Malaysian evidence supporting theoretical integration of roles of non-executive directors

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Abstract

Purpose – The purpose of this paper is to investigate the role of independent non-executive directors (INEDs) in Malaysian public listed companies (PLCs), other than the control role prescribed by agency theory and reformulatory documents such as the Malaysian Code of Corporate Governance.

Design/methodology/approach – A qualitative research design, consisting of face-to-face interviews with 27 company directors of Malaysian-owned PLCs, was instigated.

Findings – The interviews revealed that INEDs do more than just monitor their executive counterparts. Apart from the control role, INEDs of Malaysian companies provide a conduit for mitigating uncertainties in the environment and perform invaluable services to the host companies.

Research limitations/implications – This research utilized interviews. Generalizations may be an issue when interviews are used as the method of inquiry. Also, the sample is not random as access to many of the interviewed directors depended on recommendations. In addition, respondents were consciously selected in order to obtain various board positions that include independent and non-independent directors.

Originality/value – There are limited studies using qualitative research design in investigating INEDs’ performing other roles apart from the control role of the board in developing countries. Many of previous studies and literature in this area of corporate governance were predominantly based upon experiences of western economies.

Keywords Corporate governance, Malaysia, Interview, Directors’ roles, Independent non-executive directors

Paper type Research paper

1. Introduction

The board of directors is central to the understanding of the concept of corporate governance (Zahra and Pearce, 1989). The power to govern a company rests firmly with the board, and by acting on behalf of the shareholders, it ensures good governance is achieved. Pye and Camm (2003, p. 33) underlined this importance by stating that:

At the core of every large (and probably small) organization is a small group of people, usually located around a chief executive officer, whose power to influence and effect what happens in and out of their organization is highly significant.

It has been argued, however, that a board should not solely consist of inside executives. Research has shown that the presence of an independent element in the form of non-executive directors (NEDs) on board has significantly benefited the board in performing its role. Until now, however, research into the role of NEDs has largely been based upon the scenarios of developed nations such as the USA, UK and Australia. However, it has been argued that there is the need to extend and test theories developed in advanced markets economies in developing countries to allow international comparativeness of accounting research (Wallace and Gernon, 1991). Also, “management philosophy that is appropriate in
one national culture is not necessarily appropriate in another” (Hofstede, 1984, p. 81).
Since, Hofstede (1980) has identified Malaysia to be culturally, in terms of management, different from these developed nations; it is believed that an insight into the roles of independent non-executive directors (INEDs) within such a relatively high power distance multi-cultural society could provide a worthy contribution to the body of the literature. Thus, this paper aims at understanding the role, contribution and influence of INEDs within Malaysian public listed companies and adds to the literature by reporting a perspective from a developing nation. This paper would attempt in providing evidence on whether INEDs of Malaysian public companies also perform other roles besides the controlling function which is often associated with them. In addition, it would provide further support toward the theoretical integration of roles of NEDs as expounded by Johnson et al. (1996).

2. Board roles
In a seminal review of boards, Johnson et al. (1996) had noted that directors' most significant duties and functions consist of three overlapping roles of control, resource dependence and service, which is consistent with the broad categories of conformance and performance (or oversight and support). Johnson et al. (1996) also stated that the board attribute of board composition influences the effectiveness of the performance of the directors in connection to the three roles. This opinion is consistent with other views of the board proposed by Pfeffer and Salancik (1978), Daily and Dalton (1993), Kesner and Johnson (1990), Goodstein et al. (1994) and Fiegener et al. (2000) which focused specifically on the organizational stakeholder that have received the most attention in the corporate governance literature, namely, the shareholders. Importantly, rather than grounding the examination of board roles on any particular theory, the identification of these roles provides a representation of a theoretical integration that has been argued by many researchers to be the way forward in conducting governance research (Eisenhardt, 1989; Daily et al., 2003; Roberts et al., 2005). It may assist in the understanding of the process of board accountability, which Roberts et al. (2005) said comprises both remote accountability to the shareholders and face-to-face accountability within the board.

The identification of these three crucial roles is also consistent with the board’s fiduciary duty. That is, by law, the board of directors is legally and practically charged with directing and managing the business of the companies on behalf of the shareholders, as well as delegating some aspects of these responsibilities to management (Johnson et al., 1996). The legal responsibility of the board is derived from the principle of duty of loyalty (Shleifer and Vishny, 1997), whereby all directors have a legal responsibility to represent and protect the interests of its shareholders. Zahra and Pearce (1989) considered this to be the legalistic approach of governance, whereby a board’s role is in corporate leadership leaving the day-to-day operations of the company in the hands of management. It is clear that the single overriding objective of all listed companies is the preservation and enhancement over time of their shareholders’ investment. The control role entails directors monitoring managers on behalf of shareholders, and consists of determining executive pay, selection of board members and ensuring managers do not expropriate shareholders’ interests by being accountable to the owners (Zahra and Pearce, 1989; Johnson et al., 1996; Pye and Camm, 2003). Due to the possibility that management may undertake actions which will be in their own interest instead of the shareholders’ (Wade et al., 1990), the presence of INEDs on board will ensure there would not be any divergent of interests between the two parties. Correspondingly, in a company, this control role is spearheaded by the remuneration, nomination and audit committees (Spira and Bender, 2004), whose composition are made up with the majority of INEDs.

The service role is defined as INEDs advising the CEO and top managers on administrative issues as well as being actively involved in company strategy (Johnson et al., 1996; Westphal, 1999; Fiegener et al., 2000; Hillman and Dalziel, 2003). Sundaramurthy and Lewis (2003)
stressed the importance of a collaborative approach wherein board management ties foster trust to the extent of making executives to engage less in impression management and to seek greater input from directors instead. Johnson et al. (1996, p. 424) have noted that:

A considerable time of directors’ time is spent on advising the CEO, a task that, while not as dramatic as replacing him, enables them to play what many considers to be their key normal duty.

In relation to this, they also noted that there are many active and retired CEOs on corporate boards because their ability to offer expert advice is valued. The board would also be more directed toward involvement in company strategy by influencing numerous strategy-related decision and advising management on achieving the company’s mission and objectives (Hung, 1998; Hendry and Kiel, 2004). Daily et al. (2003) had indicated that both executive directors (EDs) and INEDs concern themselves with the effectiveness of the firm’s strategy, because the firm’s performance directly impact on their individual performance. Baysinger and Hoskisson (1990) indicated that inside and outside directors complement each other in the strategic processes. Rindova (1999) had emphasized that INEDs general expertise enables them to make important contributions to strategy while Carpenter and Westphal (2001) had argued that INEDs possess adequate knowledge and information to make meaningful contributions to strategic decision making. In relation to that, Pearce and Zahra (1992) have shown that a higher representation of INEDs on board was positively associated with the external growth strategy of the company.

The resource dependence role perceived directors as facilitating the acquisition of resources critical to the firms’ success and serving a legitimizing function through the enhancement of company reputation and image (Hillman et al., 2000; Hillman and Dalziel, 2003). Provan (1980) had noted that a company affected and is affected by its environment and many of these interactions are beset with uncertainties. The board of directors will then be responsible as boundary spanners in linking the company to its environment (Zahra and Pearce, 1989; Stiles, 2001) in order to mitigate these uncertainties, managed resource dependencies and ultimately ensuring its survival. INEDs are argued by researchers to be able to help companies to effectively manage environmental uncertainty and interdependencies among them (Pfeffer, 1972; Provan, 1980; Mizruchi and Stearns, 1988; Pearce and Zahra, 1992; Haunschild, 1993; Haunschild and Beckman, 1998). According to Bazerman and Schoorman (1983), the benefits that accrue to the company are in terms of network connections among directors, increased coordination among firms, reduced transaction cost and improved access to vital resources. The provision of resources function of the INEDs encompasses two largely specific activities. According to Daily and Dalton (1994) and Hillman et al. (2000), the extent to which INEDs benefit the firm depends on whether their inclusion aids in establishing legitimacy by bolstering the public image of the firm. Bazerman and Schoorman (1983) stated that an organization’s reputation can be affected by who serves on the board of directors and to whom the organization is seen to be linked. Daily and Schwenk (1996) and Hambrick and D’Aveni (1992), in studies of firms facing bankruptcy, found support that directors may enhance the reputation and credibility of the firm. Apart from reputation and legitimacy of the firm, INEDs bring critical resources to the firm, such as information (Gales and Kesner, 1994) and finance or capital (Mizruchi and Stearns, 1988; Lynall et al., 2003).

However, in spite of the distinctive nature of Malaysian regulatory and cultural environment, most of the studies such as Ameer et al. (2010) and Kamardin and Haron (2011) only focus on control roles of the Malaysian board. Thus, a better insight into these roles within the Malaysian context will help the regulatory authorities to pay the required attention to and place the INEDs within the relevant regulatory provisions to enhance Malaysian firms’ values.
3. Methodology
The purpose of the research presented is to ascertain whether INEDs in Malaysian public listed companies are performing other roles other than control. After considering the aims of this study and how similar 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 studies in understanding how boards work (see, e.g. Pettigrew, 1992; Tricker, 1994; Leblanc, 2004). The approach provides potentials for a better understanding of the roles of INEDs through direct contacts with board members McCabe and Nowak (2008). 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 are by way of recommendations and contacts. However, as with Stiles (2001), the sampling frame should be as large as possible consisting of board members who sit on publicly listed companies of the main board. Almost all the companies are Malaysian owned to provide a good ground for cultural and multiethnic effects on the roles of INEDs. Semi-structured interviews with the aid of an interview schedule were used to collect data. The interviews were conducted with 27 directors of public companies in Malaysia, over a period of two months. In total, 19 of them were introduced through recommendations while 8 agreed to participate via solicitation letters written to them.

The interviewed directors included ten INEDs, eight CEOs, four EDs, two independent chairmen, two NEDs and one executive chairman. They have a combined directorship experience of 358 years (simple average of 13.3 years) and are members on a total of 133 boards (86 current and 47 former). In total, 23 interviews were tape recorded and transcribed while notes were taken down for the other 4. Each interview lasted on the average of one-and-a-half hour. The study follows the method of analysis suggested by Miles and Huberman (1994) known as the cross-case approach to interview analysis. The cross-case approach is the result of combining case-oriented and variable-oriented types of analysis. Miles and Huberman (1994, p. 174) explain that, in case-oriented analysis, the patterns and characteristics of individual cases or group of cases under study will be preserved throughout the analysis. On the contrary, the variable-oriented approach, although not able to extract in detail the findings that reflect the intricacy of the cases (as compared to the first approach) is better for identifying themes and patterns. The combination of these two approaches or the cross-case approach will result in a fair presentation of the underlying body of data collected from the interviews. Consequently, from the frequency of the interviewees, the themes discussed in the analysis are formed.

4. Findings: resource dependence – enhancing company reputation and image (establishing legitimacy)
All of the interviewees agreed that INEDs do enhance the legitimacy and credibility of companies. Consistent with Bazerman and Schoorman (1983), who state that an organization’s reputation can be affected by who serves on the board, there were many instances revealed by the interviews in which companies had invited people with status and prestige to become their INEDs.

The interviews disclosed that INEDs establish company legitimacy either directly or indirectly. Directly, INEDs are expected to always promote the company and enhance its image, which may not necessarily be in the course of official duty. Depending on issues at hand, the INEDs might be asked to represent the companies on certain matters of interest primarily by maintaining relationships with stakeholders of the companies, particularly the regulators and, in certain cases, other government officials; they might also be asked to attend functions and publicity events, although these occurrences do not happen often.
This finding is supportive of Pfeffer (1972) and Lynall et al. (2003) who argue that INEDs are viewed as “instruments” in managing the company’s relationship with its environment by co-opting important elements external to the company. INEDs do not normally make statements on behalf of the company, a task which is usually reserved for the EDs, for the reason of avoiding inconsistencies in the marketplace. The interviews disclosed that INEDs play a supporting role when it comes to company announcements, primarily by not saying anything negative about the company. The INEDs also help to maintain the company’s image by informing other directors of any negative comments that they have heard coming from the marketplace regarding the company’s operations so that the company can take immediate action to make the necessary improvements.

Indirectly, INEDs can help to enhance the company’s reputation by virtue of their own reputation and image gained as a result of currently or previously holding high office in government or other companies, having substantial business experience and a good track record and by possessing official recognition awarded by the government. As most of these INEDs are men of honors in the society, as evident from the titles conferred by the Malaysian rulers as recognition of their achievement, it therefore goes to say that the cultural effects of the Malaysian environment (i.e. absolute respect for elders and those conferred with honorable awards) has enhanced the reputational impacts of the INEDs. The interviews disclosed that their presence on board will rub off on the company and, through its association with somebody who is reputable and well known, the company, in turn, would be able to attain a positive image in the eyes of the public at large. This finding is consistent with the studies of Daily and Schwenk (1996) and Hambrick and D’Aveni (1992), which find support that directors enhance the reputation and credibility of the firm. An INED with a medium-sized company epitomized the general feeling when he was asked about the subject. He remarked:

Indirectly yes, directors’ reputation does contribute to the company. Although you cannot measure that, it would be very good for the company to have influential members of the community to be on the board. People would have respect toward them and the company they present.

Another aspect of the INEDs reputation that was revealed pertained to the company’s ability to utilize this highly regarded asset to its advantage through the formation of contacts and networking. Their positioning outside of the company in terms of involvement in professional or social bodies or activities is thought to be crucial. With regard to this, many of the interviewees were of the opinion that the INEDs could assist the company by introducing business opportunities. The interviews disclosed that one of the prerequisites for an effective board in Malaysia is to have a representative on board who is linked to the government, moreover one who used to work with it. The main reason being the availability of many government projects and tenders that are given out annually to all industries in Malaysia and the companies may be able to depend on these INEDs to provide a link to win those projects. An INED with a large company provided an example of this importance when he said:

Perhaps this is not fair but titles bring you linkage, in the sense that you know a lot of people who are in higher places. By the time you reach that level you will know a lot of people who are also Tan Sris in the government. So there is a linkage that helps certain organization in case they ever need certain things to be done. If the person is a nobody trying to get in touch with a somebody in a ministry for instance, they would just brush you aside. But if you said that you are Tan Sri so and so, and that I have an appointment to see you, they will find the time for you.

Although having current or former government employees on board is vital, the interviews disclosed that companies should ensure that the government worker is someone who is or was aligned with the present leadership. Several interviewees commented that the recent change in the country’s leadership has had an effect on companies’ operations and delayed projects.
Finally, although it was acknowledged that influence and connections played a role in opening new business opportunities and maintaining important relationships, a few interviewees believed that this is not an end in itself. Several interviewees had commented that the key image and, hence, legitimacy of the company lies in its performance and conformity with mandatory regulations. Accordingly, the INEDs were expected to discharge their duties effectively and make sure the company would be able to deliver upon its promises to the shareholders. The interviews disclosed that shareholders nowadays are more discerning with regards to company financial reports and corporate governance as a whole. Not only will they look at the nature and prospect of the business but the people running it as well and it will not be easy to deflect their attention from non-compliance issues, despite having senior and influential people on board. It appears that the responsibility to ensure company’s image is enhanced is not only a company requirement, but also a moral obligation on the part of the INEDs.

4.1 Findings: resource dependence – access to resources
Evidence from the interview data is enough to suggest that INEDs are assisting the companies in bringing vital resources to the company. It is also consistent with Hillman et al. (2000) and Hillman and Dalziel (2003), who suggest that outside directors are important conduits for access to vital resources. From the interviews, it was revealed that the resource thought by all interviewees to be of most vital importance to a company pertained to outside information that is either totally new or in addition to that already known to other directors. This finding, in turn, is consistent with Gales and Kesner (1994) and Haunschild and Beckman (1998), who argue that the importance of information to be the most sought after resource and one with which the INEDs can very much help the company. Most of the interviewees believed that, due to their skills, knowledge and experience, as well as being highly connected, the INEDs are very well placed to discover general and specific information regarding the industry and other information that is more general in nature. Some of the types of information that INEDs provide, related by the interviewees, includes knowledge relating to financial investments and risks, legal, domestic and overseas business trends and opportunities, corporate policy and practices including customers’ perceptions, production requirements and competitors’ business strategies and plans. The interviews also disclosed that, apart from information pertaining to business in general such as that listed above, it is also an advantage if the INEDs are able to seek out information relating to the government in general, especially how to directly deal with the bureaucracy involved.

The interviews revealed that INEDs who sit on the board of companies operating in related industries provide an important link in terms of the information that they could disseminate. This finding is consistent with Carpenter and Westphal (2001), who argue that involvement in boards of companies in related industries enable a director to possess adequate information to make a meaningful contribution to the board process of a company. An INED with a large company illustrated this finding when he said:

(Company’s name) takes steel from (company’s name). I am independent in both companies hence I do not have any interest whatsoever in these transactions. I help in other ways, like I can get in touch directly with people on the other company for any urgent things to discuss or I can be the contact point for any new information that has emerged that originates from either sides. It could be seen as helping to lower the transaction costs, but the final transactions are done on an arm’s length basis.

The general opinion is that it is always desirable for INEDs to provide external information of which management and the board may not be aware and which may affect the company’s business. The provision of information is normally ad hoc in nature, although there have
been occasions when the management requested the INEDs to seek out specific information on more specific circumstances. Furthermore, some of the information may be readily available, while other facts may require more time and effort to discover. The interviews disclosed that the management should always be alert to comments made by the INEDs and, more importantly, ensure that the information provided is relevant and useful in context for the company to follow up with firm commitment and take appropriate action as necessary.

Another vital resource to the company which was also acknowledged by the literature is finance. The majority of interviewees were of the opinion that it is not the duty of INEDs to arrange financing for the company, as that was construed as being too involved in the management of the business. However, when situations were difficult, some companies had turned to their INEDs to use their influence and connections in helping the company to obtain financial resources. In total, 26 percent of the interviewees illustrated either direct or indirect involvement of INEDs in helping the company to obtain finances. This finding provides some support to Mizruchi and Stearns (1988) and Lynall et al. (2003), who point out outside directors’ involvement in securing finance for their company. For instance, an INED had helped a medium-sized company to raise finance indirectly by providing the management with access to the bank’s senior officers. He said:

One time they needed funding and went to (institution’s name) but were rejected. They came to me and I asked them who did you meet? They said someone in the investment division. I told them I know the Head of the investment panel who is also the CEO and asked them do you want me to arrange a meeting? I don’t go beyond that though. I am not to negotiate on behalf of the executives as I am not paid to do that but business is all about networking. Whether it is wrong to do that, it doesn’t matter but people get more confidence if they know you.

Many of the interviewees also agreed that banks and other lending institutions would normally, as first order, evaluate loan applications on the substance and viability of the project and the financial strength of the company in terms of its ability to meet repayments. Nevertheless, they qualified their statement by saying that the credibility and reputation of the INEDs may, to a certain extent, have a bearing on the banks’ decisions. Generally, the INEDs possess the ability to provide access to finance through their contacts in the financial intermediaries. It appears that INEDs keep this ability in reserve until circumstances arise where they can exercise it to help the company. It is left to the management to decide whether to utilize this ability, according to the particular time and needs of the company. The interviews disclosed, however, that INEDs are not expected to deliver or provide access for other types of resources of the company such as raw materials and labor. Although these resources are vital to the continued existence of the company, they are considered to be operational resources and, hence, to be the responsibility of management of the company.

5. Findings: service – providing advice to management on administrative issues

All of the interviewees agreed that the INEDs of their companies had performed this service role, which is highly reflective and consistent with literature that has documented such involvement such as Johnson et al. (1996), Davis et al. (1997), Westphal (1999), Sundaramurthy and Lewis (2003). An ED with a medium-sized company had even referred to the role as “one of the more important functions of the INEDs,” which is vividly similar to Johnson et al. (1996) comments, while an INED of a large company portrayed the INEDs as “a coach to management.”

Further analysis shows that, out of the 27 interviewees, 23 (85 percent) of them believed that this advice is normally aired freely during the course of discussion, while the other 4 (15 percent) thought that advice should only be given after being requested to do
so by management. One of the four, an ED and also an executive chairman with a medium-sized company said:

Normally, it is on a case to case basis. If we have an INED who is known for being good in certain areas and at the request of the management or of the board, that particular director can be consulted to give guidance, pertaining only to the areas of concern. That is beyond the normal role and it is not normally expected.

Drilling down further into the interview data revealed that, except for two, all of the interviewees who agreed qualified their answers by saying that more often than not, the advice was given only at the board level. It appeared that INEDs do not advise management who are not on the board. They would give their advice to the EDs during board meetings and the EDs would then relay it to other top management teams not on the board, if it warranted such an action. Outside of the board, the EDs seek INEDs’ advice only when a specific need arises. An INED with a small company indicated the importance of not stepping over the line when he said:

In this company, the INEDs interact with the staff through briefings. If you happened not to be in the forum, then you should only see either the CEO or the company secretary. You should not go direct to any person without the CEO or the secretary permission because it is not a proper way. There must be proper channels.

The interviews disclosed that the establishment of this control point provides a means to ensure that INEDs are able to maintain their objectivity and independence. INEDs should be detached from management and not stand accused of delving too much and, hence, interfering with company operations. It is then up to management to consider the positive and negative sides of these views. The only exception to this general rule relates to the work of audit committees. This committee will obviously liaise with the internal auditor to help with the proper functioning of the company’s internal control. The interaction with the head of the internal auditor or, in some small companies, with outside consultants, provides one way in which INEDs can directly advise management who are not on the board.

The types of advice concerning administrative concerns cover a wide range of issues, but basically they all boil down to how the company should be properly managed. Among the advice that was often quoted by the interviewees were topics covering human resources development, environmental and legal issues and corporate governance, especially succession planning. This finding is consistent with Gales and Kesner (1994) and Hillman and Dalziel (2003), who argue that a board of directors is able to facilitate advice and counsel because it is often composed of individuals who possess important expertise, experience and skills such as lawyers, financial representatives, the top management of other firms, former government officials and community leaders. Finally, the interviews disclosed that, irrespective of whether the advice is taken into consideration by management or not, the act of giving the advice is welcomed by the interviewees. INEDs bring with them wisdom and knowledge gained from years of experience, either in business or government, which the companies might greatly benefit from. This is in turn consistent with Johnson et al. (1996) who note that there are many active and retired CEOs on corporate boards because their ability to offer expert advice is highly valued.

5.1 Findings: service – involvement in company strategy
The interview survey revealed unanimously that INEDs are involved in the company’s strategy. It was generally felt that INEDs are a part of the strategic team in an effort to move the company forward and the involvement of INEDs in the strategic arena would add value to the process of creating the vision, mission and strategy of the company. The interviews disclosed that company executives possess a wealth of inside knowledge that can form the
basis of strategy and the INEDs assist them in fine tuning the strategy during board
discussions. This finding is reflective of the observation made by Baysinger and Hoskisson
(1990) in that inside and outside directors complement each other in the strategic processes
and, at the same time, is consistent with several researchers who have found that board
characteristics such as size and composition are related to corporate strategy (Hill and
Snell, 1988; Goodstein et al., 1994). An INED of a large company described how the process
was like, and aptly represented the general feelings among INEDs when it comes to
involvement in company strategy when he said:

When I first joined them, the management committee will decide what project to go for and then
they would enter into the contract. Only after that would they present it to the board telling us that
they have done this and they have done that. The last few years we have changed all that. Their
role is not to tell us what had happened. We want to know about it and to be involved right from the
very beginning. We want to be a party to those enterprises so that we can make sure that
everything is rightly taken care of.

Consistent with Rindova’s (1999) argument concerning the merits of INEDs involvement, the
interviewees emphasized that general expertise and adequate knowledge may enable them
to effectively contribute to strategy. Also, similar to Stiles (2001), they suggested that EDs
gain this knowledge either formally in board meetings or informally by testing the strategic
idea with the INEDs beforehand. A CEO of a medium-sized company exemplified the
importance of INEDs contributions and the formal and informal gathering of strategic
knowledge. He remarked:

Some of them are businessmen and they have a lot of experience. They interact with other people in
the industry and in the government and I believe they can provide input to come up with the best
strategy. As for the discussion, sometimes we do it inside the board room; sometimes we go out and
have a planning session or workshop outside. Sometimes, we just do it over coffee or lunch.

The interviews with the executives revealed that, in their general opinion, they have not
intervened with INEDs involvement in the strategic process. Rather, INEDs involvement
depends on the personalities of the INEDs and how involved they would like to be in the
strategic discussion and decisions. According to the CEOs, some boards would be more
comfortable leaving it to the management, but other boards want to have their say in almost
everything connected to strategy. A CEO with a large company exemplified this general
opinion by saying:

It is all in the mind of the INEDs whether they would want to actively participate in the strategic
process or not. I am sure not all INEDs appreciate in performing that role consistently although
they may have the experience with the process. It is reflected in the way that they behave during
board discussions on strategy. They could contribute positively by giving out good ideas or they
could simply disagree on some matters without suggesting any solutions.

The interviewees pointed out that, in some large companies, the involvement of directors in
the strategic arena is regarded as a very serious undertaking. In these companies, detailed
preparations are made to ensure both board and management are sufficiently prepared prior
to their participation in strategic discussions either at the company’s premises or at strategy
away day programs. Consultants are engaged to ensure that directors are in the right frame
of mind and have the right feel toward strategy. This extra effort put in by the companies is
a consequence of their commitment toward new methods of strategy making, whereby all
directors are expected to participate and strategy is no longer the sole domain of the
executives. Furthermore, this would ensure more congruent thinking among the directors
who hail from different backgrounds. However, there are a few interviewees who cautioned
against giving the INEDs too much power in their involvement in company strategy for fear
of negative consequences. The reason given was that when INEDs become too involved in
company strategy, there is a possibility that they might become entrenched in their recommendations, to the extent of defending rigorously what they had recommended, which could be to the detriment of the company as a whole.

There were indications from the interviews that, although INEDs are involved in company strategy, there are times when they would only lightly voice their opinions regarding decisions made by the executives or majority shareholders. These situations occur when the strategy to be implemented does not jeopardize the position of the company, but rather increases the chances of the survival and expansion of the company. As such, on the surface, it may appear that in these cases INEDs strategic involvement may in effect be only to rubber stamp strategic decisions made by the management team or the majority shareholders, whereas in actual fact the strategy is sound. The majority of them also agreed that INEDs were more involved in the formulation and evaluation phases leaving the implementation to be carried out by the management team.

6. Conclusion
The major conclusion is that INEDs of Malaysian public listed companies were appointed onto boards for various reasons, for instance, safeguarding shareholders’ interests, making positive contribution as equal board members to the development of the company’s strategy, enhancing the company’s reputation and providing a balanced and independent view onto the board. In other words, the INEDs of Malaysian public listed companies are performing the three roles of control, service and resource dependence that have been suggested by Johnson et al. (1996).

Excerpts of the interview give evidence of the interplay of power and influence between the EDs and the INEDs in board processes and conducts. The findings showed that the responsibilities of INEDs are growing and it might be an indication that INEDs are beginning to be more involved in functions which were previously wholly in the hands of the CEO or other EDs. Apart from discharging their duties by performing the control roles, INEDs are important outlets for obtaining information on issues which might affect the administration of the companies as can be seen from the interviews above. Through their involvement with their own companies and as board members of other companies, INEDs were able to scan for timely and pertinent information which are then relayed back to the host company. In turn, through the act of giving advice, it may increase the mutual trusts between EDs and INEDs which may promote higher cooperation between the two groups. INEDs appeared to begin to exhibit some influences in the area of company strategy as well. Although boards in developed countries had utilized INEDs in this field for a lot long time, the finding here may indicate that the boards of Malaysian public listed companies are also moving toward this direction. Finally, INEDs in Malaysia were perceived as important mechanisms to link the companies to their external environment perhaps in order to maintain or improved current state of affairs of the companies or to reduce uncertainty facing them. This is achieved through their ability to enhance the company’s reputation and image as well as acquiring vital resources for the company.

The interviews revealed that it is vital to have the right people with the right experience and connections in place as these qualities are perceived to be as important as board structures and procedures. The board can be considered as a council of wise men, made up of people with knowledge, experience and skills. The board has got its own wisdom whereby the choice of who sits on board is of utmost importance and with that, one would expect the board to diligently exercise their role and execute whatever is required of it. The implementation of a more stringent rules and regulations by government bodies has had the desired effect on the corporate governance systems whereby more listed companies are more careful now in the selection of their INEDs. Simultaneously, the directors are acknowledging the growing responsibilities of their positions and are giving more thoughts.
and considerations prior to accepting directorship appointments. However, the enforcements of these rules and regulations needed to be tighten up some more especially to those smaller companies listed on the exchange if the overall objective of the reform is to be achieved.

Conclusively, despite the distinctive cultural and multiethnic nature of Malaysia, the roles played by INEDs are similarly the same compared to what is obtainable from developed nations in a broad view based on the findings. However, a closer observation of the interview responses on how these roles are being performed in a developing economy serves as a major contribution of this study. Also, the study is among the few qualitative studies on the roles of INEDs. Further, since the study was on Malaysian public listed companies of Bursa Malaysia, the findings may not be generalized to private companies. Also, the study sought the perceptions of only directors which 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 instance, for further insight on the issue.

References


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