise control so that managers act in the best interest of the shareholders (Zhuang, Edwards and Capulong, 2001). Amongst others, the existence of a board of director is an important system for shareholding monitoring and control where board composition is the most common aspect discussed. Despite the survey indicating preference for good corporate governance, empirical research examining governance mechanisms in relation to performance has revealed mixed and inconclusive findings. This research empirically examines the relationship between board composition and performance of property companies listed at Bursa Saham, Malaysia. Specifically, the research question that will be the basis for hypothesis formulation is as follows:

- Does board composition of a firm, namely, board size, percentage of executives have an effect on firm performance?

Key words: board of directors, corporate governance, listed property firms.

1.0 Agency Theory

The most recognised theoretical perspective applied in corporate governance studies is agency theory (Dalton, Daily, Ellstrand and Johnson 1998; Shleifer and Vishny, 1997) which originated from Berle and Means (1932) thesis entitled "The Modern Corporation and Private Property". The thesis describes the fundamental agency problem inherent in modern firms where separation of ownership and control exist. To be able to survive in this competitive business environment, small private firms grow beyond the financial capability of a single owner. Thus, "going public", as it is commonly referred to, is regarded as an efficient and cost-effective way to raise funds (which are interest-free) for the expansion of business operations. As a result, big modern corporations have multiple owners or shareholders. These owners are regarded as the principals when they enter into a contract with executives or managers to run the firm on their behalf. The executives appointed are morally obligated to work towards achieving maximum returns for the shareholders/principals. However, this delegation

of power may provide opportunistic manager with the chance to expropriate shareholders' wealth by choosing to invest in projects that could benefit the manager rather than the shareholders.

In order to better align agent-principal interests earlier agency theorists (Demsetz and Lehn, 1985; Jensen and Meckling, 1976; Fama and Jensen, 1983) suggested having an effective governance system which amongst others involves the appointment of a board of director. The theory suggests that managers/directors be monitored by this board of directors whose principal task is to ensure that managers discharge their duties in the best interest of shareholders. Thus the size of the board and the number of executive directors on the board are regarded as proxies for board of directors when it is measured against firm performance. Formal theory and empirical evidence on the effect of board size and the number of executives on firm performance is scarce. However, the issue of board size became more prominent in the 1990s when more emphasis was placed on governance mechanisms.

1.1 Corporate Governance in Malaysia

In Malaysia issues on corporate governance was brought to the lime light following the 1997 financial crisis that hit Malaysia and other Asian countries. The High Level Finance Committee and the Malaysian Institute of Corporate Governance were formed in 1998 to educate and create awareness amongst corporate sector, investors and public on the best practices of corporate governance. This led to the release of the Malaysian Code on Corporate Governance in March 2000. The Malaysian Code focuses on four aspects of governance, namely, board of directors, directors' remuneration, shareholders, accountability and audit. Briefly, Part I sets out broad principles of good governance that can be applied with flexibility and diversity, depending on the characteristics of individual companies. Part 2 identifies a set of guidelines which could assist companies in preparing their own approach to corporate governance. In Part 1 the companies are required to disclose in their annual reports the ways in which those principles are applied whilst in Part 2, which is voluntary in nature, companies are encouraged to state the extent of their compliance and the reasons for departure from such practices, if any. Part 3, which is also purely voluntary, is aimed at investors and auditors with the intention of enhancing their roles in corporate governance whilst Part 4 contains explanatory notes to the above.

The remainder of this paper is organized as follows: Section II discusses board size and percentage of executives and their relationship with performance. Section III describes the sample data. Section IV empirically examined the association of board size and percentage of executives with firm performance. Section V concludes.

Section II

2.0 Board size

The earliest literature on board size is by Lipton and Lorch (1992) and Jensen (1993). Jensen (1993) argued that the preference for smaller board size stems from technological and organizational change which ultimately leads to cost cutting and downsizing. Hermalin and Weisbach (2003) argued the possibility that larger boards can be less effective than small boards. When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders. Lipton and Lorch (1992) recommended limiting the number of directors on a board to seven or eight, as numbers beyond that it would be difficult for the CEO to control. A large board could also result in less meaningful discussion, since expressing opinions within a large group is generally time consuming and difficult and frequently results in a lack of cohesiveness on the board (Lipton and Lorch, 1992). In addition, the problem of coordination outweighs the advantages of having more directors (Jensen, 1993) and when a board becomes too big, it often moves into a more symbolic role, rather than fulfilling its intended function as part of the management (Hermalin and Weisback, 2003). On the other hand, very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards. Furthermore, larger boards are more likely to be associated with an increase in board diversity in terms of experience, skills, gender and nationality (Dalton and Dalton, 2005). Expropriation of wealth by the CEO or inside directors is relatively easier with smaller boards since small boards are also associated with a smaller number of outside directors. The few directors in a small board are preoccupied with the decision making process, leaving less time for monitoring activities.

The above arguments were empirically tested and a negative association between board size and performance were reported by Yermack (1996), Eisenberg, Sundgren and Wells (1998) and Barnhart and Rosenstein (1998). Yermack (1996) analysed a sample of 452 large U.S industrial corporations between 1984 and 1991 and consistently found an inverse relationship between board size and firm value even when regressions were carried out using numerous models such as fixed effects, random effects and OLS estimates. Even when firm value represented by Tobin's Q was substituted with other proxies such as return on assets, return on sales and sales/assets, the negative relation persisted. Following Yermack's analysis of large firms, Eisenberg, Sundgren and Wells (1998) tested the relationship between board size and profitability on small and midsize Finnish firms. They presented evidence of a negative association between board size and profitability, thus supporting the theory put forward by Lipton and Lorch (1992) and Jensen (1993). Similarly, Barnhart and Rosenstein (1998) found that firms with smaller board size perform better than firms with large board size. Vafeas (2000) reported that firms with the smallest boards (minimum of five board members) are better informed about the earnings of the firm and thus can be regarded as having better monitoring abilities. Echoing the above findings, Mak and Yuanto (2003) reported that listed firm valuations of Singaporean and

Malaysian firms are highest when the board consists of five members. Bennedsen, Kongsted and Nielsen (2004), in their analysis of small and medium-sized closely held Danish corporations reported that board size has no effect on performance for a board size of below six members but found a significant negative relation between the two when the board size increases to seven members or more. In investigating the changes in board size over time, Wu (2000) discovered that on average, board sizes of corporations (Forbes 500) decreased over the 1991-95 periods. Wu argued that the cause of the decrease could partly be due to pressure from large active investors. This implies that the market generally is more confident if monitoring is carried out by smaller boards.

While Yermack (1996) and others found significant negative association between board size and performance, Bhagat and Black (2002), found no solid evidence on the relationship between board size and performance, although there are hints of an inverse correlation between the two. Thus their results do not fully support Yermack's findings. They explained that board size is often taken to be endogenously related to other control variables that may correlate with performance and although Yermack included other control variables in his analysis, the approach taken might cause the difference in results. In an attempt to compare the effects of board structure on firm performance between Japanese and Australian firms, Bonn, Yokishawa and Phan (2004) found that board size and performance (measured by market-to-book ratio and return on assets) was negatively correlated for Japanese firms but found no relationship between the two variables for its Australian counterpart. However, contrary to the Japanese firms the ratios of outside directors and female directors to total board numbers have a positive impact in the Australian sample (Bonn, 2004).

Contrary to the above findings, a positive impact on performance was recorded with larger board size by Mak and Li (2001) and Adams and Mehran (2005); however, in examining 147 Singaporean firms from 1995 data, Mak and Li (2001) support the argument that board structure is endogenously determined when the results of their OLS indicate that board size, leadership structure and firm size have a positive impact on firm performance but their 2SLS regressions do not support this result. On the other hand, Adam and Mehran (2005) found a positive relationship between board size and performance (measured by Tobin's Q) in the U.S banking industry, which is contrary to the findings of Yermack (1996) and Eisenberg, Sundgren and Wells (1998) in US non financial firms. Adam and Mehran's results suggest that such performance relationship may be industry specific, indicating that larger boards works well for certain type of firms depending on their organizational structures. A meta-analysis based on 131 studies by Dalton and Dalton (2005) revealed that larger boards are correlated with higher firm performance which is in contrast to the results of an earlier meta-analysis by Dalton, Daily and Johnson (1999).

The Malaysian Code and the KLSE Listing Requirement were silent on the number of directors that should sit on board. However, it was recommended that the board size should not be too big nor too small but sufficient enough to allow for active and effective participation and that they should be able to perform their duties effectively. As cross-directorship is legally recognized in Malaysia, the KLSE listing requirement in 2002 place restrictions on the number of directorships that a director may hold. So as to ensure that directors are able to perform and participate effectively in all the boards with which they are involved, a maximum of 10 directorships in public listed companies and a maximum of 15 directorships in private companies are allowed.

In summary, empirical research on board size suggests that greater board size in most cases is negatively associated with firm performance, although a meta-analysis by Dalton and Dalton (2005) found positive correlations between the two variables. Since very few studies examine board size and its effect on firm performance, a study on the size of Malaysian boards, which are relatively small in size compared to those found in the US, could shed some light on the situation found in connection with Malaysian boards in particular and on Asian boards in general.

Boards with a large number of directors can be a disadvantage and expensive for the firms to maintain. Planning, work coordination, decision-making and holding regular meetings can be difficult with a large number of board members. The effectiveness of the board does not depend on how many directors sit on it, although a minimum number of directors with adequate experience and knowledge is vital to ensure tasks are carried out efficiently. Based on the theoretical perspective that larger boards may create free rider problem among directors and the possibility of a lack of cohesiveness with larger boards, the first hypothesis is as follows:

H1: There is a negative association between board size and firm performance.

2.1 Executive directors

While the board of directors consists of a composition of outside/independent directors and inside/executive directors, discussions on board of directors are always centered on the advantages and disadvantages of outside directors. Thus, evidence on the beneficial role of inside directors is scarce.

Similar to outside directors, whose role are not discussed in this paper, inside directors are also expected to play their role as a governance agent safeguarding between the firm and shareholders' interest and at the same time safeguarding the contractual relation between the firm and the board (Williamson, 1985). With regards to their monitoring role, inside directors are expected to provide first-hand information on the firm's operation to other board members (Boumosleh & Reeb, 2005). Since inside directors are active participants in the firm's overall decision making process, they have access

to all pertinent information that facilitates the decision making on the firms' activities. This is in contrast to outside directors who does not hold any executive powers and who usually sit on the boards of other firms too.

Therefore, as suggested by Anderson and Reeb (2004) when outside directors posed questions on the firm's operation during board meetings, inside directors are expected to provide them with satisfactory explanation. Apart from channeling pertinent information to outside directors, inside or outside directors also play a role in monitoring the CEO. While this monitoring role maybe indirect as inside directors themselves are under the evaluation of the CEO, inside directors may channel relevant information to outside directors if there are prove of CEO entrenchment. In other words if inside directors play an effective monitoring role and alleviates information asymmetries, this may increase the corporate governance structure of the firm which will eventually lead to a better firm performance.

Nevertheless, in the actual corporate scene inside directors are usually aligned with the CEO. The CEO who is the highest-ranking executive in the organization has full power in appointing executives that will remain loyal to him/her. Due to their implicit relationship with the CEO, inside directors may not contribute towards effective monitoring of the CEO. Therefore boards with more executive directors do not necessarily lead to enhancing firm performance. With regards to REITs, Sirmans, Friday and Price (2006) identified a significant relationship between negative performance and a management change from a period of 3 months prior to the change in management.

The above studies showed there exist a relationship between firm performance and changes in its board structure and executive management. Parallel with Hypothesis 1 which calls for a smaller board, the following hypothesis is predicted:

H2: There is a negative association between percentage of executives and firm performance.

Section III

3.0 Sample data

This research involves panel data which comprise 81 firms studied in the period of 1999 to 2005. The sample consists of firms listed under the property sector on the main board of the Kuala Lumpur Stock Exchange (KLSE). The KLSE defines property firms as firms engaging in activities such as property development and construction, property investment, property management, hotels and leisure. Initially the sample consisted of 103 property firms which is currently the total number of listed property firms. Since the study covers a period of 7 years, the availability of the annual reports, which is the main source of information, is a deciding factor as to whether a particular firm can be included. This would

mean firms that were de-listed or newly listed during the study period are excluded. Furthermore since the analysis employs a balanced panel data only firms that existed during the entire sample period are included in the sample. Subsequently, 22 firms were eliminated resulting in a final sample of 81 firms. Altogether the data sample consists of 567 firm-year observations.

3.1 Sources of data

As the sample companies are publicly listed, information pertaining to their directorship and financial statements are made available in their individual annual reports. In fact, the annual report of each company is the main source of information for this research. Whilst annual reports for the period of 1999 to 2005 are available online at the KLSE website, the hard copies for each Annual Report can also be viewed at the KLSE library.

Information collected from the annual reports include: the firms' compliance on corporate governance issues; profiles of directors; leadership structure; financial statements, which are reported in accordance with the approved accounting standard in Malaysia, and which include directors' interest in the company; analysis of shareholdings which contains the equity structure; lists of major shareholders and lastly lists of properties owned together with descriptions and book values. Information on share price for each company was gathered from DataStream as the annual reports did not disclose the closing share price at the end of each financial year.

3.2 Description of data

The following section describes the key characteristics and terms of measurement for each variable. Whilst this study focuses on board size and percentage of executives other governance variables such as leadership structure, outside directors, CEO tenure, CEO ownership, block ownership, family business and market value are included in the regression to provide a broader perspective and a more realistic approach on the relationship between governance variables and performance. Dependent and independent variables are grouped into components; namely, independent variables which consist of board composition, board structure, leadership structure and capital structure and dependent variables which consist of performance indicators. The terms of measurement used are described as in Table 1.

Table1: Summary for terms of measurement

Variables	Terms of measurement
OD (outside directors)	Total number of outside directors on the board
BS (board size)	Total number of directors on the board
% of OD (number of outside directors)	Number of outside directors on the board divided by total number of directors
EXEC (executive directors)	Number of executive directors on the board divided by total number of directors
LS (leadership structure)	Dummy variable 1 if CEO and Chairman are different individuals; 0 if CEO and Chairman are the same person
CEOTEN (CEO tenure)	Number of years CEO has been holding the position
FAMILY (family business)	Dummy variable 1 if it is a family business and 0 if it is not
BLKOWN (blockownership)	% of shares held by shareholders owning 5% or more
CEOOWN (CEO ownership)	% of shares held by CEO divided by total outstanding shares
LMV (log of market value)	Equity multiplied by share price(measured in logarithm)
Tobin's Q	Equity multiplied by share price plus book value of liability divided by book value of assets

Besides providing the basic statistics, a comparison of statistics with other countries is also discussed. This is to provide an indication on how Malaysian firms fare on Corporate Governance in terms of control mechanisms compared to other countries. Descriptive statistics on overall data is presented in Table 2.

3.3 Board composition

This subsection describes the control variables of board composition; namely, board size, and the percentage of executives. Specifically, the election of board members and the composition of the board are briefly explained. The terms of measurement for each variable are also specified.

a. Board size

Board size refers to the total number of directors on the board of each sample firm which is inclusive of the CEO and Chairman for each accounting year. This will include outside directors, executive directors and non-executive directors. This classification is similar to the categorisation of board directors used by Hermalin and Weisbach(1991) and Bhagat and Black (2002) with the exception of a category of directors named as "grey" directors. These grey directors are directors whose status is questionable, such as family members of employees, lawyers, investment bankers and former company officers. This category is not reflected in this study.

The directors, who are initially elected by the committee, will be asked to retire from office every few years, depending on the Company's Memorandum of Association, and must submit themselves for re-election at least once in every three years (Finance Committee on Corporate Governance, 2000). There is no restriction on the number of board members stipulated under the Malaysian Code on Corporate Governance (2001) although the board is required to include a balance of executive and non-executive directors to avoid the board being dominated by one individual. However under the Best Practices in corporate Governance (Finance Committee on Corporate Governance, 2000) it is recommended that every board examine its size so as to ensure optimum effectiveness.

The statistics for board size show that in general these property firms have small boards. As Table 2 shows, the mean board size is 7 directors with a minimum of 4 and a maximum of 13 directors. These figures are consistent with figures reported by Mak and Kusnadi (2005), Dogan and Smyth (2002) and Abdullah (2004) and as can be seen, varies little over the period under study. The board size of Malaysian property firms can be regarded as small if compared to board sizes of American, British, Canadian, Spanish, French and Belgian firms with a mean board size of 12 or 13 directors (Andres, Azofra and Lopez, 2005) and Japanese firms with a mean of 28 directors (Bonn, Yoshikawa, H. Phan, 2004). It is however similar to Singaporean and Australian firms, each with a mean of 7 directors as reported by Thompson and Chu Hung (2002) and Mak and Kusnadi (2005) for Singaporean firms and by Bonn, Yoshikawa and Phan (2004) for Australian firms.

Table 2
Descriptive statistics of cross-section data for board composition

Variables		overall	1999	2000	2001	2002	2003	2004	2005
BS(Board size)	Mean	7.47	7.17	7.32	7.53	7.54	7.63	7.50	7.59
	Min	4	4	4	4	4	4	4	4
	Max	13	11	11	13	12	13	13	13
	Std Dev	1.9	1.89	1.76	1.89	1.82	2.02	1.9	2.00
PEXEC (% of exec. directors)	Mean	0.35	0.36	0.36	0.36	0.35	0.35	0.35	0.33
	Min	0	0	0	0	0	0	0	0
	Max	0.82	0.82	0.82	0.82	0.82	0.69	0.7	0.69
	Std Dev	0.19	0.19	0.18	0.19	0.19	0.19	0.19	0.19

b. Percentage of executives

The percentage of executives is measured by dividing the number of executives who are non-independent by the total number of board members. On average 35 per cent (Table 2) of the board composition of Malaysian property firms consists of executive directors which leads to the fact that 63.4 per cent of the board composition are made up of non-executive directors. This percentage is high if compared to a study done on 251 IPO firms in the UK (Filatotchev and Bishop, 2002) where only one third of the directors are non executive in 70 per cent of the firms but almost similar to the scenario in Australia where a study on the 100 top companies in Australia by the Australian Council of

Superannuation Investors Inc.(2001) revealed that the average board composition is made up of 77.1 per cent non-executive and 22.9 per cent executive. Similarly, the mean for percentage of executives remained almost unchanged throughout the years with only a marginal difference between 36 per cent in 1999 to 33 per cent in 2005.

Section IV

4.0 Empirical approach

Following Agrawal and Knoeber (1996) and Mak and Li (2001), a system of simultaneous equations is developed where performance measured by Tobin’s Q is regressed on board size, percentage of executives and other corporate governance variables as below:

$$Performance_{it} = \beta_1 + \beta_2boardsize_{it} + \beta_3executives_{it} + \beta_4leadershipstructure_{it} + \beta_5outsidedirectors_{it} + \beta_6ceotenure_{it} + \beta_7ceoownership_{it} + \beta_8blockownership_{it} + \beta_9family_{it} + \beta_{10}logmarketvalue_{it} + e_{it}$$

.....Equation 1

Equation 1 is estimated in two ways. Since panel data is used, estimation is firstly done by using pooled ordinary least squares, fixed effects and random effects techniques. In pooled ordinary least squares (OLS) regression all the data are pooled and run using an ordinary least squares regression. The pooled ordinary least squares (OLS) regression is in fact an ordinary least squares regression used on models which have constant intercept coefficients and constant slope coefficients. On the other hand, fixed effects models or also known as Least Squares Dummy Variables (LSDV) have constant slopes but different intercepts that vary across countries/firms whilst Random Effects model treats individual and time specific effects as random.

In the first estimation described above, Tobin’s Q is regressed on control variables using OLS, LSDV and random effects which allows the examination of the effect of all control variables together on Tobin’s Q. However, due to the simultaneity issue where some or even all of the dependent variables can be the cause of the independent variable leads to the second phase of regression where Tobin’s Q is treated as an independent variable. Two stage least squares regression is then used to estimate equation 1 in a simultaneous equation system.

4.1 Results based on market performance (Tobin’s Q)

Table 3 below presents the findings of Equation 1 from OLS and 2SLS regression with Tobin’s Q as firm performance. Findings from OLS and 2SLS regressions showed that all variables have the same signs with the same significant variables. The findings below are discussed with relation to the effect of board size and percentage of executives on Tobin’s Q.

Table 3 Regressions with Tobin's Q as firm performance

Independent Variables	OLS	LSDV	Random Effects	2 SLS
Board size	-.04(.01)	-.03(.26)	-.03(.08)	-.041(.02)
% of executives	.57(.00)	.05(.83)	.26(.21)	.579 (.00)
Outside directors	-.03(.37)	-.05(.21)	-.04(.26)	-.034(.37)
Leadership structure	-.21(.02)	-.13(.31)	-.16(.12)	-.207(.02)
CEO tenure	-.002(.57)	.005(.45)	.001(.82)	-.003(.52)
CEO ownership	-.004(.01)	-.002(.41)	-.003(.18)	-.004(.02)
Block ownership	-.005(.00)	-.005(.10)	-.006(.01)	-.005(.00)
Family business	-.14(.04)	.09(.79)	-.12(.30)	-.140(.04)
Log of market value	.12(.00)	.09(.02)	.102(.00)	.095(.00)
Constant	-54(.35)		-.27(.69)	-149(.81)
Std error	.666	.489		
R-squared	.113	.59		.112
Adj R ²	.098	.51		.098

P values are in parentheses

[Lagrange Multiplier Test vs. OLS = 348.80]

[1 df, prob value = .00000]

[High values of LM or a significant p value favour FEM/REM over OLS]

[Fixed vs Random Effects (Hausman)] = 4.20]

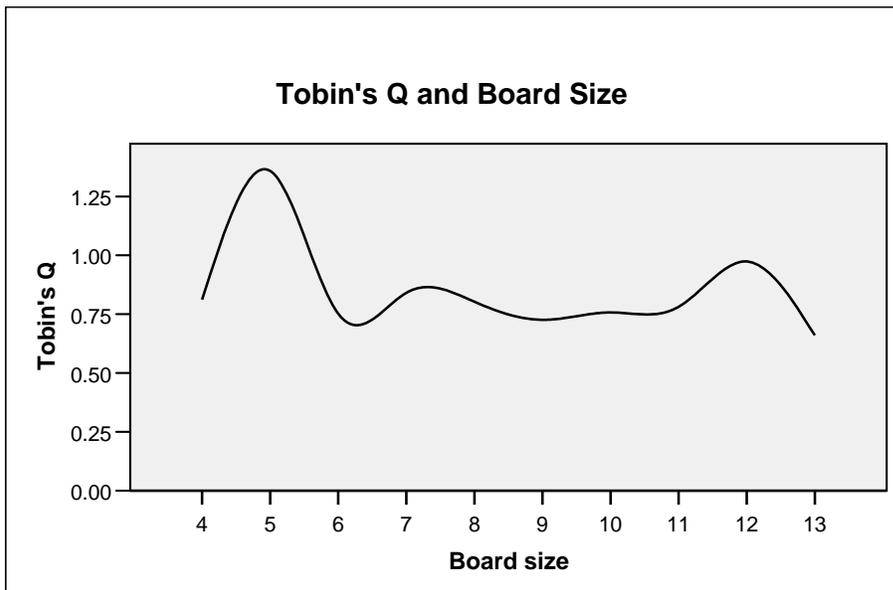
[9 df, prob value = .898002]

[High values of Hausman statistic favour FEM, low values favour REM]

4.2 Relationship of board size with market performance

Results from regression shows, board size has a consistent negative relationship with Tobin's Q in all regressions and in most instances is statistically significant too. Estimation by 2SLS showed consistent findings with the OLS regression. These findings are consistent with Hypothesis 1 which predicts a negative association between board size and firm performance and supports a suggestion by Jensen (1993) who concluded that for a firm to be effective in its monitoring, it should, among other things, have a relatively small board, since one with too many directors is "less likely to function effectively". The evidence from this study is also consistent with earlier empirical studies by Yermack (1996), Eisenberg, Sundgren and Wells (1998) and Mak and Yuanto (2003). Examining the relationship between the mean of Tobin's Q for different board sizes (Figure 1), shows that Tobin's Q increases until it reaches a maximum of 5 directors and declines with 6 , before stabilizing until board size is 12 and decreasing almost abruptly afterwards. This pattern of Tobin's Q and board size is similar to the pattern illustrated by Yermack (1996), Eisenberg, Sundgren and Wells (1998) and Mak and Yuanto (2003).

Figure1



4.3 Effect of Percentage of Executives on market performance

Contrary to hypothesis 2, empirical evidence from OLS and 2SLS regressions shows that the percentage of executives has a positive effect on Tobin's Q. Whilst outside directors are necessary for board independence, executives or inside directors who are well informed about the firm are needed to monitor and facilitate the CEO. Provided inside directors are not related to the CEO, their relaying of information to the outside directors will, in effect, ensure that they indirectly act as monitoring agents, thus curbing any unwarranted actions by the CEO. Whilst the positive sign is consistent in all regressions, it is only statistically significant when estimations are done by OLS and 2SLS.

Section V

5.0 Conclusion

The findings provide evidence that the market seems to have a preference for small boards with lesser number of outside directors but with more executive working directors. To provide a meaningful interpretation of the descriptive statistics, the statistics for Malaysian property firms are compared with other firms elsewhere. Board size, with a mean of 7 directors, is similar to that of Singaporean and Australian firms, but is considered small if compared to those of American, British, Canadian and European firms. The market favours a smaller board to avoid information asymmetry and to allow the benefits of unambiguously strong leadership.

This study however has its limitations. Firstly, the sample data comprised only listed property firms. Whilst almost all property firms are included, a larger sample incorporating industries similar in

operation to the property sector may result in a more significant finding. Nevertheless, the application of panel data expanded the basic data to a 567 firm-year observation, which is deemed suitable for regression. Secondly, a common limitation of studies such as this, whereby estimations are done in a simultaneous equation system, is the possible misspecification of the system of equation estimated. Thirdly, this research tested longitudinal data covering a 7-year period. Descriptive statistics and cross sectional regression results throughout the seven years shows little variation. In order to obtain a clearer pattern (if one exists), the study period should be extended preferably to another 7 years which will be the basis for future research.

Nevertheless, despite its limitations, this study does contribute towards the understanding of corporate governance issues with particular reference to board of directors and percentage of executives in Malaysian listed firms. Notwithstanding the results, this study also contributes to the limited existing literature on the association between board of directors and firm performance in Asian economies.

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