

Board Mechanisms and Malaysian Family Companies' Performance

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ABSTRACT

Many overseas studies discussed the topic of corporate governance and performance in family companies, however, few studies have been conducted in Malaysia. The objective of this paper is to examine the board mechanisms and family companies' performance using three performance indicators (Tobin's Q, Earnings Per Share & Operating Cash Flow). The sample size is 189 family companies listed on Bursa Malaysia from 2003 to 2007. The findings from this study reveal that some of the board mechanisms influence family companies' performance. This study evidenced that family companies with a large board size, low directors' expertise and duality leadership contribute to higher family companies' performance. However, this study found that the academic qualification of directors does not influence firm performance. Therefore, generally, regulators and investors need to be sensitive to the fact that family companies do have differences in corporate governance practices compared to non-family companies.

Keywords: Board mechanisms; family companies; performance; Malaysia

INTRODUCTION

Family businesses have been painstakingly nurtured by their founding fathers for decades, growing from small companies into multi-corporations. The uniqueness of family companies are that family firms have a great sense of family attachment and the majority of the ownership is in the hands of family members. In Malaysia, family companies are said to contribute more than half of Malaysia's Gross Domestic Product (Nguí 2002). A study by Claessens, Djankov and Lang (2000) found that about 70% of Malaysian companies are family-owned. Some of the prominent Malaysian family companies include the Berjaya Group, Sapura Group, Melewar Group, Genting Group and YTL Group.

In terms of company performance there are many studies around the world comparing family and non-family firms' performance (Anderson & Reeb 2003; Miller & Breton-Miller 2006; Villalonga & Amit 2006; Ibrahim, Samad & Amir 2008; Amran & Che-Ahmad 2009). However, research on Malaysian family companies looking at the board governance mechanisms and performance are lagging behind. To our knowledge, there are two studies that discuss family and non-family companies performance. The first, a study by Ibrahim et al. (2008), found that board size, independent directors and duality do show a strong relationship with firm performance. Amran and Che-Ahmad (2009) indicate that only board size and leadership show a strong relationship with Tobin's Q. The difference between this study with previous studies by Ibrahim et al. (2008) and Amran and Che-Ahmad (2009) are that this study focuses solely on Malaysian family companies, using data from 2003 to 2007, and includes two new variables to be tested: 1) director's qualification and 2) director's expertise. In comparison, past studies compared between family and

non-family companies, and the data used were until 2005 only.

In terms of financial performance indicators, this study used three performance indicators: Tobin's Q, EPS and OCF. Many studies have used Tobin's Q as the performance indicator (McConaughy, Matthews & Fialko 2001; Anderson & Reeb 2003; Villalonga & Amit 2006; Martinez, Stohr & Quiroga 2007; Ibrahim et al. 2008; Amran & Che-Ahmad 2009), only some study tests used Earnings per Share (Mat Nor, Mohd Said & Redzuan 1999) and Operating Cash Flow as the corporate performance indicators in measuring the company share prices (Kaplan 1989; Jain & Kini 1994; Kim, Kitsabunnarat & Nofsinger 2002). Therefore, this study considers both the market-based and accounting based approach. The accounting performance measure is claimed to be a better performance measure than share market based measures. This is because the share prices are less likely to reflect all available information when the share market shows inefficiency. Nevertheless, the accounting performance measure is more directly related to its financial survivability than its share market value and allows the evaluation of performance of publicly traded companies (Sun & Tong 2003).

The objective of this paper is to examine the board mechanisms and family companies' performance using three performance indicators (Q, EPS and OCF). This study aims to find the answers to whether there is any association between board mechanisms and family companies' performance. This study is expected to enrich the literature in the area of corporate governance practice among family businesses in Malaysia. Particularly, this study uses a sample of Malaysian family companies listed on Bursa Malaysia. Thus, the information revealed is reliable and useful to Malaysian family businesses and investors at large.

The presentation format of this paper is as follows. First, the introduction section, objectives, motivation and contribution of the study will be highlighted. Next, discussion on stewardship theory, review of family businesses in Malaysia and board mechanisms will be deliberated upon in the literature review section. The theoretical framework and hypotheses development is then developed. The research methodology is explained. Then, the research findings and discussion are presented. Finally, research findings are summarised, followed by limitations and recommendations for future study.

LITERATURE REVIEW

STEWARDSHIP THEORY IN FAMILY COMPANIES

Stewardship theory views that managers behave as stewards and gain higher utility from pro-organisational, collectivistic behaviour than from individualistic and self-serving behaviour, as presumed by agency theory (Jaskiewicz & Klein 2006). Managers who are usually the family members are not opportunistic and self-serving as suggested by agency theory, but are motivated to act in the interests of their organisations and to maximise shareholders' wealth by improving organisational performance (Davis, Schoorman & Donaldson 1997). In this theory, executive directors are seen as highly valuable to boards because they provide specialised knowledge and expertise about their organisations and are better at evaluating the CEO due to their familiarity with the quality of his/her decisions (Baysinger & Hoskinson 1990; Wagner, Stimpert & Fubara 1998).

Research also claimed that when ownership is high and concentrated, the higher benefits and costs are borne by the same owner (Demsetz & Lehn 1985). Family companies usually invest most of their private wealth in the company. That is one of the reasons why families are more concerned with the firm's survival because the risks are not fully diversified, and they have strong incentives to monitor management closely. The monitoring cost tends to be lower in companies controlled by family than by non-family (Fama & Jensen 1983; Fleming, Heaney & McCosker 2005). The controlling shareholders will serve the interests of minority shareholders as well as their own interests (Schulze, Lubatkin, Dino & Buchholtz 2001). This will shun the exploitative behaviour of agents towards the principals (Jensen & Meckling 1976). In addition, it will reduce the agency costs and enhance firm performance. Furthermore, as a steward, family owner-managers will not be self-serving for their own economic gain, but for the organisation and stakeholders. Thus, stewards will protect and maximise shareholders' wealth through firm performance (Donaldson & Davis 1994).

Ward (1987) argued that the behaviour of family firms differs from non-family firms because family firms incorporate family issues into their thinking. This is because the business and the family are seen to be

absolutely independent (Ward 1987), with family and family dynamics likely affecting strategic choices and process in a way that is different compared to non-family firms (Litz 1997; Chrisman, Chua & Steir 2005). The unique characteristics are derived from the patterns of ownership and corporate governance, such as family strategy, goals, spirits and family culture. Thus, this study expects some differences in corporate governance in family companies. Since the family is likely to own sizable shares, the behaviour might not be exactly the same as that in non-family businesses. The families who are directors of the company might work in the best interests of the company because of other reasons, such as altruism (Unselfish regard for or devotion to the welfare of others). In addition, most of the family companies in Malaysia tend to be ethnic Chinese. These Chinese businesses usually have close family ties within the family members, strong financial support internally and plan their businesses to be passed to the next generation (Horii 1991; Sendut 1991).

Therefore, for studies relating to family companies, stewardship theory is more applicable in answering the research questions. It is expected that the independent variables (board size, independent non-executive director, director's qualification, director's expertise and leadership structure) could influence the company's performance.

FAMILY BUSINESSES IN MALAYSIA

Family businesses form an essential part of the Malaysian economy and it is estimated that family companies contribute more than half of Malaysia's Gross Domestic Product (Nguoi 2002). One study claims that the majority of family companies in Malaysia evolved from traditional family-owned companies. Family companies do not embrace openness in the firm's practices and they still practice a similar business culture to the founders (Ow-Yong & Cheah 2000). A survey conducted by Shamsir Jasani (2002) found that the majority of Malaysian family firms are small-scale; the founders manage the firm with help from their children and relatives; and the founders do not force the children to join the firms, unless the children themselves are willing to work with their families.

There are a number of prominent firms that are family-controlled, and the number of Malaysian firms is increasing yearly due to the positive economic growth (Pricewaterhouse Coopers 1998; Claessens & Fan 2002; Haniffa & Cooke 2002; Soederberg 2003). Although some of the prominent Malaysian family companies like Sapura, Melewar Group, Genting, YTL, Tan Chong, Oriental and Berjaya Group have ventured into diverse economic sectors, there are also smaller companies like Habib and Kamdar that maintain their business within their respective sectors. For instance, the story of the Genting Group shows a well-planned succession in the family business. The late Tan Sri Lim Goh Tong appointed a successor to ensure his huge business empire will continue. Lim passed the baton to his second son, Tan Sri Lim Kok Thay, in December 2003. The Genting Group is involved in gaming, power

generation, plantations, and oil and gas. Tan Sri Lim Kok Thay, a 55-year-old tycoon seems to have inherited his father's ability to seize and exploit fleeting opportunities based on the group's swift expansion abroad in recent years (2007, October 24).

For Bumiputera companies, some of the notable Malay families in today's market are the Melewar Group founded by Tunku Abdullah Tuanku Abdul Rahman and Sapura Holdings Bhd started by Tan Sri Shamsuddin Abdul Kadir. Both families are now in their second-generation (Ngu 2002). For a smaller business, Habib Jewel Bhd. is one of the relatively unknown success stories. This company was founded by Habib Mohammad in 1953 in Penang. In 1988, the father (founder) passed the business to the son, Meer Sadik, who has been leading it ever since. There are also several successful northern Indian textile companies operating in Malaysia such as KAJ Chortimall, Globe Silk Store and PLal Store. These companies are third-generation families. Unlike the Chinese and Bumiputera companies, the Indian companies have remained basically one-store operations, with little expansion or diversification. The Indian entrepreneurs remained conservative and largely cautious of firm expansion due to the highly competitive industry (Gomez 2001).

Therefore, for family companies to remain competitive in the market, these companies need to ensure strong corporate governance practices. The board mechanisms such as board composition and size, composition of non-executive directors, director's education, director's expertise and leadership structure, as suggested by the

Code on Corporate Governance (2001), help to enhance family businesses to achieve higher firm valuation and become more attractive to investors.

The following sections will discuss the hypotheses based on the theories and literature relating to corporate governance.

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPEMENT

The conceptual framework for this study is presented in Figure 1 to explain the relationship between corporate governance mechanisms and family performance.

BOARD COMPOSITION AND SIZE

According to Jensen (1993), a board should have a minimum of seven or eight members to function effectively because boards with a small number of individuals are more likely to agree on a particular outcome. Local studies (Abdullah 2001; Zainal Abidin, Mustaffa Kamal & Jusoff 2009) suggest that the average board size is eight. A study conducted by Pricewaterhouse Coopers (1998) found that the average board size is eight, with two independent directors¹, three non-executive directors and three executive directors

Studies claim that a large board is superior to a small one because big groups have more capabilities, resources and wider external contracting relationships (Zahra & Pearce 1989). Further, Haleblian and Finkelstein (1993)

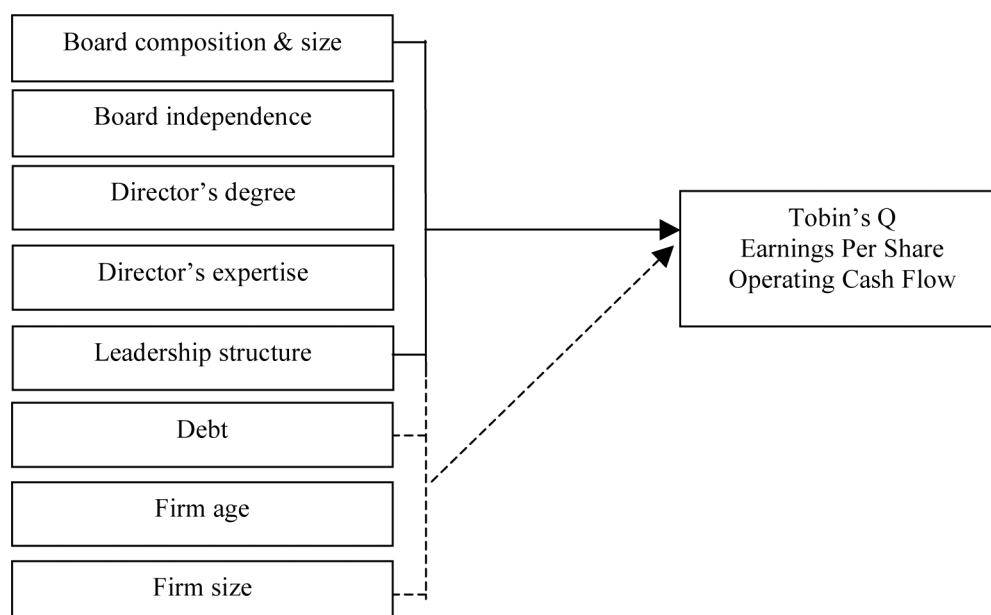


FIGURE 1. Conceptual framework for corporate governance mechanisms and family performance

¹ Rule 9 of the KLSE Listing Requirements define independent directors as directors who are not officers of the firm, who neither are related to its officers nor represent concentrated or family holdings of its shares; who in the view of the board of directors represent the interests of public shareholders, and free of any relationship that would interfere with independent judgment.

explained that large groups can enhance problem solving capabilities and provide more solution strategies. Larger boards may be constructive for some companies as they provide diversity that can help companies secure critical resources and reduce environmental uncertainties. Zainal Abidin et al. (2009) also evidenced that larger board size contributes more towards firm performance as a whole. Larger boards mean that there are more ideas and skills that can be shared among board members.

However, studies have found that family companies have slightly smaller boards and lower board independence than non-family firms (Chen, Chen & Cheng 2008). The smaller board size may be due to a trade-off between growth and risk exposure faced by the firms. This is because of the high concentration of shares in the hands of a few shareholders (Gorritz & Fumas 1996). Expert studies do evidence a negative relationship between board size and firm performance. Yermack (1996) conducted an empirical study on the performance effect of board size for a sample of 792 companies across eight years (1984-1991). The main finding shows a clear inverse relation between a firm's market valuation and the size of the board of directors.

In another study by Mishra, Randoy & Jenssen (2001) on family founding companies in Norway, it was found that large boards are not as effective as small boards. Board size has a negative significant coefficient indicating that firms with a smaller board size achieve higher Q values. Research by Carline, Linn and Yadav (2002) also claims that board size is inversely related to operating performance in UK firms. Mak and Yuanto (2002) examined the relationship between size of the board and firm performance in Singapore and Malaysia. They evidenced that board size is negatively related to Tobin's Q.

However, Feris, Jagannathan and Pritchard (2003) found a positive relation between small board size and the ratio of market assets to book assets for a large and diverse sample of firms. Dalton, Daily, Ellstrand and Johnson (1999) examined the relationship between board size and company performance using market and accounting-based performance indicators, and found that performance value is strong and positive in smaller firms.

A recent study in Asia (Hong Kong, Taiwan, Singapore and Malaysia) evidenced that board size is significantly higher in family-owned companies in Asia (Chen & Nowland 2010). Therefore, based on past literature, this study believes that family companies with a larger board size may enhance firm performance. This is because family companies may be enhanced by having people that possess skills, experience, qualifications and wider networking. Based on the arguments, we therefore hypothesize that:

H₁: There is a positive relationship between board size and family companies' performance.

NON-EXECUTIVE DIRECTOR ROLES

In family businesses, the representatives of non-family owners on the board could offer a functional counterpart

in decision-making. Ward and Handy (1988) found that 88% of firms using non-executive directors believe that their boards are more useful and valuable compared to 68% of those using executive boards expressing the same view. As argued by Gilson and Kraakman (1991), "corporate boards need directors who are not merely independent (of management), but who are accountable (to shareholders) as well". Kosnik (1987) and Singh and Harianto (1989) argued that non-executive directors are more likely to be objective, independent and more capable of resisting self-interested efforts by executive directors to influence board decisions.

Besides the composition of non-executive directors, the proportion of family member representation might also influence firm performance. In countries where families have substantial equity holdings, there is generally little physical separation between those who own and those who manage the capital (Nicholls & Ahmed 1995). In Malaysia, there are a number of listed companies with substantial family shareholdings that elect family members to sit on the boards. The boards of family-controlled companies are dominated by family members or their close friends, and there are few truly independent directors (Meng 2009).

Despite the fact that non-executive directors can bring a new dimension of experience and objectivity that may not be found among family directors and managers, family firms do not generally employ non-executive directors. Generally, family firms have fewer shareholders and directors than non-family firms (Cromie, Stephenson & Montieth 1995). Ibrahim et al. (2008) claimed that family companies appoint fewer independent directors to be on the board compared to non-family companies. Ward (1991) argued that the owners of family firms are reluctant to appoint independent directors because they are afraid of losing control; disbelieve that non-executive directors understand the firm's competitive situation; and are afraid of new, external ideas and viewpoints. Therefore, based on the discussed literature, this study posits that:

H₂: There is a negative relationship between the percentage of independent non-executive directors and family companies' performance.

DIRECTOR EDUCATION BACKGROUND

The Malaysian Code on Corporate Governance (Revised 2007) recommends that directors do have qualities (skills, knowledge and experience, professionalism and integrity) in carrying out their duties. Experts claim that individuals with higher qualifications are better at managing the firms. There is a positive relationship between individual education and conflict over money, management control and strategic vision. Educated individuals are found to understand financial matters more than their less educated counterparts. Directors that are educated are better at handling the problems and situations that may arise in the firms (Sebora & Wakefield 1998).

Education is an investment in knowledge and, as a consequence, it increases productivity (Schultz 1971). Economies with well educated employees exhibit faster progress and more rapid increases in efficiency and productivity than those with a lower level of education (Becker 1962). A study by Romer (1994) claims that education and professional training endogenously strengthens the growth rate by increasing labour quality and productivity. Further, Schultz (1993) pointed out that the evolution of knowledge contributed decisively in the growth rates of organisations. Employees that possess particular capabilities, such as communication and decision skills, problem solving skills, team working skills, as well as adaptation in the continuous learning environment, tend to behave more professionally in their daily tasks (Agiomirgianakis, Asteriou & Monastiriotis 2002; Psacharopoulos & Patrinos 2004).

Educational background and skills may influence family firms' performance. Additionally, a family's special technical knowledge concerning a firm's operations may put it in a better position to monitor the firm more effectively. Family members have an incentive to counteract the free rider problem that prevents atomised shareholders from bearing the cost of monitoring and ultimately reduces the agency costs (Castillo & Wakefield 2006). In addition, higher quality management passes on the true value of the firm to investors and reduces the information asymmetry (Chemmanur & Paeglis 2005). Directors' educational backgrounds can supplement management in strategy evaluation (Ruigrok, Peck, Tacheva, Greve & Hu 2006). Therefore, based on the literature, this study hypothesizes that family companies also need to have qualified and educated directors to manage the family companies. These directors can help in advising the business operation and provide solutions for decision making. Family companies can also benefit from the directors' qualification by gaining higher firm performance. Therefore, this study hypothesizes that:

H₃: There is a positive relationship between directors' academic qualification and family companies' performance.

EXPERT QUALIFICATION

The revised Malaysian Code on Corporate Governance (2007) stresses that nominating committees should consider recruiting directors that have skills, experience and qualifications. Research also notes that expertise may affect the firm's performance. Companies should look for superior quality directors to monitor management (Fairchild & Li 2005). Directors' background and competency are essential factors as they could contribute positively to the family firms (Johannisson & Huse 2000). Consulting skill is a combination of diagnostic and behavioural skills that enable professionals to collaborate with line managers to develop solutions for business performance problems (Green 2008).

As a professional, it is necessary to be competent and master the knowledge and apply it to specific business settings (Brockbank, Ulrich & Beatty 1999). Lawler and Mohrman (2003) argued that professionals need to become more effective strategic business partners. By having these characteristics, indirectly these professionals could positively influence the value of the company.

Kesner (1988) found that most directors' occupations are business executives, followed by lawyers, consultants, and school professors. Directors' expertise, such as in accounting, financing, consulting and law, supports managers in making decisions. Therefore, directors' expertise can have a certain effect on firm value (Hillman, Cannella & Paetzold 2000).

Dalton et al. (1999) contended that directors who have a professional or business relationship may be highly effective at resource dependence and counselling/expertise board roles due to their industry contacts, business acumen, specialized knowledge and skills. They are appointed as board members so that the firm can tap into the resources that they bring. Similarly, Anderson and Reeb (2003) posited that those directors who have skills in knowledge-based fields such as law, finance, accounting and consulting, are sought after because of their value-adding advice and counsel.

At the same time, firms are facing a challenge in searching for qualified and competent directors to sit on the boards (Hendry 2002; Hartvigsen 2007). A survey conducted in America by Ernst & Young found that many firms in Europe and America complain that they struggle to find experts to be board members. Thus, many boards in the US have appointed directors with experience from other firms and industries (Westphal & Milton 2000).

Actually there is no shortage of qualified directors, however, stringent laws and rules pertaining to directorship and litigation by shareholders make directors more careful in accepting their job (Raber 2005). Companies can no longer be satisfied with directors who simply put in a token appearance. Companies seek qualified directors, together with their expertise (Berube 2005). Furthermore, Michael Powers, leader of Hewitt's executive compensation group, also claimed "...there is a struggle-taking place between the growing need for qualified directors and the reluctance of directors to join the boards". A report from Christian & Timbers in New York also reflects the tough competition when searching for qualified non-executive directors (Bates 2003).

Therefore, based on the past literature, this study predicts that director's expertise plays a significant role in enhancing the performance of family companies. The experts with special skill and qualification can advise family companies better than other directors. Therefore, this study expects that:

H₄: There is a positive relationship between director expertise and family companies' performance.

LEADERSHIP STRUCTURE

The Malaysian Code on Corporate Governance (2001) states that there should be a clear division of responsibilities at the head of the company, which will ensure a balance of power and authority for the Chairman and CEO. CEO duality arises when the post of CEO and Chairman are managed by one person. Several researchers (Rechner & Dalton 1991; Pi & Timme 1993; Fosberg & Nelson 1999) support that separate leadership consistently outperforms firms with a duality leadership structure. A survey conducted by PricewaterhouseCoopers (1999) shows that the majority of Malaysian public listed companies practice separate leadership. Malaysian studies show evidence that Malaysian firms exercise separate leadership (Abdullah 2001; Che-Ahmad, Abdul Manaf & Ishak 2003; Abdul Rahman & Mohd Haniffa 2005).

In contrast, duality leadership is common among family firms (Chen, Cheung, Stouraitis & Wong 2005). Family firms feel that the founder-CEOs are more concerned with the survival of their firms to protect their legacy for future generations. In the US, Moore (2002) found that some firms do have the same person as the CEO and Chairman because he/she focuses on a company's leadership. They also argue that splitting the role of the Chairman and CEO reduces the CEO's freedom of action (Felton & Watson 2002). Furthermore, research found that executives that hold duality have significantly higher corporate performance (Donaldson & Davis 1991). An individual who acts as the CEO and Chairman has the power to determine strategy and is responsible for the firm (Davis, Schoorman & Donaldson 1997).

Therefore, based on previous studies, this study posits that family companies prefer to practice duality leadership as it gives greater power to the same person, who is the owner and the manager of the family firm, to make fast and prompt decisions. With less bureaucracy, a shorter time period is needed and lower costs are involved in managing the family companies. Thus, it is posited that:

H₅: There is a negative relationship between separate leadership structure and family companies' performance.

RESEARCH METHODOLOGY

DATA

This study used Malaysian family companies listed on Bursa Malaysia (excluding banking and finance and insurance sectors) over the period 2003 to 2007. The industry is regulated under The Banking and Financial Act (BAFIA), 1989. The BAFIA (1989) allows Financial Institutions (FIs) to make portfolio investments in non-financial businesses up to a maximum of 20% of FIs shareholders' funds and up to 10% of the issued share capital of a company in which the investment is made. The sample size for this study is 189 companies with the base year 2003. The data for the companies must be available

for the five consecutive years in order to be considered as the sample. This study adopted a panel data approach to analyse the data involving the combination of cross-sectional and time series (Baltagi 2001).

The definition of a family company is consistent with previous studies (La Porta, Lopez De-Silanes & Shleifer 1999; Anderson & Reeb 2003; Villalonga & Amit 2006). In this study, a family-controlled company must fulfil three requirements, these are: (1) Founder is the CEO or successor of the CEO who is related by blood or marriage, (2) with at least two family members in its management, and (3) family directors have ownership (direct and indirect shareholdings) of a minimum of 20% in the company. In determining the family companies, the information on directors' profile, board governance and control variables are hand collected from the annual reports and Thomson Advance Database.

The hypotheses variables are board composition and size, independent non-executive directors, director's education background, director's expertise and leadership structure. The dependent variables are Tobin's Q, Earnings Per Share and Operating Cash Flow. The control variables are debt, firm size and firm age. The definition of the variables is explained in the next section – 4.2 Research Model and Measurement.

RESEACRH MODEL AND MEASUREMENT

The research model is use to test Hypothesis 1 to Hypothesis 5.

$$\text{PERF}_{it} = b_0 + b_1 \text{BSIZE}_{it} + b_2 \text{BIND}_{it} + b_3 \text{BDEG}_{it} + b_4 \text{BEXP}_{it} + b_5 \text{LSHIP}_{it} + b_6 \text{DEBT}_{it} + b_7 \text{FAGE}_{it} + b_8 \text{FSIZE}_{it} + \epsilon_{it}$$

Whereby;

PERF = Tobin's Q (Market value of ordinary shares plus book value of preferred shares and debt divided by book value of total assets), Earnings Per Share (The published earnings for ordinary divided by the average number of shares on issue during the period) and Operating Cash Flow (The operating profit before tax and extraordinary items, adjusted for depreciation and goodwill and changes in working capital –that is changes in stocks, trade debtors and prepayments and changes in creditors and accruals). The variables are tested one at a time.

BSIZE = Number of directors on the board.

BIND = % of independent non-executive director/total directors.

BDEG = % of directors with degree/total directors.

BEXP = % of directors with professional qualification/total directors.

LSHIP = Leadership (separate = 1, duality = 0).

DEBT = Book value of long-term debt/total assets.

FAGE = Number of years since incorporated.

FSIZE = Natural log of the book value of total assets.

ϵ_{it} = Error term.

RESULTS AND DISCUSSION

DESCRIPTIVE ANALYSIS

Based on Table 1, the sample size for family companies were 945 cases comprising annual reports of 189 companies for five years. There were 690 companies (73%) from the Main board, and 255 companies (27%) from the Second board. Nearly two-thirds of the Main board companies represent the family companies. These family companies contribute significantly to the Malaysian economy by creating jobs and supplying resources to the Malaysian markets. These findings have supported previous work done by Claessens et al. (2001), Ngui (2002) and Soederberg (2003).

TABLE 1. Frequency and Percentage of Family

	Frequency	%
Main board	690	73.0
Second board	255	27.0
Total	945	100.0

Table 2 describes the statistics on family companies on Bursa Malaysia based on the industry. Most of the family businesses were highly engaged in industrial products (33.9%), consumer products (20%), properties (13.2%) and construction (10%). However, family companies have low involvement in industries like plantations (7.4%), technologies (2.1%), hotels (1.1%) and infrastructure projects (0.5%).

The average value of Tobin's Q is 0.79, EPS has a mean of 0.10, and OCF shows a mean of 0.08. On

TABLE 2. Frequency and Percentage for Family Companies by Industry

Industry	Family Company	
	Frequency	Percent
Consumer Products	190	20.1
Industrial Products	320	33.9
Plantation	70	7.4
Trading Services	110	11.7
Construction	95	10.0
Infrastructure Projects	5	0.5
Technology	20	2.1
Hotels	10	1.1
Properties	125	13.2
Total	945	100.0

average, the board size is around eight people per board. The smallest board number was three members and the highest number was 17 members. Therefore, this finding supports previous studies that recommended seven or eight executives on the board to ensure its effectiveness (Jensen 1993; Pricewaterhouse Coopers 1998; Abdullah 2001; Amran & Che-Ahmad 2009; Zainal et al. 2009). For board independence, the mean was 0.36. This indicates that 36% of independent directors sit on the family board. This finding is consistent with the Code (2001), which suggests that at least 1/3 of the board must be independent directors and family businesses do comply with the Code requirements. However, family businesses prefer to have family members to be on the board, rather than independent non-executive directors (Ward, 1991; Cromie et al. 1995; Ibrahim et al. 2008).

TABLE 3. Minimum, Maximum Mean and Standard Deviation

	Minimum	Maximum	Mean	Std. Deviation
Performance:				
Tobin's Q	.27	.99	.79	.11
EPS	-2.94	4.77	.10	.31
OCF	-1.16	.78	.08	.11
Board attributes:				
BSIZE	3.00	17.00	7.87	1.98
BIND	.00	1.00	.36	.10
BDEG	.13	1.00	.72	.21
BEXP	.00	1.00	.26	.15
LSHIP	.00	1.00	.90	.30
Control variables:				
DEBT	-.45	.75	.09	.13
FSIZE	9.13	18.03	12.84	1.33
FAGE	.00	64.00	8.90	10.77

Tobin's Q = Market value of common equity plus book value of preferred shares and debt divided by book value of total assets, EPS = Published earnings for ordinary shares divided by average number of shares issued during the period, OCF = Ratio of cash flow from operating activities to total assets, BSIZE = Number of directors on the board, BIND = Percentage of independent non-executive directors divided by total directors, BDEG = Percentage of directors with degree and above divided by total directors, BEXP = Percentage of independent directors with professional qualification divided by total directors, LSHIP = Type of leadership that a firm practices, whether separate leadership or duality leadership, DEBT = The book value of long-term debt by total assets, FSIZE = Natural log of the book value of total assets, FAGE = Number of years since incorporated.

The results also show that about 72% of Malaysian directors sitting on the board do have at least a degree qualification. Therefore, this finding supports the Code (Revised 2007), which encourages firms to search for directors who possess certain qualities. In terms of director's expertise, this finding explains that about 26% of companies have experts sitting on the board. The experts are available in the markets, but the experts were more careful in accepting the jobs (Forbes 1995; Hendry 2002; Bates 2003; Raber 2005; Hartvigsen 2007). In terms of leadership structure, 90% of the companies practice separate leadership as compared to duality leadership. This practice is in line with the Code (2001), Abdullah (2001), Che-Ahmad et al. (2003), Abdul Rahman & Mohd Haniffa (2005). In terms of debt, the usage of debt was low with a mean of about 0.09 and a standard deviation of 0.13. The mean for firm size was 13. Whilst, on average, firms remain about 9 years in the market, and the oldest firms have been able to remain 64 years in the market.

UNIVARIATE TESTS

Table 4 highlights the relationship between the variables in this study. From the correlation matrix, director's qualification, leadership structure and firm size were found to be significant and negatively correlated with Tobin's Q. It was evident that there was a strong positive correlation between Earnings Per Share with board size, directors with degree, debt and firm size. The study also shows that board size, debt and firm size positively correlate with Operating Cash Flows. Board independence was significant and negatively correlated with Operating Cash Flows. In sum, some of the board

mechanisms do show a strong correlation with corporate performance indicators.

MULTIVARIATE REGRESSION

Multivariate regression analysis was adopted to examine the panel data for the period of 2003 to 2007. The advantage of panel data is that it allows for both cross sectional and time series effect in the sample and helps in identifying the sources of possibly mingled effects. The panel generalized least square (GLS) was utilised in this study. Some diagnostic tests were conducted for this study. The Chow's test yields an F-statistic of 6.47. For the heteroscedasticity test, the Breusch-Pagan/Cook-Weisberg test shows an F-statistic of 5.35. The Wooldridge test reveals F-statistic of 1.64 and indicates no autocorrelation problem in the data. Therefore, under these conditions, GLS is a proper estimation method because it effectively standardizes the observations (Baltagi 2001; Greene 2003).

Table 5 shows that the findings partially support hypotheses H_1 and H_5 . Meanwhile hypotheses H_2 and H_4 were significant but in the opposite direction to the hypotheses prediction. H_3 was not supported at all.

Family companies with larger board size (H_1) enhanced firm performance for EPS and OCF. This indicates that the accounting indicators (EPS and OCF) are more sensitive, directly related to financial survivability and reflect the evaluation of performance (Sun & Tong 2003) as compared to the market indicator (Tobin's Q). The findings are consistent with previous studies (Chen et al. 2008; Chen & Nowland 2010). With large boards, family firms have more resources, wider external relationship, higher problem solving capabilities and diversity in the

TABLE 4. Correlation Matrix for the Variables

	Q	EPS	OCF	BSIZE	BIND	BDEG	BEXP	LSHIP	DEBT	FAGE	FSIZE
Q	1										
EPS	-.052**	1									
OCF	.025	.549***	1								
BSIZE	-.035	.161***	.181***	1							
BIND	.016	-.034	-.105***	-.199***	1						
BDEG	-.064***	.102***	.028	-.103***	.135***	1					
BEXP	.027	.005	-.017	-.247***	.237***	.206***	1				
LSHIP	-.075**	.025	-.013	.005	.073***	.184***	.041	1			
DEBT	-.019	.096***	.085***	.083***	-.006	.086***	.011	-.045**	1		
FAGE	-.011	-.017	-.052**	.051**	.086***	.031	-.080***	-.010	.094***	1	
FSIZE	-.168***	.357***	.220***	.301***	.034	.324***	-.059	.045**	.431***	.085***	1

** significant at 0.05 (2 tailed), ***significant at 0.01 (2 tailed).

Q = Market value of common equity plus book value of preferred shares and debt divided by book value of total assets, EPS = Published earnings for ordinary shares divided by average number of shares issued during the period, OCF = Ratio of cash flow from operating activities to total assets, BSIZE = Number of directors on the board, BIND = Percentage of independent non-executive directors divided by total directors, BDEG = Percentage of directors with degree and above divided by total directors, BEXP = Percentage of independent directors with professional qualification divided by total directors, LSHIP = Type of leadership that a firm practices, whether separate leadership or duality leadership, DEBT = The book value of long-term debt by total assets, FSIZE = Natural log of the book value of total assets, FAGE = Number of years since incorporated.

TABLE 5. GLS Estimation for Board Mechanisms and Family Companies Performance

Board mechanism:	sign	Q		EPS		OCF	
		coef	s.e.	coef	s.e.	coef	s.e.
BSIZE (H ₁)	+	.000	.001	.003***	.001	.004***	.001
BIND (H ₂)	-	.017	.014	.093***	.018	-.017*	.010
BDEG (H ₃)	+	-.003	.013	.025	.017	-.007	.008
BEXP (H ₄)	+	-.053***	.016	-.058***	.019	.006	.011
LSHIP (H ₅)	-	-.031***	.007	-.012	.009	-.013***	.004
DEBT		.039***	.015	-.077	.060	-.024	.009
FSIZE		-.008***	.003	.046	.004	.006***	.002
FAGE		-.000	.000	.001***	.001	.000***	.000
_CONS		.967***	.030	-.548*	.046	-.004	.020
R ²		0.0483	0.1462	0.0282			

* significant at 0.1 (2 tailed), ** significant at 0.05 (2 tailed), ***significant at 0.01 (2 tailed).

Tobin's Q = Market value of common equity plus book value of preferred shares and debt divided by book value of total assets, EPS = Published earnings for ordinary shares divided by average number of shares issued during the period, OCF = Ratio of cash flow from operating activities to total assets, BSIZE = Number of directors on the board, BIND = Percentage of independent non-executive directors divided by total directors, BDEG = Percentage of directors with degree and above divided by total directors, BEXP = Percentage of independent directors with professional qualification divided by total directors, LSHIP = Type of leadership that a firm practices, whether separate leadership or duality leadership, DEBT = The book value of long-term debt by total assets, FSIZE = Natural log of the book value of total assets, FAGE = Number of years since incorporated.

board (Zahra & Pearce 1989; Haleblan & Finkelstein 1993). Therefore, it is relevant that larger boards appear to be effective in their oversight duties relative to smaller boards. Another explanation as to why Malaysian family-controlled companies have larger boards may be because of the reputation and practice of including a certain number of prominent Bumiputera as directors on the board. These Bumiputera directors tend to be from the royal families, politicians, civil servants and retired police or armed forces chiefs. Therefore, hypothesis H₁ is partially supported.

In terms of the proportions of the independent non-executive directors (H₂), EPS show a positive direction, while OCF (as expected) show a negative direction with performance. These differences may be due to the nature of measurement for both variables. EPS take into account the accrual income and past research shows that accruals can be managed and that board independence has some influence on the behaviour of accruals. This behaviour is likely to be more prevalent in family companies and may influence the results (Ibrahim et al. 2008; Amran & Che Ahmad 2009). EPS also take into account the number of outstanding shares. As such, even if the two companies have equal earnings or equal size, they may have a different number of shares outstanding at the same time. These lines of reasoning warrant further research.

However, the finding also evidenced that family companies with a lower number of independent directors enhance family firms' performance (when measured using OCF). This finding is consistent with the predicted hypothesis in this study. We would expect that in family companies, the executive directors will dominate the discussions in the board meetings. As such, the presence of independent non-executive directors is likely to just fulfil the requirements of the Code (2001). To the best of our

knowledge, OCF has not been used in studies of corporate performance. We thought that this measure of performance, as researched in other areas, could also be used to provide information from another perspective for the performance studies. The results suggest that OCF is a good measure of performance, especially for studies involving family companies.

This study also found that directors with education background (H₃) does not influence the family firm performance. In addition, this study also reveals a contradictory result for H₄. The higher the percentage of experts on the board, the lower the performance. In fact, family companies with few experts show better firm's performance (using Tobin's Q and EPS). We speculate that a lower number of experts results in better discussion, faster agreements among the members and speedy decision making. Whilst, a greater number of experts are generally good for opinion gathering such as in academic conferences, a smaller number of experts might be more suitable and expedient for board efficiency. Thus, firm performance is enhanced.

In terms of leadership structure (H₅), family businesses that practice separate leadership have lower firm performance. This implies that family companies prefer a duality leadership structure. The reason may be that the leader wants to protect their family legacy (Chen et al. 2005), focus on the company leadership (Moore 2002), higher freedom in making the decisions (Felton & Watson 2002), greater power to determine company strategy and responsible for the company (Davis et al. 1997). However, the hypothesis variable for H₅ is not significant when EPS is used as the dependent variable. This could be due to the nature of data (i.e., accrual vs. cash), which is already discussed above. In addition, the data is

limited to five years only. Perhaps, a longer time period may be more appropriate and may capture better effects statistically. The results also suggest that EPS might not be a good measure of performance for studies involving family companies. Further research is warranted to corroborate this argument.

Debt was found to help family companies enhance company performance (when measured using Tobin's Q). A higher amount of debt shows a signal of investment opportunity for family companies. The amount of debt can be used to expand family businesses (Marsh 1982; Hovakimian, Opler & Titman 2001). Firm size reveals mixed directions. On the one hand, larger firm size helps to boost company performance (when measured using OCF). Family companies with high cash flows will have greater opportunity to expand their businesses. Thus, firm performance is enhanced (Trow 1961; Helmich 1977). However, on the other hand, large firm size can contribute to unmanageable business operations, and lead to a fall in firm performance when measured using Q (Daily & Dollinger 1992). For firm age, matured family companies enhanced greater firm performance. As firm age increases, the managers learn more about their abilities over time (Evans 1987b).

CONCLUSION, LIMITATIONS AND FUTURE STUDY

Overall, this study found that some of the board mechanisms influence the family companies' performance. The findings explain that family businesses with larger board size, low number of experts and duality leadership lead to higher family companies' performance. Meanwhile, director's qualification does not influence the family performance. Family businesses believe that power and control need to remain in the hands of family members – usually the founder or the successor of the company. Furthermore, strong family ties and beliefs made family businesses different from non-family companies. Thus, regulators and investors need to understand that family companies have different characteristics than non-family companies. Although these conflicting results necessitate further study, future revisions of the Code should take these factors into consideration.

In terms of limitations, this study only considers using the family companies' sample. Also, three measurements for dependent variables using market based and accounting based were applied in this study, but show inconsistent results. Thus, future studies may consider private family businesses. Although it is more difficult to get the data, the results would be more pronounced since private entities are not subject to Bursa Malaysia regulations.

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