Bumiputera Institution and the Development of Corporate Governance in Malaysia

A thesis submitted to The University of Manchester for the degree of

Doctor of Philosophy

in the Faculty of Humanities

2012

Nor Zalina Mohamad Yusof

Manchester Business School

TABLE OF CONTENTS

This thesis contains 86,068 words including title page, tables, and footnotes.

List of Acronyms and Abbreviations

ABC	Activity Based Costing
ADB	Asian Development Bank
ANT	Actor Network Theory
AOB	Audit Oversight Board
APEC	Asia Pacific Economic Cooperation
ASLI	Asian Strategy & Leadership Institute
BEC	*Bumiputera* Economic Congress
BN	Barisan Nasional (National Coalition)
CalPERS	California Public Employees' Retirement System
CCM	Companies Commission of Malaysia
CEC	Chinese Economic Congress
CEO	Chief Executive Officer
CLRC	Corporate Law Reform Committee
CMP	Capital Market Master Plan
CPPS	Centre for Public Policy Studies
DBR	Disclosure-based-regulation
DNU	Department of National Unity
ED	Executive Director
EPF	Employee Provident Fund
EPU	Economic Planning Unit
ETP	Economic Transformation Programme
FDI	Foreign Direct Investment
FELDA	Federal Land Development Authority
FIC	Foreign Investment Committee
FSMP	Financial Sector Master Plan
GLC	Government Linked Company
GLCT	GLC Transformation
GLIC	Government Linked Investment Company
GTP	Government Transformation Programme
HLFC	High Level Finance Committee on Corporate Governance

ID	Independent Director
IIF	Institute of International Finance
IMF	International Monetary Fund
IPO	Initial Public Offering
MAICSA	The Malaysian Institute of Chartered Secretaries and Administrators
MBS	Merit-based-system
MCA	Malaysian Chinese Association
MCCG	Malaysian Code on Corporate Governance
MD	Managing Director
MIC	Malaysian Indian Congress
MICG	Malaysian Institute of Corporate Governance
MNC	Multi National Company
MP	Malaysian Economic Plan
MPHB	Multi Purpose Holdings Bhd
MPM	Malay Consultative Council
MSWG	Minority Shareholder Watchdog Group
NDP	National Development Policy
NEAC	National Economic Advisory Council
NED	Non Executive Director
NEM	New Economic Model
NEP	New Economic Policy
NES	New Economic Sociology
NGO	Non-Government Organisations
NIE	New Institutional Economics
NIS	New Institutional Sociology
NOC	National Operations Council
NVP	National Vision Policy
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PCG	Putrajaya Committee on GLC High Performance
PERKASA	Pertubuhan Pribumi Perkasa Negara
PERNAS	Perbadanan Nasional (National Trading Corporation)

PLC	Public Listed Company
PM	Prime Minister
PNB	Permodalan Nasional Berhad
POB	Public Oversight Board
ROSC	Report on the Observance of Standards and Codes
SC	Securities Commission
SOX	Sarbanes Oxley Act
SRI	Strategic Reform Initiatives
TIAA-CREF	Teachers Insurance and Annuity Association – College Retirement Equities Fund
UK	United Kingdom
UMNO	United Malays National Organization
US	United States
YPB	"Yayasan Pelaburan *Bumiputera*" (*Bumiputera* Investment Foundation)

List of Figures

List of Tables

Abstract

The University of Manchester
Nor Zalina Mohamad Yusof
Doctor of Philosophy (PhD)
Bumiputera Institution and the Development of Corporate Governance in Malaysia
September 2012

Realizing the limitations of economic theories in explaining corporate governance practices, this thesis adopts an institutional approach in its attempt to understand how such issues are shaped by larger institutional contexts. Malaysia is used as a case study; and accordingly the influence of a dominant institution of *Bumiputera* (sons of the soil) on corporate governance practices is investigated. The thesis focuses on the emergence, institutionalization impact, and change of the *Bumiputera* institution; and how corporate governance practices are influenced in each stage. As a lens for analysis, this thesis integrates sociological and historical paradigms of the new institutionalisms, and extends Beckert's (2010) framework to include the role of power as advanced by Steven Lukes (1974, 2005). This extended framework is useful in explaining how the reciprocal influence of the *Bumiputera* institution, social networks, cognition, and power affect the behaviour of corporate governance actors.

The analysis shows that, following the commitment by the state towards *Bumiputera*, the Malays' equity ownership has seen a progressive increase, although it failed to meet the specified target of 30%. Malays' representation on corporate boards also increased. The commitment has also led to a strong state presence in the economy, through its involvement in the Government Linked Companies, established to pursue *Bumiputera*'s objectives. However, unintended consequences have arisen affecting both ownership and appointment. The analysis also shows that, while board appointment is largely based on social networks, the existence of the *Bumiputera* institution means that ethnicity matters. Appointment could be for political or legitimacy reasons. Heightened by liberalisation moves, both *Bumiputera* and corporate governance institutions are subject to change. However, this refers only to the regulative aspects of the institutions, which are more susceptible to change compared to their informal elements. The state's commitment towards *Bumiputera* remains.

This study contributes to corporate governance literature by providing evidence on how corporate governance institutions are influenced by the larger social-political and institutional context vis-à-vis the emerging economy. This study shows that: firstly, corporate governance practices are shaped by history and political contexts; hence, understanding history would enhance the understanding of corporate governance. Secondly, ownership structure and the board of directors are not just mechanisms of corporate governance; rather, they are also channels through which larger objectives, including social objectives, are being pursued. Finally, this institution of corporate governance is not driven by functional needs of capital providers, but is shaped by powerful actors. Corporate governance practices are not intended just for resolving a particular agency problem, but are a mode of response to a particular historical incident that developed in postcolonial Malaysia.

Declaration

I, Nor Zalina Mohamad Yusof, declare that no portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

Copyright Statement

i. The author of this thesis (including any appendices and/or schedules to this thesis) owns any copyright in it (the "Copyright") and s/he has given The University of Manchester the right to use such Copyright for any administrative, promotional, educational and/or teaching purposes.

ii. Copies of this thesis, either in full or in extracts, may be made **only** in accordance with the regulations of the John Rylands University Library of Manchester. Details of these regulations may be obtained from the Librarian. This page must form part of any such copies made.

iii. The ownership of any patents, designs, trademarks and any and all other intellectual property rights except for the Copyright (the "Intellectual Property Rights") and any reproductions of copyright works, for example graphs and tables ("Reproductions"), which may be described in this thesis, may not be owned by the author and may be owned by third parties. Such Intellectual Property Rights and Reproductions cannot and must not be made available for use without the prior written permission of the owner(s) of the relevant Intellectual Property Rights and/or Reproductions.

iv. Further information on the conditions under which disclosure, publication and exploitation of this thesis, the Copyright and any Intellectual Property Rights and/or Reproductions described in it may take place is available from the Head of School of Manchester Business School (or the Vice-President) and the Dean of the Faculty of Humanities.

Acknowledgements

First and foremost, I would like to convey my heartfelt gratitude to my supervisor, Dr Mahbub Zaman for his unwavering support, guidance, direction, and invaluable insight during my doctoral research program at MBS. I appreciate his patience in encouraging and supporting me throughout my study. Without him, this thesis would not have been completed. I am also extremely grateful to my former supervisor, Professor Danture Wickramasinghe for his guidance and all the useful discussions and brainstorming sessions, especially during the difficult stage of developing the theoretical framework. Thank you for opening up another research perspective for me, which I thoroughly enjoyed whilst discovering it.

I offer my sincerest gratitude also to my PhD Committee Chair, Professor Pam Stappleton for all her support and helpful feedback. Many thanks also to Dr. Anne Stafford, who has helped me with my work during my first year in Manchester. Similarly, I extend sincere thanks to all other Committee members for their encouragement, support, feedback, and suggestions, namely; Dr Anna Samsonova, Dr Javed Siddiqui, Professor Stuart Turley, and Professor Chris Humphrey. I am also very grateful to have been able to learn from great minds including Professor Sven Modell, Professor Trevor Hopper, Professor Martin Walker, Professor Norman Strong, Professor Robert Scapens, Professor Ted O’Leary, and Professor Catherine Cassell. I express my deep gratitude to my thesis examiners, Professor Jim Haslam and Dr Javed Siddiqui. Their approach to the viva has put me at ease and I greatly appreciate their comments and words of encouragement.

I am also indebted to my friend, Ahmed Derbala, whom I always turned to whenever I felt I had reached the lowest point. Ahmed has given consistent support to me throughout my period of study and I am thankful for all those long discussions that I had with him. I am blessed to find someone who is not only a friend, but also a big brother to me. Thank you also to my dearest friend, Thomas Schroeder, for giving me such a wonderful friendship and for making this journey more meaningful for me. Despite our opposing views on life, Thomas is a great friend. I admire his positive outlook and his ability to smile despite all the hardships that he has been through. He is a friend who could always put a smile on my face. A special thanks also to my friend, Mudzamir Mohamad, for being there for me in the past four years. I enjoyed the great times that we had in the UK.

I am fortunate to have other wonderful colleagues, friends and peers, both in Manchester and in Malaysia. I extend my sincere thanks to fellow PhD students who were always there to share their experience and knowledge and for making my stay in Manchester more enjoyable. Thank you to Charmaine Cummings, Liwei Liu, Masarro Masri, Hana Yasmin Ishak, Wan Nur Rahini, Hussain Al-Arayed, Kalle Stahl Nielsen, Sumaira Minhas, Zhenmei Zhu, Cuong Nguyen, Pantharak Phookpan, Zubir Azhar, Guilherme Biesek, Carmen Liang, and Yuji Ha. Thank you also to my office-mates, Raza Khan and Julian Salazar. My deep appreciation also goes out to my ‘family’ in Manchester; John, Shirley, and Baby Crystal. Thank you very much for the hospitality.

My deepest gratitude goes to my parents, brothers and sisters for their unconditional love and support throughout my life. Thank you for the prayers and for showing faith in me. To my husband, thank you for your love, support, and encouragement, and for listening to me whenever I was excited about a new idea. The past four years have not been an easy ride and I thank my husband for standing by my side. I would not have contemplated this road if it was not for him.

Very special thanks also to the Ministry of Higher Education, Malaysia for their financial support. Finally, I would also like to acknowledge the support that I received from my employer, Universiti Utara Malaysia.

Chapter 1 – Introduction

1.1 Background of the Study

From the dominant perspective of agency theory, corporate equity ownership and board of directors are regarded as two of the most important corporate governance mechanisms in the modern economy where ownership and control are, generally, separated. Concentration of ownership provides an efficient mechanism in giving incentives to large investors to monitor managers (Jensen & Meckling, 1976; Schleifer & Vishny, 1986); therefore, it serves as a substitute for effective mechanism for countries with poor investor protection (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). The board of directors performs a monitoring function to address agency conflicts; hence, their structures, characteristics, compositions, and processes are important and could impact on a firm's performance (see Zahra & Pearce II, 1989). These suggest that the creation of a corporate governance institution is driven by the functional needs of owners of capital and therefore, whichever institutions survive are, by definition, efficient (Fligstein & Choo, 2005). The validity of this view, however, is challenged by many.

Firstly, the corporate governance institution is not entirely driven by the functional needs of owners of capital; rather it is very much affected by the larger elements in which it is embedded (see Katznelson, 2003). Roe (1991), for example, argues that even in the US, at least in the 1930s, the dispersed ownership of their corporations was not due to economic or technology necessity as portrayed by Berle and Means (1932); rather it was political, affected by laws and the power of the economic actors at that time. It was the change in this power that enabled institutional investors to have more control in corporations later (Davis & Thompson, 1994). Gourevitch (2003) and Roe (2003) further argue that corporate governance arrangements inside a firm interact with a nation's politics and that the change in corporate governance structures is triggered by political decisions, leading to a mixture of laws, rules, regulations, and their degree of enforcement. Hence, the differences observed in the practices of corporate governance between countries are due to the influence of the respective countries' politics on how social conflicts are settled, how authority is divided, and how firms are owned (Roe, 2003). Taking this to another level, Letza et al. (2004), however, observed that the economic rationalities of corporate governance practices tend to mask the importance of irrationality, emotions, values, beliefs and ideology, which often play a significant role in shaping such practices.

Secondly, observations have also been made that, firms from countries that do not adhere to the agency-driven Anglo-American model of corporate governance, such as Japanese and Korean business groups, have risen to prominence. At the same time, corporate scandals that occurred in the US seem to highlight the limitations of the Anglo-American model (Pierre, 2006). These suggest that the persistence of the Anglo-American system may not be driven by efficiency; and that there is no single set of best practices for corporate governance to produce greater economic growth. But, what is important are stable institutions that are legitimate and prevent extreme rent-seeking on the part of governments and capitalists (Fligstein & Choo, 2005).

This is because, despite being an important ‘economic-shaping structure’, corporate governance is effectively a ‘second-order institution’ (Weiss, 2010). Therefore, similar to many of the most important institutional structures, corporate governance also “depends on the presence of regulatory regimes that are the preserve of the nation-state” (Hall & Soskice, 2001). Understanding these regulatory regimes could help to better understand corporate governance practices. Furthermore, the importance of the state’s role in influencing corporate governance also should not be underestimated as their interventions may facilitate the emergence of compromises, which would impact on the behaviours and strategies of corporate governance actors (see Boyer & Hollingsworth, 1997, p. 449).

This study, therefore, is interested in these larger elements. The aim of this thesis is to understand how corporate governance practices are influenced and shaped by the larger institutional environment in which they are embedded. Focusing on ownership structure and board of directors of its public listed companies, Malaysia is used as a case study and its dominant institution of *Bumiputera* (sons of the soil) is investigated. *Bumiputera* is an evidence of the state’s influence in the country. The term will be defined further in the following section. But, basically, *Bumiputera* in this study is seen as follows: firstly, in relation to the people (ethnic); secondly, as being a policy intended to further the benefits or interests of *Bumiputera* people; and thirdly, as an institution, shaping corporate governance in the country.

Bumiputera as a policy emerged in the year 1971. It explicitly requires some major reforms with regard to the share of equity ownership in the country's corporate sector as a way to reduce social imbalances. It is regarded here as a "regulatory regime" (Hall & Soskice, 2001), as it contains specific requirements imposed by the state on economic actors, which structure their conduct. As will be discussed further in later chapters, *Bumiputera* policy has led to the establishment of the Government Linked Companies (GLCs), being companies in which the government has a direct controlling stake. This makes the presence of the state in the economy significant. This study pays particular attention to the GLCs, due to their political and economic significance to the country. How GLCs shape corporate governance practices is investigated. More than that, since its establishment *Bumiputera* has defined the country's political, economic and social systems. *Bumiputera* as an institution affects policy-making and decision-making processes in the country where "policy-making is generally about writing or changing rules, regulations, and laws which makes it often a process of institution building and institutional change" (Campbell, 2004, p. 92).

As an institution, *Bumiputera* has persisted for a long time. Hence, an institutional analysis is conducted to show its emergence, its institutionalization impact, and its persistence or change. How the institution emerges influences how it shapes the behaviour of corporate governance actors. The analysis also explores the political processes that led the *Bumiputera* institution to be endogenised in organizations, which then affects corporate governance practices. Accountability and control systems are intermingled with political processes and outcomes; hence, the nature and effects of these systems can be captured when those political processes and their outcomes are systematically explored (Alawattage & Wickramasinghe, 2009). This study, thus, investigates how history, politics, and the socio-economy influence the corporate governance landscape in Malaysia. In particular, this present study seeks to discover how these compromises, which arose from state intervention, affect the behaviours of the corporate governance actors, influence ownership structure, and shape their corporate boards.

From a theoretical perspective, the view that corporate governance is affected by social context and social mechanisms is consistent with the new economic sociologists' view about economic behaviour. Economic sociology studies economic phenomena from a sociological perspective based on the argument that social mechanisms, which refer to institutions, power, social networks and cognition, are important in explaining economic actions (Dobbin, 2004, p. 4). Existing studies in institutions, however, pay less attention to the relationship between different institutions and the relationship between institutions and power (Mohr & Friedland, 2008). This study aims to fill this gap by looking at the relationship between two institutions, namely; *Bumiputera* and corporate governance. Both were created by the state and neither arose 'naturally' or as the result of market forces, although both institutions are central to the operation of the modern market economy (Carruthers, Babb, & Halliday, 2001). This study also focuses on the relationship between institutions and power, as well as other social mechanisms of network and cognition. Although the study acknowledges the important roles played by all four mechanisms (institution, power, social network, and cognition), the data collection and analysis focuses more on power and the *Bumiputera* institution. The role of cognition is given less attention, due to the limitation of the data in assessing the actors' cognitive positions. Furthermore, cognition itself is inherent in other mechanisms. For social networks, it is a 'product' of interaction between power and the *Bumiputera* institution. The study does not investigate in detail the formation of networks or the network itself.

1.2 *Bumiputera* Defined

The term *Bumiputera* or "sons of the soil" was popularized during the 1920s and 1930s by the British colony to distinguish the indigenous[1] people of Malaya (now

[1] It is important somehow to distinguish the definition of indigenous applicable here to the term indigenous as defined internationally by the International Labour Organization (ILO) and the United Nations (UN). The term "indigenous people" is political and may refer to different kinds of subjects in different contexts (Pelican, 2009). For example, the UN Working Group on Indigenous Populations emphasizes four principles to be considered in any definition of indigenous peoples: first, priority in time; second, the voluntary perpetuation of cultural distinctiveness; third, self-identification;

Malaysia), the majority of whom are Malays, from the Chinese and Indian immigrants, the non-indigenous people (Siddique & Suryadinata, 1981). Malaysia is made up of two physical regions separated by the South China Sea; Peninsular Malaysia and Malaysian Borneo. Article 160(2) of the Malaysian Constitution 1957 defines Malays as "a person, who professes the religion of Islam, habitually speaks the Malay language, and conforms to Malay custom". The aborigine of Peninsular Malaysia is referred to in the Constitution as 'aborigine' and the aborigine of Malaysian Borneo is referred to as 'natives'. There is no definition of *Bumiputera* in the Constitution; however, all three categories - Malay, 'aborigine', and 'natives' made up the *Bumiputera.* All are eligible for special rights of *Bumiputera* even though the Constitution details a special position only for the Malays, such as those contained in Article 153. Non-*Bumiputera* refers to the Malaysian Chinese and Indians.

Although Malaysia is no longer a British colony, there is still a need to differentiate between *Bumiputera* and non-*Bumiputera* people. The rationale is based on three premises; first, the basis for division lies in the belief that *Bumiputera* people do not have a share in economics that reflects their proportion in the population and their status as indigenous; second, government policies should be oriented to redress this perceived economic imbalance; and third, it is believed that a more equitable participation of *Bumiputera* people will help to promote political stability (Siddique & Suryadinata, 1981). *Bumiputera* policy reflects a desire to redress the economic disparity prevalent in Malaysia and provide recognition that, unless the government adopts programmes addressing the concerns of people economically marginalised, it would be difficult to have social cohesion, stability and order in the country. *Bumiputera*, hence, refers to the people, policy, and institution. The term institution is defined in chapter 3. The following section discusses the motivations behind this study.

---

and fourth, an experience of subjugation, marginalization, dispossession, exclusion or discrimination, whether or not these conditions persist (Kenrick & Lewis, 2004). Marginalization here also includes political marginalization (Pelican, 2009), which is not the case for the Malays.

1.3 Motivations of the Study

This study is carried out because of the realization that corporate governance is an important economic institution in a nation; hence, the need to understand it beyond its internal structures. How it is practiced, and how the practices are affected by social factors, is of significant importance. However, there appear to be gaps in the corporate governance literature in explaining practices, and in explaining variations in practices. Van der Eng (2006), for example, notes that although it is widely understood that there are national differences in corporate governance, it is not widely understood why such national variations exist. Therefore, this study is carried out to fill the gaps in corporate governance literature by giving insights from an emerging economy, Malaysia, on how corporate governance is practiced and shaped.

As will be shown in Chapter 2, corporate governance research is dominated by agency theory. However, review of more recent literature shows increasing critiques against this perspective. Agency theory is criticised for being under-contextualised, and therefore, unable to give a better explanation on the diversity of corporate governance arrangements across different institutional contexts (Aguilera & Jackson, 2003). It is also said to be limited in its ability to explain the politics of corporate control as politics, like any other social action, is embedded in social structures (Davis & Thompson, 1994). This view reveals the fact that agency theory fails to sufficiently explore how corporate governance is shaped by its institutional embeddedness (Aguilera & Jackson, 2003). At the same time, more studies are showing the importance of context in explaining corporate governance. Corporate governance systems are argued to be a result of political and historical incidents (Fligstein & Choo, 2005), as well as war, revolution, invasion, colonization, and class struggle (Roe, 2003). Useful insights about governance must inevitably have a broader scope encompassing such complex matters, including national systems (Hambrick, Werder, & Zajac, 2008).

However, given this alternative perspective, gaps exist in this body of literature that this study wishes to fill. Firstly, there appears to be a lack of focus on the role of power in explaining corporate governance, which should be the centre of analysis (Fiss, 2008). As described by Clegg (1989), organizations are composed of ‘locales’.

One of them is the boardroom, which is influenced by institutional 'arenas' such as the capital market and the labour process. Struggles within these arenas will constitute the agencies, authorities, powers, network and interests characteristic of the everyday life of the organizations. While Clegg (1989) focuses more on the power of the actors within the organization, this study pays more attention to power at higher levels, i.e. political power, or the power of the state in influencing corporate governance at an organizational level. In other words, by focusing on *Bumiputera* as an arena, it can be seen how power at the state level influences the practice at a micro level, and at the same time impacts on the power of individuals in organizations. The power of actors at micro level, hence, is seen as being a consequence of the state's power.

Secondly, there is also a tendency in accounting and corporate governance research to put history in the background and not at the centre of analysis (Alawattage & Wickramasinghe, 2009). This has been acknowledged earlier by Nichols (1998) in his discussion of the missing linkages between historical and sociological institutionalisms in institutional analysis. Malaysia provides an interesting avenue for such a perspective; the empirical evidence found in this study coincides with the theoretical gap. By focusing on *Bumiputera* and utilizing historical and sociological institutionalisms, it is hoped to gain an understanding of the antecedents of governance practices and their consequences.

Finally, it has been acknowledged that research in emerging economies is set to grow in influence and reach because of growing awareness on how this research agenda can contribute to understanding in many areas, including economics (Kearney, 2012). The importance of institutions in explaining firms' behaviour is also acknowledged (Fan, Wei, & Xu, 2011), but the number of theoretical and empirical studies utilizing an institutional perspective in such a context is limited (Hoskisson, Eden, Lau, & Wright, 2000). Accounting research examining corporate governance in emerging markets has adopted research methods and theories (often archival modelling and agency theory) without paying due attention to the national institutional context. In developed economies, because ownership and control are often separated and legal mechanisms protect owners' interests, the governance conflicts that receive the lion's share of attention are the principal–agent (PA) conflicts between owners and managers (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). On the other hand, in emerging and less developed economies, the issue is more between majority shareholders and minority shareholders. However, researchers often implicitly assume that institutional conditions found in developed economies are also present in emerging countries (Wright, Filatotchev, Hoskisson, & Peng, 2005). This assumption suffers an ontological flaw. What is real is that, despite the proliferating effects of globalization, corporate governance practices vary from country to country with episodic changes over time (Gourevitch & Shinn, 2005). Since various institutional factors fundamentally influence managerial behaviours in emerging markets, ignoring them in making comparisons between developed and emerging markets would be misleading (Fan et al., 2011). Therefore, by taking Malaysia as a case study, it is hoped that it could contribute to both theoretical and empirical knowledge of emerging economies. The following section justifies using Malaysia as a case study.

1.4 Malaysia as a Case Study

Morck and Steier (2005), in commenting on a compilation of studies providing an historical account of the evolution of control and ownership in 11 selected economies (Morck, 2005), notes the importance of giving attention to Malaysia. They argue that Malaysia is profoundly interesting from many perspectives; but as its industrial history is relatively new, it is then less able to provide an insight into the evolution of corporate control than older industrial economies. Given this argument, it is hoped that by focusing on the *Bumiputera* institution, this study could provide some insight into the brief development of corporate governance in Malaysia.

Despite its importance, the *Bumiputera* policy has received little attention in accounting and corporate governance research in Malaysia. In some studies, *Bumiputera* is mentioned but not analysed (Haniffa & Cooke, 2002; Haniffa & Hudaib, 2006; Shamsul Nahar, 2006). Being masked by the economic analyses of the 1997/98 Asian crisis, most Malaysian corporate governance studies inadvertently neglected the implication of *Bumiputera* policy (e.g. Becht, Bolton, & Roell, 2005). Bridging this gap, this thesis argues that, although there is an economic angle in their analysis, as a dominant institution, *Bumiputera* provides indispensable lenses for studies in corporate governance in Malaysia, for this policy persisted long before the 1997/98 Asian crisis. This cannot by any means be neglected for it acts as the dominant institution, reflecting the country's national economic policy, which has direct implications for apparatuses of corporate governance. It is argued here that corporate governance is a social process - it cannot be isolated from social and other non-economic conditions and factors such as power, legislation, social relationships and institutional contexts (Letza et al., 2004).

Such a research interest is also timely considering the recent development in the country that has brought both *Bumiputera* and corporate governance to the centre of the state's attention. Recent developments in Malaysia have seen the country furthering the liberalization of its economy that is inevitable as it strives to achieve its vision of becoming a developed country by the year 2020. Strengthening corporate governance practices are then crucial for moving the country towards this goal. This is because Malaysia relies partly on foreign investment for its economic expansion; hence, is important for the country to gain investors' confidence with regard to their corporate practices. Corporate governance, therefore, continues to receive significant attention from the regulators as well as the government. In her keynote speech addressing the Corporate Directors Conference 2011, Tan Sri Zarinah Anwar, the then Chairman of Securities Commission Malaysia (SC) also discusses the role of directors in light of the country's move to transform its economy under the newly launched 10th Malaysia Plan, the New Economic Model (NEM) and the Economic Transformation Program (ETP). The speech highlights the more onerous role of board of directors as the country began its transformation towards a more liberalized nation (Securities Commission, 2011).

One important aspect of corporate governance practices in Malaysia is the existence of social networks among the respective actors. It is important to study how these social ties are used to produce benefits, as well as the determinants of the tie or network formations in the Malaysian context (Galaskiewicz, 2007). Furthermore, in Malaysia, the government plays an important role in the country's economy through the various economic policies and through the presence of GLCs in the market. Previous studies have shown how the state could play a significant role in shaping markets (Fligstein, 1996) and industry development (see Evans, 1995). Hence, it is important to study how the Malaysian government plays its roles through policies, organizations, and guidelines in order to shape corporate governance practices.

However, despite increased attention being given to corporate governance practices in Malaysia by practitioners, regulators, academics and researchers, there is still a lack of studies that focus on corporate social networks or directors interlocking among the listed firms in the country. Studies like Haniffa and Cooke (2002) and Haniffa and Hudaib (2006) take directors interlocking or multiple directorships as being one of the variables tested in their studies, and do not focus on the interlocking issue specifically. On the other hand, Heng (1997) and Chan (2004) discuss social networks in their effort to explain the role of the Malaysian Chinese community in the evolution of the New Economic Policy (NEP) and social network practices during the Malaysian business growth during the 1990s, respectively. However, their studies contain a lack of focus on corporate governance impact. Hence, this study aims to fill the gap in corporate governance literature by focusing on how the practices of social networks are influenced by social structures and how they, in turn, influence other corporate governance practices.

1.5 Research Questions

This study aims to fill the gaps in accounting research, i.e. the neglect of the political significance of corporate governance policies and practices. Taking Malaysia as a case study, this study then investigates whether and how the existence of the *Bumiputera* institution influences corporate governance practices in the country. The study focuses on the emergence, development and impacts, and changes to the *Bumiputera* institution and how corporate governance practices are shaped at each stage. In particular, the study asks:

1) How did the *Bumiputera* institution emerge?
2) How did the commitment towards *Bumiputera*, i.e. the *Bumiputera* policy, take place?
3) How does the emergence of this commitment then affect corporate ownership structure and board representations?
4) How does *Bumiputera* become institutionalised?

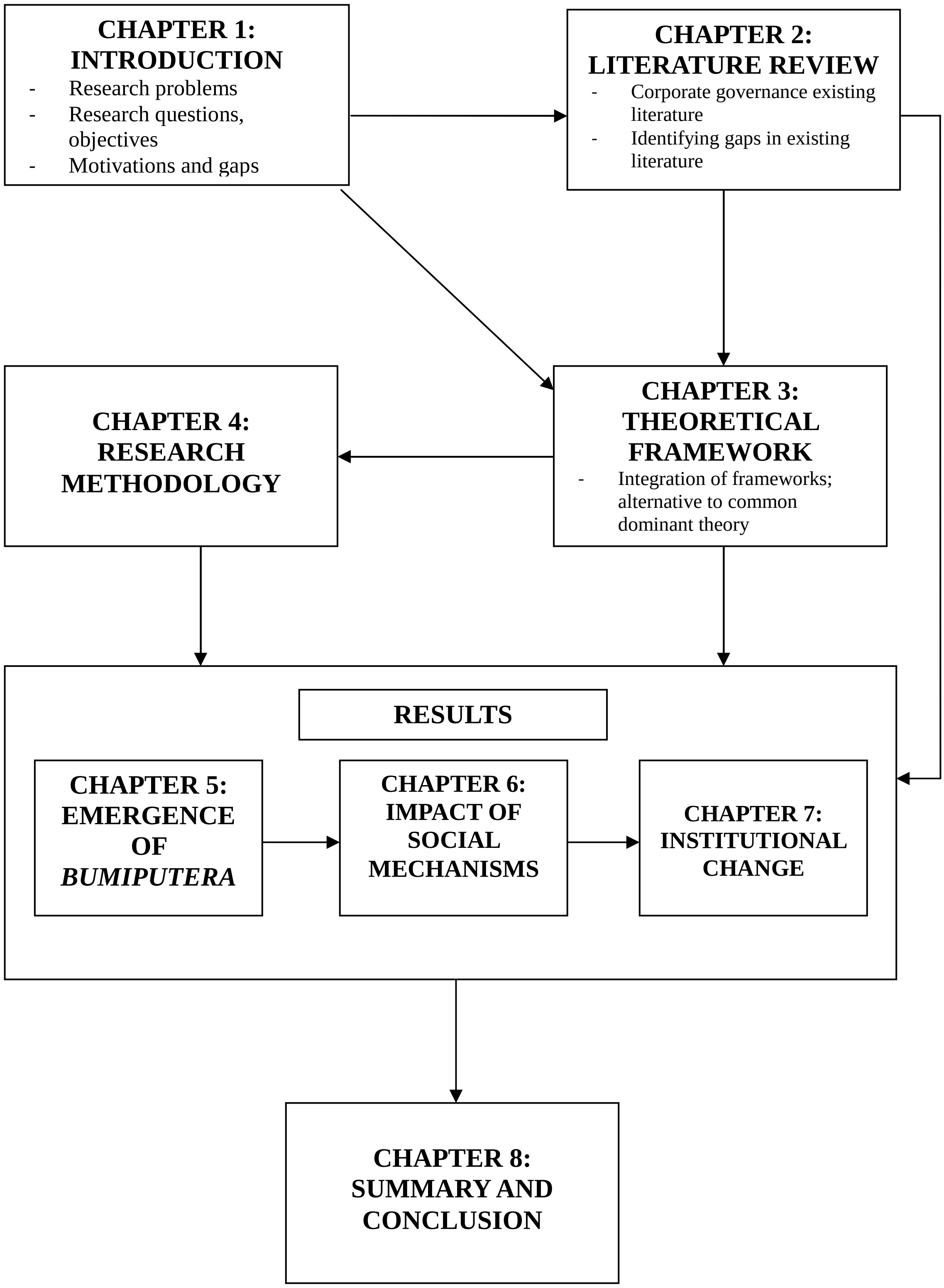
5) How does the state's political power play its role in promoting *Bumiputera*?
6) How does this then affect corporate governance practices, in particular board appointment practices?
7) How do other social mechanisms of social networks and cognitive frameworks affect corporate governance practices?
8) Have there been any changes in corporate governance and *Bumiputera* institutions?

This study would show that, firstly, ownership structure and board of directors are not just *mechanisms* of corporate governance; they are also *channels* through which larger objectives, including social objectives, are being pursued. Secondly, this institution of corporate governance is not driven by functional needs of capital providers, but instead is shaped by powerful actors. Thirdly, corporate governance practices are shaped by history and political contexts. Historical institutionalism illustrate that corporate governance practices are not just for resolving a particular agency problem, but are also a mode of response to a particular historical incident that developed in postcolonial Malaysia. Hence, understanding the history would enhance the understanding of corporate governance.

1.6 Structure of the Thesis

Figure 1.1 below shows the structure of this thesis. This chapter sets out the context of the study and shows what are the interests and focus of this thesis, and why such interests and focus developed. Chapters 2 and 3 are more of an elaborate discussion of the issues raised in this chapter. The review of corporate governance literature in Chapter 2 shows how agency theory has been dominating attention; and how more alternative views are increasingly being proposed. Chapter 2, thus, aims to show what have been the focuses of previous studies; what the gaps are; and how to locate this present study in existing literature. Chapter 3 extends the discussion in this chapter by presenting further arguments against agency theory and subsequently lays out an alternative framework, which is then used as a basis for analysing and making sense of the data collected. Chapter 4 presents the research design and methodology employed to answer the research problems through the proposed theoretical framework. The empirical evidence is presented in three separate chapters; each focusing on the stage of *Bumiputera* institution identified Chapter 5 presents the historical analysis, which focuses on the emergence of *Bumiputera*; Chapter 6 presents the social mechanisms impacting on corporate governance, which focuses on the operation of the *Bumiputera* institution and takes into account other social mechanisms of power, social networks, and cognition; while Chapter 7 presents a discussion on institutional changes or persistence. Chapter 8 summarizes and concludes the thesis.

Figure 1.1 Organization of the thesis



Chapter 2 - Literature Review

2.1 Introduction

The aim of this thesis is to understand how corporate governance practices could be influenced by the larger institutional environment in which it is embedded. This occurs because corporate governance is a social process and is affected by various social elements, including institutions. To gain this understanding, this study thus investigates corporate governance in Malaysia to see how it is affected by the dominant institution of *Bumiputera*. Chapter 1 provides the background and motivations of the study which briefly draws attention to, among others, the gaps in the existing corporate governance literature. These include those conducted in the Malaysian context, and the neglect of *Bumiputera* in accounting research in the country, despite its importance. Research questions are then developed which stem from these gaps in the literature, as well as from the practical issues faced by the country. The purpose of this chapter is, therefore, threefold; first, to provide a more detailed commentary on the nature of existing research on corporate governance; second, to identify gaps in the literature; and third, to locate this study in the existing literature. The literature review covers relevant literature in the corporate governance field and those studies conducted in the field of economic sociology which provide alternative insights into and perspectives of corporate governance. This review of literature would also provide some basis in developing the theoretical framework set out in the next chapter; help in crafting the research methodology in Chapter 4; and be used to support the discussions of the research findings in Chapters 5 to 7.

Review of corporate governance literature shows that both research and practices of corporate governance are dominated by the agency theory. Under this perspective, corporate governance is seen as a mechanism by which to deal with the issue of separation of ownership and control. Research and practice focus on how to reduce the loss of the firm's value as a result of this separation of ownership and control (see Denis & McConnell, 2003). Two important mechanisms that received a great deal attention are ownership structures and board of directors respectively. Subsequently, following the publication of the work of La Porta, et al. (1998), attention was given to the legal structure of countries and how different legal institutions lead to different corporate governance systems and practices. The review will also show that despite the dominance of the economic perspective, efforts have been made to explain corporate governance from other views including institutional view, power, and politics. In emerging economies, a research-utilizing institutional perspective is still lacking; hence, this present chapter will further discuss the gaps in corporate governance literature, empirically and theoretically, and aim to fill these gaps of interest in this thesis.

This chapter is structured as follows; it starts with a discussion as to why there have been many interests on corporate governance, and then follows with a brief discussion on various meanings of the term corporate governance. The focus is then shifted onto discovering what has been studied before. This then brings the domination of agency theory perspective into the discussion, as well as a few other perspectives which complement, rather than substitute, agency theory. Evidence from these perspectives is presented before the discussion moves to some other alternative perspective, i.e. the attention given by researchers on the importance of institutions and what has been studied by economists and sociologists. From the perspective of economic sociology, institution is not the only mechanism which matters; hence, the subsequent section will also focus on researches which investigate other elements, i.e. social networks, power, and cognition. This is then followed by a section that covers corporate governance research conducted in the Malaysian context, identification of the gaps, and finally a conclusion.

2.2 The Importance of Corporate Governance

The concern related to corporate governance has existed for many decades ever since joint stock companies moved into the mainstream of the global economy; particularly with the issues of inefficiency and corporate failures (see A. Smith, 1776). Berle and Means (1932) then revealed that, despite their benefits, there are issues related to the structure of modern companies. The structure of modern companies in the US, characterised by a separation of ownership and control, had engendered a situation where the true owners of companies, the shareholders, had little influence over the companies' management. They wrote that:

> *"The separation of ownership from control produces a condition where the interests of owner and of ultimate manager may, and often do, diverge, and where many of the checks which formerly operated to limit the use of power disappear" (1932, p.6).*

The problem revealed here formed the basis of the agency[2] problem, where managers may not act in the interest of owners due to differences in motivations (Sorensen, 1974). Much of the economic literature relating to the problems of moral hazards were then concerned with problems raised by the agency (Ross, 1973). Principals, therefore, struggle to control and monitor the activities of the agents. In 1976, Jensen and Meckling (1976) published a study that shed light as to how companies could survive this agency issue. In developing the theory of ownership structure, they discussed the roles of incentives, monitoring, and bonding activities in reducing agency costs while still retaining maximizing behaviour of agents. Principal-agent model, thus, generates a classic trade-off between incentives and risk sharing. It provides an insight into why managers are given performance-related pay in the form of shares or stock options[3] (Hart, 1995).

Hart (1995) further explains that besides the agency problem, corporate governance issues arise in organizations whenever there are transaction costs. He argues that corporate governance structure matters if agency problems are present and contracts are incomplete. Contracts are incomplete because, in reality, contracting costs may be large. Contracting costs involve costs of thinking about all externalities; costs of negotiating with others; and the cost of writing down the plans that can be enforced by a third party in the event of dispute. Because of this, governance structure is needed to act as a mechanism for making decisions that have not been specified in the initial contract, and to allocate residual rights of control over the firm's non-human assets, i.e. the right to decide how these assets should be used. Hence, these issues of agency problems and transaction costs form the basis of corporate governance research and practices, as will be discussed further in later sections.

---

[2] Jensen and Meckling (1976, p. 308) define agency relationship as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent."

[3] However, this market mechanism that is held to constrain opportunism and the pursuit of self-interest can be seen actually to feed it (Roberts, 2001).

Although corporate governance systems have long existed in the corporate world, the expression only started to appear in American law journals in the 1970s. It was then imported to the UK and has become widely discussed in the last two decades in both countries (Banks, 2004, p. 3; Kay & Silberstone, 1995; O'Sullivan, 2000, p. 1; Smerdon, 2007, p. 3). By the late 1990s, it had become a major issue in all other advanced economies and, increasingly, in developing countries as well (O'Sullivan, 2000), due to privatisation, pension deregulation, free capital movement or capitalism globalization, market integration, and corporate scandals (Banks, 2004; Becht et al., 2005; H. J. Gregory, 2001). The negative side of capitalism, associated with greed, despotism, abuse of power, opaqueness, social inequality and unfair distribution of wealth (Solomon & Solomon, 2004, p. 5) has, therefore, been a major driving force behind corporate governance reform. Corporate failures and scandals continue to drive global interest on corporate governance. Globalization has made the impact of governance failures in one economy felt by other economies as well. For example, the impact of the Asian crisis in 1997/98 was not only felt by the Asian countries but also by the global market (Sorin & Burton, 2001).

Another important factor that drives the demand for good corporate governance globally is the presence of institutional investors dominated by the US and UK (H. J. Gregory, 2001), as well as cross-listing between the US, UK and Europe. There are also foreign investors present in developing economies and foreign investors in US financial markets as well. The financial power of the US institutional investors is significant, which enables them to make demands for improved governance. For example, in 2006, foreign investors held two-fifths of the UK shares, of which 33 per cent was held by investors based in North America (Office of National Statistics UK, 2006). Two of the most important institutional investors in the US, the California Public Employees' Retirement System (CalPERS) and the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) have published their own corporate governance guidelines. In 1998, CalPERS produced “Corporate Governance Principles and Guidelines”, and in 2002 TIAA-CREF published “Policy Statement on Corporate Governance”.

These factors, and attention to corporate governance, have induced reforms in many countries. Emerging economies adopted the framework from the developed nations, especially the Anglo-American systems, through either internally-driven reform – such as China and Russia, or as a response to international demand (Young et al., 2008). Reforms are undertaken, for example, to enhance actual board effectiveness and to enhance confidence of investors and others as to the board's effectiveness (Roberts, McNulty, & Stiles, 2005). On the other hand, adoption of a code of governance also could be initiated by both efficiency needs and legitimacy pressures (Aguilera & Cuervo-Cazurra, 2004). Governance issues in general could bring other consequences; for example, it is argued to be one of the possible reasons leading to the significant cross-border transfer of illicit capital from developing countries, including Malaysia[4] (Kar & Curcio, 2011).

Other than institutional investors, international institutions such as the World Bank and the Organisation for Economic Co-operation and Development (OECD) also play a significant role in driving international interest in corporate governance, especially in the spread of the codes of best practices developed in the Anglo-American system (see for example, P. Collier & Zaman, 2005). These institutions also played important roles in the development of a national accounting profession, although there appears to be a lack of in-depth studies of the impact of these forces on local accounting practices (Caramanis, 2002). A parallel argument can also be made about the impact of these international forces on corporate governance practices, although studies have found that emerging economies faced different governance issues and have a different institutional structure than those of developed countries (for example, Berglof & Thadden, 1999; Gibson, 2003). Some argue that the World Bank and the International Monetary Fund (IMF) recommendation for developing economies to follow the Anglo-American model are seriously inappropriate in their context (Singh et al., 2005; Uddin & Choudhury, 2008). However, less is known about how a nation responds to these external pressures for reform. Evidence shows that countries are susceptible to international pressures in

[4] While illicit transfer from other developing countries could also be due to instability, rising income inequality, and pervasive corruption, in the context of Malaysia, the additional factor could well be the significant discrimination in labour markets which move both people and unrecorded capital out of the country.

different ways (Deeg & Perez, 2000). How local institutions influence the practice of corporate governance as adopted from international standards is the subject of interest in this study. The following section presents some definitions of corporate governance.

2.3 Corporate Governance Defined

Corporate governance is an ambiguous concept. Basically, there is no one generally accepted definition of corporate governance; it differs depending on an individual's view of the world. Among the well accepted definitions developed by relevant institutions include the definition that "corporate governance as the system by which companies are directed and controlled" (Cadbury Committee Report, 1992); corporate governance as a set of relationships between a company's management, its board, its shareholders and other stakeholders that provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (The OECD, 2004); and corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the top of organizations, where accountability is the obligation to answer for a responsibility that has been conferred (International Federation of Accountants (IFAC), 2001, p. 1). The Public Oversight Board (POB) defines corporate governance to include those oversight activities undertaken by the board of directors and audit committee to ensure the integrity of the financial reporting process.

Researchers define corporate governance according to their research perspectives. Shleifer and Vishny (1997), for example, looked at corporate governance from the agency theory perspective and defined it as "the ways in which suppliers of finance to corporations assure themselves of getting a return to their investment". Expanding this definition, corporate governance is seen as "the set of mechanisms – both institutional and market-based – that induced the self-interested controllers of a company (those that make decisions regarding how the company will be operated) to make decisions that maximize the value of the company to its owners (the suppliers of capital)" (Denis & McConnell, 2003). Cohen, Krishnamoorthy, and Wright (2004) define corporate governance to include internal and external parties. However, Bradley, Schipani, Sundaram, and Walsh (1999) argue that corporate governance is more than simply the relationship between a firm and its capital providers. For them, "corporate governance also implicates how the various constituencies that define the business enterprise serve, and are served by, the corporation. Implicit and explicit relationships between the corporations and its employees, creditors, suppliers, customers, host communities – and relationship among these constituencies themselves – fall within the ambit of a relevant definition of corporate governance" (Bradley et al., 1999, p. 11). Gillian (2006) also divides corporate governance framework into external and internal workings, and recognises the roles of law and regulation, politics, culture, committees and markets. The broadest definition of corporate governance is given by Blair (1995, p. 3), who sees corporate governance as referring to "the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated."

Without ignoring the definitions given from the agency perspective, this study, however, adopts a wider perspective, where the corporate governance system is seen to be greatly influenced by the country's corporate ownership structure, legal system, cultural and religious traditions, political environments and economic events (Solomon & Solomon, 2004, p. 2). As argued by Gourevitch and Shinn (2005, p. 1), "corporate governance is about power and responsibility. It is the structure of power within each firm [...]" and that power structure makes decisions. The following section discusses existing research in corporate governance, which is dominated by agency theory.

2.4 The Domination of Economic Perspective

As mentioned earlier, research in corporate governance is dominated by economic perspectives, in particular the agency theory or contractarian view. The separation of ownership and control has created two problems that have become the concerns of agency theory. The first is the agency problem that arises when there is a conflict in the goals of the principal and agent, and accordingly it becomes quite expensive for the principal to verify what the agent is actually doing. Secondly, there is a problem of risk-sharing that arises when the principal and agent have different attitudes towards risk. Hence, the focus of agency theory is to determine the most efficient contract governing the principal- relationship (Eisenhardt, 1989). The development of agency theory, however, has resulted in two separate lines of literatures, namely: the positive theory of agency and the principal-agent theory of agency (Jensen, 1983). Research in corporate governance has been developed under the positive stream of agency theory.

Positive theory relates to discovering how the world behaves; hence, being less mathematical than principal-agent research, positivist researchers of agency have focused on explaining the governance mechanisms in solving the agency problem (Eisenhardt, 1989). It focuses on "modelling the effects of additional aspects of the contracting environment and the technology of monitoring and bonding on the form of contracts and organizations that survive" (Jensen, 1983, p. 334). Three influential, earlier articles on positive agency stream cited ownership by managers (Jensen & Meckling, 1976), efficient capital and labour market (Fama, 1980), as well as board of directors (Fama & Jensen, 1983) as important governance mechanisms to control the behaviour of agents. Both efficient capital markets and board of directors act as information mechanisms that are used to control and monitor the self-serving behaviour of top executives (see Eisenhardt, 1989).

Besides the agency theory, there are other complementary perspectives in corporate governance research, especially those focusing on board of directors, including resource dependence, stewardship, legal and class hegemony as well as power theory. Resource dependence theory lays down a theoretical foundation for the role of directors with regard to access to resources, including the role of outside directors which serves to enhance performance and survival. Stewardship theory could, however, contrast to agency theory when it describes managers who have similar interests as owners as they strive to protect their reputations. From a legal perspective, boards have legal responsibilities; and carrying out those mandated roles helps them to contribute to their firms. A class hegemony theory sees board of directors as perpetuating the power and control of the ruling capitalist elite. Power perspective deals with the power relationship between corporate governance actors (see Daily, Dalton, & Jr, 2003; Zahra & Pearce II, 1989).

While it is important to have an understanding of what has been studied in the corporate governance area under a positive agency theory, it is not the intention of this chapter to provide a thorough review of existing literature, since there are many articles that have already done that (for example, Denis & McConnell, 2003; Zahra & Pearce, 1989). Therefore, this chapter will present the discussions made in some of the articles to provide an overview of the state of research and trends in corporate governance research.

Following the publication of an article by Jensen and Meckling (1976) entitled "Theory of the firm: Managerial behaviour, agency costs and ownership structure" in the Journal of Financial Economics, research in corporate governance flourished in the US, utilizing the agency theory. The paper focuses on how owners of corporations could minimize the loss of value of their corporations as a result of the separation of ownership and control. Since then, agency theory has been dominating the field. Denis and McConnell (2003) categorize the governance mechanisms which have been extensively studied in the US into two categories, internal and external, to the firm. Internal mechanisms are the board of directors and equity ownership structure, while external mechanisms refer to the external market for corporate control and the legal system. However, they later acknowledged that the legal system receives little attention in these studies, as evidenced from a single country providing little scope for studying the effects of a legal system. The external mechanism of take-over markets works both for and against the shareholders. On the one hand, management would try to keep the value of the firm high in order to avoid the threat of takeover, hence, benefiting shareholders; on the other hand, management would also waste resources in paying premiums to acquire other companies in order to expand their empire at the expense of shareholders (Denis & McConnell, 2003).

In the 90s research utilizing non-US data started to appear. Denis and McConnell (2003) label them as the first generation and second generation of research. The first generation of research refers to those patterned after the US research that preceded it, in particular, board composition and equity ownership. It started with research efforts conducted in three advanced economies, i.e. UK, Germany, and Japan; followed by other advanced economies, especially in Europe; and then in the emerging economies. The second generation of research considers the possible impact of differing legal systems on the structure and effectiveness of corporate governance and compares systems across countries. The attention to legal systems in corporate governance studies begins with the study conducted by la Porta et al. (1998), which investigates how the existence of laws protecting investors and the quality of enforcement of the laws determine corporate ownership patterns in a country. Hence, the attention to legal systems provides a more complete understanding of the roles of firm-specific corporate governance, such as board of directors and equity ownership (Denis & McConnell, 2003).

Given that the interests in this study are concerned with the internal mechanisms of ownership structure and board of directors, the attention given to studies under the agency theory perspective is then limited to these two bodies of literature. The following sub-sections provide a brief discussion of some evidences related to these areas, mainly from the agency theory perspective, although for board of directors some complementary perspectives are also presented.

2.4.1 Ownership Structure

Review of existing corporate governance literature shows that, under agency theory, studies related to corporate ownership have been focusing on ownership structure as a corporate governance mechanism (see Denis & McConnell, 2003). These include studies that look into the following, namely: differences and similarities of ownership structures across countries (Faccio & Lang, 2002; Franks & Mayer, 2001; Lopez-de-Silanes, La Porta, & Schleifer, 1999; Pedersen & Thomsen, 1997; Xu & Wang, 1999); the influences of ownership structure on various other mechanisms, such as corporate decisions (Holderness, 2003; Holderness & Sheehan, 1988); the relationship between ownership structure and firm performance (Demsetz & Villalonga, 2001); the impact of ownership by management (Florackis, Kostakis, & Ozkan, 2009; Morck, Shleifer, & Vishny, 1988); and the change in ownership structure and its impact on performance (Rose, 2005).

Earlier studies classified the US and UK as having more dispersed ownership structures, termed as market-centred economies, while Japan and Germany are more concentrated with the presence of block-holders, or bank-centred economies. In

Germany, although companies are the most prevalent block-holders, banks have more voting power. Hence, it is considered as a bank-centred economy. As more studies were conducted, evidence suggested that there are more variations in terms of who the block-holders are in concentrated shareholders' economies. They could come from other corporations (Brazil), families (Continental Europe), government (China), or banks and affiliated institutional investors (Israel).

Who owns corporations matters. Demsetz and Lehn (1985) argue that the structure of corporate ownership varies systematically in ways that are consistent with value maximization. Studies have been conducted to see how ownership, such as ownership by block-holders or institutional investors, relates to firm value and corporate decisions (Baysinger, Kosnik, & Turk, 1991; Holderness, 2003). From another view, the existence of major shareholders or block-holders could benefit all shareholders. They could have control in the firm so as to better monitor and influence managers and make decisions that increase the firm's value (McConnell & Servaes, 1990); but at the same time negative consequences may arise if they enjoy private benefits at the expense of minority shareholders. Major shareholders are also able to exert pressure on firms to adopt change or reforms. For example, institutional investors, while controlling large percentages of stocks in public companies, have used their power for pressuring firms towards suggested board reforms, such as having independent boards (see Johnson, Daily, & Ellstrand, 1996) or exerting pressures on management towards a direction of value maximisation (McConnell & Servaes, 1990). Evidence also shows that proposals sponsored by institutional investors gain substantially more support than those by individuals (Gillan & Starks, 2000).

Another important concern in ownership studies is ownership by management. Demsetz and Lehn (1985) investigate the forces that influence the structure of corporate ownership and show what types of public corporations are likely to have high levels of managerial stock ownership. Himmelberg, Hubbard and Palia (1999) add to the discussion by showing that managerial ownership is explained by a contracting environment. While ownership by management can serve to better align the interest of agents and principals (Jensen & Meckling, 1976) which would benefit all shareholders, it could also have a negative impact if higher equity ownership provided managers with greater freedom to pursue their own objectives without fear of reprisal (Demsetz, 1983; Fama & Jensen, 1983). Morck et al. (1988) provides more evidence on the relationship between management ownership and market valuation of the firm. This study of Morck et al. (1988) sets the tone for more research on management ownership and executive compensations in the US and other economies. More recent research has been focusing on management ownership, or changes in management ownership, and firm value and performance (Benson & Davidson, 2009; Brunello, Graziano, & Parigi, 2001; C. R. Chen, Guo, & Mande, 2003; M.-H. Chen, Hou, & Lee, 2012; M.-Y. Chen, 2013; Kuang & Qin, 2009; Mehran, 1995; Rose, 2005).

2.4.2 Board of Directors

Theoretically, board of directors is one of the most important and effective corporate governance mechanisms to control the behaviour of managers. Therefore, it has been subject to reforms and enhancement, more notably since the passing of the Cadbury Code in the UK in 1992. Board of directors is regarded as information mechanism for managerial opportunism (Kosnik, 1987). However, in practice its value is less clear; hence, it is then important to be studied (Denis & McConnell, 2003). Fama and Jensen (1983) explains board of directors as follows:

> *"The common apex of decision control of systems of organizations, large and small, in which decision agents do not bear a major share of the wealth effects of their decisions is some form of board of directors. Such boards always have the power to hire, fire, and compensate the top-level decision managers and to ratify and monitor important decisions. Exercise of these top-level decision control rights by a group (the board) helps to ensure separation of decision management and control (that is, the absence of an entrepreneurial decision maker) even at the top of the organization"* (Fama & Jensen, 1983, p. 311).

Besides control or monitoring obligations, directors' roles also include a service role, which involves directors advising the management on administrative and other managerial issues; and a resource dependence role, which relates to the view that the board is a means for facilitating the acquisition of resources critical to the firm's success and survival, as well as legitimacy (Johnson et al., 1996). However, it is their controlling role which has been dominating research efforts in the corporate governance field. In their review of existing literature related to this role, Johnson et al. (1996) note the various fields that research in this area examines, including legal, management, and finance literatures. Also, economists see boards of directors as an economic institution and as the equilibrium solution to agency problems confronting the firms. Therefore, although they accepted that board of directors is a legal requirement, boards are nevertheless larger than that; the board is in fact a monitoring tool (Hermalin & Weisbach, 2000).

Reviews of literature on monitoring roles suggest that studies have been focusing on board attributes, namely: structure, characteristics, composition, and process. Board structure refers to the dimensions of the board's organization, such as the number and types of committees, committee membership, and board leadership. In some European economies, it is mandatory for them to have a two-tiered system of board structure as opposed to a unitary board as in the US and many others. A two-tiered structure would consist of a managing board and a supervisory board. Board characteristics refer to directors' backgrounds and qualities or personalities of the board. Board composition denotes the size, i.e. the number of directors on the board; and the mix, i.e. the proportion of inside and outside directors. Board process relates to the approach that the board takes in making its decisions (Zahra & Pearce II, 1989).

Studies on board structure have been investigating its determinants (Boone, Casares Field, Karpoff, & Raheja, 2007; Linck, Netter, & Yang, 2008), and its relations with firm values (Coles, Daniel, & Naveen, 2008). Similarly, as for size and composition, the focus has been on determinants (e.g. Hermalin & Weisbach, 1998; Lehn, Patro, & Zhao, 2009) and impact on a firm's performance (Lehn et al., 2009). Contrary to evidence from the US that outside directors are not associated with firm performance, evidence from Japan shows that these directors stabilized and modestly improved performance. In the UK, the importance of independent directors is evidenced from their Code of Best Practices. The monitory benefits of independent boards, however, have been the focus of many researches (see Hwang & Kim, 2009).

Examples of studies which focus on board characteristics are Kesner (1988), who investigates the characteristics of the directors on key committees; Zelechowski and Bilimoria (2004) who focus on the gender; Anderson, Mansi, and Reeb (2004) who show how directors' independence is important in giving credibility to financial reports, hence reducing financing costs; while Keys and Li (2005) investigate the characteristics of directors who are valuable to the market, i.e. directors who are receiving multiple directorships, or are termed as professional directors. They argue that professional directors perform better and are associated with higher firm performance. While most studies focus on attributes, Brick and Chidambaran (2010) investigate the impact monitoring activity could have on a firm's value. Board activity encompasses the frequency of board meetings and the changes in structure of board subcommittees. Studies also look at the impact of directors holding multiple directorship (Ferris, Jagannathan, & Pritchard, 2003; Fich & Shivdasani, 2006).

Zahra and Pearce II (1989) propose specific links which integrate the four attributes of structure, characteristics, composition, and process, with the three critical roles of directors. They also show how other perspectives (legal, resource dependence and class hegemony) would also focus on these attributes. These perspectives, which complement agency theory perspectives, are also important in explaining corporate governance. Legitimacy or resource dependence is grounded in sociology and organizational theory. Under this view, boards are seen as "important boundary spanners that make timely information available to executives. Furthermore, because of their prestige in their respective professions and communities, directors are able to extract resources for successful company operations. Activities believed to enhance legitimacy in society and to help it achieve goals of efficiency and improved performance. Empirical results come from both economists and sociologists (Zahra & Pearce II, 1989). Directors' political roles are shown in Agrawal and Knoeber (1998), where they found outside directors with political or legal backgrounds are more common on the boards of firms for which politics is more important.

2.5 Alternative Perspectives of Corporate Governance

2.5.1 The Attention to Institutions

Institutional theory concerns the development of the taken-for-granted assumptions, beliefs and values underlying organizational characteristics and practices. Accounting literature contains institutional theory-based studies which provide evidence suggesting the following: the importance of social, cultural and environment factors on the practice of accounting; the use of accounting practices as rationalizations in order to maintain appearances of legitimacy, and the possibility of decoupling these rationalizing accounting practices from the actual technical and administrative processes (Dillard, Rigsby, & Goodman, 2004). This is in contrast to the economic perspective, which has been focusing on efficiency. However, the gap between economists and sociologists has been narrowed, for example, the work of North (1990) that utilises neo institutional economics (NIE). Since then, many studies in developed and developing economies have been focusing on such social factors, especially with the collapse of communism and the economic growth of Asian economies (Fligstein & Choo, 2005). Hence this section discusses the attention given to institutions in corporate governance research, focusing first on the economic perspective, and then from a sociological perspective.

2.5.1.1 Economists' Perspective

The approach of institutional economics is explained by Hodgson (1998). Some of the important work under this perspective includes Williamson (1988, 2000). Carleton, Nelson, and Weisbach (1998) discuss the influence of institutions on corporate governance through private negotiations; the definition of "institution" under this perspective is different from those utilised by sociologists.

2.5.1.2 Sociologists' Perspective

Earlier research utilising the new institutional theory focuses on public sector and not-for-profit organizations. It was claimed that private organizations are subjected to efficiency rather than institutional pressures (Powell & DiMaggio, 1991; W. R. Scott, 2001). However, recently, more research on for-profit organizations utilizing the new institutional theory has been conducted and results show that private firms too can be subjected to coercive, mimetic, and normative isomorphism, such as in the area of corporate governance research (Major & Hopper, 2004). In fact, evidence suggests that efficiency and legitimacy could occur simultaneously (Aguilera & Cuervo-Cazurra, 2004) and it is difficult to distinguish between efficiency and legitimacy and both can exist in any site (Major & Hopper, 2004; W. R. Scott, 2001).

The New Institutional Sociology (NIS) argues that organizations, and organizational actors, not only compete for resources but also seek legitimacy (Suchman, 1995).

Legitimacy is defined by Suchman (1995) as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". Legitimacy justifies particular forms and practices adapted by organizations. When faced with uncertainty, firms tend to respond by imitating other social actors who are viewed as successful and legitimate. Studies in corporate governance reforms show that firms' adoption of new rules and practices could be a response to externally applied coercive pressures from organizations and changes in the environmental contexts such as the regulations applied by government and pressures from finance providers (Chizema, 2009; Hussain & Hoque, 2002).

Similarly, the decision of a nation, especially a developing nation, to adopt a corporate governance system developed by more advanced economies (such as the Anglo-American system), is due to coercive pressures being applied to obtain legitimacy and the act of mimicry (Aguilera & Cuervo-Cazurra, 2004; Khadaroo & Shaikh, 2007). The Anglo-American system is viewed as successful and legitimate, and hence, justifies the mimicking. The perceived legitimacy of corporate governance practices within a nation is also influenced by the interaction of multiple institutions (Aguilera & Jackson, 2003; Judge, Douglas, & Kutan, 2008). Corporate governance regimes are the product of intense political pressures (see Aguilera & Jackson, 2003; Sutton & Dobbin, 1996), law (Valenti, 2008) and economic pressures ultimately embodied in legal relations, processes, and institutions. In fact Judge et al. (2008) found that all three pillars of institutionalization, i.e. regulative, normative, and cognitive, influenced perceptions of corporate governance at the national level.

The corporate scandals in the US in 2002 have had a significant effect on corporate governance generally, especially as it led to the passage of a controversial act, the Sarbanes Oxley Act (SOX) 2002. Institutional theory has been used to explain the adoption of this new law (the SOX 2002), since the passage of a new law could not only have coercive effects on its adoption but also could establish a broad framework that influences organizations both mimetically and normatively (Valenti, 2008). Results show that since the trend toward increased governance had begun even before the introduction of the Act, the new law led to an increased adoption beyond its requirements. O'Connell, Webb, and Schwarzbach (n.d.) apply institutional theory to analyse major reactions by various bodies and institutions post-Enron. The accounting scandals had severely tarnished the legitimacy of the accounting industry in the eyes of the key stakeholders and the public. Therefore, various measures have been taken by accounting bodies, although the study suggests that these measures are simply their response to legitimizing their roles in the eyes of stakeholders.

The accounting bodies and regulators, due to coercive isomorphism, attempt to emphasize that they are reacting appropriately to the scandals and thus justify continuation of their privileged roles by introducing a variety of initiatives relating to their practices. Response from politicians was also consistent with institutional theory when they proactively supported the passage of the Act. Therefore, many of the reforms risk becoming "rationalized myths" (Meyer & Rowan, 1977) that lull exogenous constituents into a false sense of security. This is consistent with the argument by Deakin and Konzelmann (2004) that the Enron affair has been misunderstood and this gives adverse consequences for the drafting of the Sarbanes Oxley Act 2002 and the Higgs Report 2003. Hence, the reform undertaken does not address the actual problem.

Furthermore, evidence also shows that financial markets and corporate governance were reformed only to the extent to which they related directly to those external pressures, and were not necessarily driven by the objective of greater microeconomic efficiency (Deeg & Perez, 2000; Sutton & Dobbin, 1996). Chizema (2009) employs the neo-institutional change perspective to identify the characteristics of early and late adoption of executive stock options (ESOs) in German firms. He seeks to understand the role of institutional actors in the adoption of this management practice. It has been claimed that changes in corporate governance of firms in Germany have been attributed to external, institutional pressures, including radical changes in corporate law. One way to seek legitimacy with institutional investors, both domestic and foreign, is to be seen to be adopting management practices that enhance shareholder value. The adoption of ESOs, a practice common in Anglo-American corporate governance, is one such innovation likely to appeal as a signal to a large constituency of investors. Their results suggest that the external market, as an institution, plays an important role in the adoption process. Pressure from these institutions coercively pushes firms that are exposed to American markets to adopt shareholder value principles, and ESOs are certainly a cornerstone of US-style corporate governance. From the neo-institutional theory insights, the results of this study suggest that some firms may start to use ESOs because they have observed that other more successful firms have done so. However, such imitation does not necessarily mean that these late adopters will either perceive or receive the benefits of adopting a contested management practice. Coercive isomorphism could be the result of seeking legitimacy with the wider environment. This study, therefore, shows that German firms may be coerced into compliance, although such compliance may be ceremonial or symbolic and may not truly reflect a genuine move towards American capitalism (Chizema, 2009).

Under institutional isomorphism, similarity of structures or stability is actually a product of *changes* by some or all organizations towards a certain standard that is considered legitimate (Chizema, 2009; W. R. Scott, 2001). This is in contrast to earlier work in institutional theory on path-dependence, which fails to explain the process of change due to its neglect of the role of active actors and issues of power and interests at a micro level (Chizema, 2009). Therefore, in corporate governance reforms, convergence to global best practices is considered as stability and similarity of structures. Resistance to change is actually contradicted by this new perspective. Some evidence shows that organizational actors are not just conforming to pressures; there will be resistance. For example, given all the external pressures for financing, a minority of large German firms is colluding to avoid conforming to certain practices put on them. Further evidence in Europe on pressures to induce change in its corporate governance system shows that domestic elites will resist any changes that might undermine their own positions and power (Rhodes & Apeldoorn, 1998). This led to criticism against the NIS for assuming over-socialised actors would accept and follow social norms unquestioningly.

This is further noted by Aguilera and Jackson (2003) who, despite criticizing agency theory for failing to sufficiently explore how corporate governance is shaped by its institutional embeddedness also argue that institutional theory, on the other hand, leans toward an over-socialized perspective. This is perceived as being too abstract compared to the conflicts and coalitions between stakeholders at the firm level (Aguilera & Jackson, 2003). Therefore, in explaining the diversity of corporate governance across advanced capitalist economies, they utilized actor-centred institutionalism, a branch of institutional theory. They argue that internationalization has not led to quick convergence on national corporate governance models, since institutional change tends to occur in a slow, piecemeal fashion, rather than as a big bang. While international pressures may lead to similar changes in one institutional domain, these affects may be mediated by the wider configuration of national institutions. Hence the result is often a hybridization of corporate governance models, where practices developed in one national setting are transferred to another and then undergo adaptation through their recombination with other governance practices.

Similar observations are made by Hussain and Hoque (2002) in the practice of performance management systems in Japanese banks, and by Yoshikawa et al. (2007) on the diffusion of corporate governance innovations across firms and institutional levels, also in Japan. They found that Japanese corporate governance systems and practices neither fully converge to, nor completely diverge from, the Anglo-American model. Rather, firms tend to selectively adopt features from this model, decouple them from the original context, and tailor them to fit their local contexts to generate corporate governance innovations that gain legitimacy and achieve efficiency. In the case of corporate governance reform in France, evidence suggests that both converging and diverging forces of institutional change coexist, shaping selective responses to globalization (Lee & Yoo, 2008). The case confirms the sustainability of distinctive institutional complementarities, albeit with selective adaptation based on a sense-making social compromise. The results of these studies, however, are not really consistent with the conformity argument made by earlier institutionalists.

From the above review, it can be seen that, as the studies are quite recent, most support the later argument put forward by new institutional theory researchers. For example, legitimacy could also occur simultaneously with efficiency (Aguilera & Cuervo-Cazurra, 2004). Studies also support the recent debate on institutional theory which argues against conformance. Studies show firms resist certain changes, such as adoption of the Anglo-American system; actors negotiate in the process and only adopt those practices which are in line with their objectives (Hussain & Hoque, 2002). This is in contrast with the "goal drift" argument, whereby organizations modify their goals in order to obtain legitimacy (Palmer & Biggart, 2002). Two studies that support the earlier view of NIS are Occasio (1999), and Chizema and Buck (2006).

Occasio (1999) follows an institutional theory of action[5], which combines NIS that focuses on cognitive mechanisms with a more traditional sociological perspective that highlights political factors, in order to study the consequences of formal and informal rules in the chief executive succession process. Consistent with the theory, the result shows substantial inertia and, hence, suggests that rules act to both enable and constrain board decision-making. Chizema and Buck (2006) argue that recent developments in institutional theory identify circumstances in which change is likely to occur. They then derive propositions of change from within the context of corporate governance in Germany, focusing on executive stock options as a specific corporate governance element. Changes could be due to both exogenous and endogenous factors.

2.5.2 The Attention to Social Network

Studies on social networks have been focusing on whether such ties would affect the following: intensity of board monitoring (Fracassi & Tate, 2011); impact on compensation (Hwang & Kim, 2009); benefits achieved if an audit committee is completely independent (Bronson, Carcello, Hollingsworth, & Neal, 2009); why CEOs sit on each other's boards (Fich & White, 2005); and finally its impact on performance. It is found that social ties could have a positive impact on a firm's performance, as it raises the frequency of advice and counsel interactions between CEOs and outside directors (Westphal, 1999). Contrary to other studies, which found that close personal ties adversely affected board performance, Westphal (1999) found that "lack of social independence can increase board involvement and firm performance by raising the frequency of advice and counsel interactions between CEOs and outside directors". The impact of social networks on corporate governance practices, however, is debatable. Some argue that it brings positive implications, while others see the negative impact of it. Studying the influence of directors who

[5] This theory is part of a broader institutionalist perspective in contemporary social and organization theory (Ocasio, 1999; W. R. Scott, 1995).

are demographic minorities on corporate boards, Westphal and Milton (2000) for example, suggest that indirect network ties between minority and majority directors not only make majority directors more receptive to the influence of minority, but also provide a basis for social cohesion. However, some argue that the presence of interlock directors is indicative of weak governance (Devos, Prevost, & Puthenpurackal, 2009).

2.5.3 The Roles of Cognition

Marnet (2007) discusses the recurrence of corporate scandals and fraud, as well as subsequent legislative responses. He argues that even strong enforcement of strict laws may not ensure the convergence of interests between principals and agents, as there could be bias in the decisions of directors. Biases could be due to individual cognitive beliefs which affect their decisions. Therefore, he argues that a rational model of decision-making provides inadequate understanding of the behaviour of directors; hence, he suggests the use of psychologically more realistic assumptions. Hillman, Nicholson, and Shropshire (2008) question how directors' identities, or how they conceive of themselves as directors, can influence their behaviours in the boardroom.

2.5.4 The Roles of Politics and Power

Earlier works of institutional theorists have been criticized for neglecting the importance of power and group interests in analysing organizations (Abernethy & Chua, 1996; Clegg, 1989; Covaleski, Dirsmith, & Michelman, 1993; Perrow, 1985). Acknowledging this fact, Fiss (2008) draws on the work of others who view institutions as inherently about the role of power; and who see institutionalization as being a *process* that is innately political and reflects the relative power and interests of coalitions of actors. Such views are important, as corporate governance is a political process and influenced by the relative power of the actors involved (Davis & Thompson, 1994).

2.6 Research in Emerging Economies

Changes in the domestic economies of emerging countries[6] in the 1980s and 1990s have led them to undertake market-oriented economic reforms, which saw them implement widespread privatization, liberalization of economies, as well as expanding market institutions, such as the stock markets. This development means that, at their national level, corporate governance has started to become important. However, the Asian crisis in the late 1990s, as well as other crises in other emerging economies, has then made corporate governance not only a national concern for these countries, but also a concern at the international level due to its spill-over effects (Singh, 2003). Attention then led to increasing research being conducted post-Asian crises, as more resources were being outlaid by international financial organizations to finance research in these economies.

Review of corporate governance literature in emerging economies shows that research in these countries mirrored those conducted in more advanced economies, in particular the US, by focusing on equity ownership structure and board composition to address agency issues (for example, Black, 2001; Filatotchev, Lien, & Piesse, 2005; Joh, 2003; Xu & Wang, 1999). This stream of research also has been focusing on the following: privatization and agency issues (Dharwadkar, George, & Brandes, 2000); the role of ownership structure and investor protection in post-privatization companies (Boubakri, Cosset, & Guedhami, 2005); shareholder activism (Sarkar & Sarkar, 2000); comparative studies of ownership structure and firms' performance (Claessens & Fan, 2002; Lemmon & Lins, 2003; Mitton, 2002), and finally, the overall corporate governance effectiveness in emerging markets (Gibson, 2003). These works provide evidence from markets where the nature and extent of agency problems differ from those in more advanced economies. Another stream of research focuses on the adoption of the corporate governance codes of best practices by the emerging economies from the more developed nations, in particular, the Anglo-Saxon system. The adoptions occur through internally-driven reform, such

---

[6] Various definitions and classifications have been given by scholars to explain emerging economies (for example, D. J. Arnold & Quelch, 1998). Hoskisson, Eden, Lau, & Wright (2000), for example, define emerging markets as the low-income, rapid-growth countries which use economic liberalization as their primary engine of growth and they divide the countries into two groups: the first consists of developing countries in Asia, Latin America, Africa, and the Middle East; the second group being the Soviet Union and China.

as China and Russia; or as a response to international demand (Young et al., 2008). Organizations such as the World Bank and the IMF have routinely recommended emerging economies to adopt the US system of corporate governance, as well as a stock-market based financial system (Singh et al., 2005) as the US system is claimed to be economically more efficient than others (Gugler, Mueller, & Yurtoglu, 2004). From a different perspective, adoption could be for efficiency reasons, or simply for legitimacy (Aguilera & Cuervo-Cazurra, 2004).

However, subsequent works question these adoption efforts as they argued that there exist institutional differences in these markets which should not be ignored when making corporate governance policies. The utilization of agency theory is also questioned. Emerging markets normally have weak markets for corporate control (Lins, 2003) or a different capital market structure (Singh et al., 2005), as well as relatively weaker institutions, including corporate governance institutions (Gugler, Mueller, & Burcin Yurtoglu, 2003; Young et al., 2008). Different institutions create different governance issues; and these differences affect the implementation of corporate governance recommendations (for example, Berglof & Thadden, 1999; Gibson, 2003). Hence, using policies designed for developed economies may prove ineffective or even counter-productive in emerging economies (Young et al., 2008). Not only that, too many reform initiatives have been partial and poorly conceived; as well as being undertaken without considering the fundamental interdependence between corporate law and corporate finance, and between corporate governance and the rest of the economic system (Berglof, Rey, & Roell, 1997). Besides, appropriate governance structures are also historically and politically contingent (Roe, 1991). Hence, any recommendation for policy must be based on an analysis of the specific governance problem in the given country and needs to define the corporate governance problem in the particular country with regard to its prevailing institutions (Berglof & Thadden, 1999).

The codes of best practices found in the Anglo-American system are developed based on agency theory, which means that the codes are developed based on the premise that the main corporate governance problem is self-interested management and weak, dispersed shareholders. This empirical context is in fact highly unrepresentative when taken outside the US and the UK, since most firms in the world have a dominant owner. In fact, high concentrated ownership is a feature of publicly listed companies in emerging economies (Fan & Wong, 2005); where families or the state hold a dominant stake (Berglof & Thadden, 1999; Claessens, Djankov, & Lang, 1999). The organizational activities in emerging economies can differ considerably from those found in developed economies (Wright et al., 2005), and corporate governance problems in these economies may require different solutions from those generated from an agency theory perspective (e.g. Lubatkin, Lane, Collin, & Very, 2005). High concentrated ownership means firms could also face principal-principal conflict, i.e. conflicts between majority shareholders who dominate the board, and minority shareholders (Young et al., 2008). It also induces agency problems when tight controls allow controlling shareholders' self-dealings to go unchallenged internally by boards of directors or externally by takeover markets (Fan & Wong, 2005). Claessens et al. (1999), for example, suggests that the main corporate governance problem in the emerging markets, especially in Indonesia, Philippines and Thailand, is the expropriation of minority shareholders by controlling shareholders[7]. Berglof and Thadden (1999) explain this situation as a three-way conflict between large block-holders, managers, and minority investors.

The implications of these institutional differences are many; for example, the cost of capital in these markets is higher due to their relatively weak institutions (Young et al., 2008). Fan and Wong (2005) argue that, in emerging markets, the agency conflicts between controlling owners and minority shareholders are difficult to mitigate through conventional corporate control mechanisms, including board of directors. Hence, in these economies the Big 5 auditors play a corporate governance role as evidenced by the fact that the Big 5 auditors do take into consideration their clients' agency problems when making audit fees and auditing report decisions. In addition, there is evidence that firms hiring from among the Big 5 auditors receive smaller share price discounts associated with the agency conflicts. The corporate governance system also could be affected by firm capabilities and behaviours, which in turn, are influenced by local, non-economic factors (Millar, Eldomiaty, Choi, & Hilton, 2005). They noted that differences in the corporate governance structure result from differences in institutional arrangements linked to different business

[7] However, their evidence shows that this was not the case for Malaysia.

systems or models of capitalism, which in turn determine institutional transparency (Millar et al., 2005). Institutional transparency "is the extent to which there is publicly available clear, accurate information, formal and informal, covering accepted practices related to capital markets, including the legal and judicial system, the government's macroeconomic and fiscal policies, accounting norms and practices (including corporate governance and the release of information), ethics, corruption, and regulations, customs and habits compatible with the norms of society" (Millar et al., 2005, p. 166). They posit that the relationship-based corporate governance of Asia's emerging markets is characterized by the government's orientation towards providing subsidized credit to firms in targeted industrial sectors and implicitly sharing the risk which acted against institutional transparency. The weaker corporate governance institutions in emerging economies relative to advanced countries can also explain the differences in the sources of finance for investment across countries, as well as differences in the returns on investment (Gugler et al., 2003).

Given the above discussion, on the other hand, Gibson (2003) found that corporate governance in emerging markets is not ineffective, although the argument about three-way conflicts (see Berglof & Thadden, 1999) is supported for firms with a large domestic shareholder. Klapper and Love (2004) study corporate governance in emerging markets at the lower level, (i.e. at firm-level) and finds that there is variation in firm-level governance regardless of the strength of the country's legal systems. The variations correlate with the extent of asymmetric information and contracting imperfections that firms face, as well as their operating performance and market valuation. They conclude that firm-level corporate governance matters more in countries with weak legal environments.

Other works related to emerging markets, which are of the interest in this study, are those that have focused on government intervention (Boubakri et al., 2005; Fan et al., 2011; Fan, Wong, & Zhang, 2007; Oman, Fries, & Buiter, 2004). Fan et al. (2007) investigate how corporate governance and board composition in Chinese firms are related to government intervention and conclude that the country's partial privatization and ongoing government intervention through the appointment of CEOs are not conducive to shareholder value maximization. However, government intervention is one of the key institutional forces in emerging markets that impact upon the structures and behaviours of firms including their investments, financing, governance, and growth; others being government quality, the extent of state ownership, and the degree of financial development (Fan et al., 2011). Oman et al. (2004), however, argues that, given the power of corporate insiders and their close relationship with those who exercise political power, sound corporate governance requires sound political governance, and vice versa.

The review of corporate governance literature in emerging markets as above shows that although attention has later been directed towards institutions, these studies are based on an agency theory perspective which focuses on corporate governance as a mechanism by which to address the agency conflicts. There appears to be a lack of studies utilizing institutional perspective and giving evidence on how various institutions constrain corporate governance actors' actions (see Hoskisson et al., 2000). This will be discussed further in a later section; following is a discussion on corporate governance research in the Malaysian context.

2.7 Corporate Governance Research in Malaysia

Similar to other developing nations, in Malaysia the agency theory has been a dominant perspective in corporate governance research (for example, Abdul Rahman & Mohamed Ali, 2006; Shamsul Nahar, 2006). Studies on ownership have been focusing on, for example, its impact on a firm's value (Bany-Ariffin, Mat Nor, & McGowan Jr, 2010) and disclosure (Nazli, 2007). Studies on boards of directors look at the role and duties of directors (Salim, 2009); the characteristics of boards' effectiveness and how they relate to earnings (Hashim & Selvaraj, 2008). There has not been much research into corporate governance that takes *Bumiputera* into account in their analysis, except for a few recent efforts, such as Alfan (2009). This study captures the existence of *Bumiputera*'s influence through the analysis of accountability in the tolled-highway projects in the country, which saw government intervention in the economy via the existence of the Government Linked Companies or GLCs[8]. The study mentions *Bumiputera* policy as the shared value that acts as a social objective; however, there is no explicit discussion about how *Bumiputera* policy plays a role in shaping this practice. She also argues that, despite the shared

[8] The definition and roles of GLCs are discussed further throughout the thesis.

values promoted by the government, there exists discrimination towards other *Bumiputera* companies in the sense that only GLCs receive help from the government while other *Bumiputera* companies (non-GLCs) are left out.

In another work, based on interview data and documentary evidence, Yusoff (2010) investigates the characteristics of board members and determines the contribution that these characteristics make to the effectiveness of boards of directors in Malaysian PLCs. Among her findings are the following suggestions: being independent is the most important characteristic for independent directors, the importance of finance or accounting knowledge, business knowledge, and legal knowledge; the importance of internal aspects of boards in influencing effectiveness; the need for clearly defined roles of boards and management; and the need for board structures and process such as separation of CEO/chairman roles. She also finds that Malay directors dominated GLC boards, with substantial numbers of retired government officers on these boards. She also concludes that networking with the government can lead to poor corporate governance in the country. However, the study does not explain why Malays dominate GLCs, and why networking with the government could result in poor corporate governance. Corporate governance reforms in the country were also found to not have adequate capacity to effectively capture and resolve many of the underlying political issues in Malaysia (Liew, 2007).

A significant insight into the influence of *Bumiputera* on corporate ownership is given by Gomez (2003) whose concern was whether *Bumiputera* affirmative action has contributed to the development of a dynamic, entrepreneurial community in Malaysia. He found that it is actually the government who has the majority of the top 10 companies in Bursa Malaysia, none of which belongs to the Malays.

2.8 The Gaps of Interest

The review of the literature above shows that there exist gaps in corporate governance literature, of which gaining insights or filling those gaps could help to better understand corporate governance practices. While the dominant perspective in corporate governance research comes from an economic perspective, this present study wishes to investigate corporate governance from an alternative perspective of sociology. This is because, as important as it is, corporate governance is a secondary institution influenced by much larger institutional and social forces. Understanding those forces would help in understanding corporate governance not as a mechanism dealing with agency issues but also seeing corporate governance as a political as well as a social instrument.

The flaws of agency theory in explaining corporate governance mechanisms are noted by Professor Victor Brudney (1985) when he argues against the analysis that claims that private bargaining or contracting sufficiently restrains management misbehaviour. Acknowledging instead the importance of institutions, he argues that:

> *"Scattered stockholders lack the requisite information and institutional mechanisms either to bargain over the terms of management's employment, or to monitor and control management's activities. The "markets" for managers and for securities do not effectively implement investor constraints on management. Outside directors are insufficiently independent from management to serve as agents for stock-holders in selecting or controlling management, and too many factors, and possibly information imperfections, affect the price of stock for it to serve as mechanism for effective investor impact upon managerial performance. […] realistic inquiry into the operation of institutional factors affecting corporate governance is required before accepting approaches which are based on the rhetoric of "contract" and agency costs and reject the need for government intervention"* (Brudney, 1985, p. 1403).

His argument is not in isolation, as Roe (1991) also found that the initial separation of ownership and control in the US, at least in the 1930s, was due to legal and political factors; and not as an automatic response to the development of their firms. Also criticizing agency theory, Van Essen (2011) looks at the role of ownership in different contexts by taking into account the different formal and informal institutional constellations found in those contexts. He found that who owns the firms matters in respect to the firms' strategies, objectives, and performance; i.e. a crucial factor with respect to the ownership concentration, firm strategy and performance relationships, is owner identity. While Van Essen (2011) has been investigating ownership from the institutional perspective, his focus is on the role of ownership and not about how the ownership structure is shaped.

In relation to studies of board of directors also, although agency theory has been dominating corporate governance literature, it is, however, claimed to have provided very little information regarding actual board functioning and behaviour (Petrovic, 2008). Hence there is a call for greater theoretical pluralism and more detailed attention to board processes and dynamics (Roberts et al., 2005). They suggest that it is the actual conduct of the directors that determines board effectiveness; while board structure, composition, and independence only condition it. Looking at the roles played by the audit committee, Humphrey (2008) also appears sceptical as there is not much known about their day-to-day practices and how have they managed to provide a convincing solution or strategic development when corporate governance contains structural flaws. Turley and Zaman (2007) found that the most significant effects of the audit committee on governance occur outside the formal structure and processes. This is consistent with an earlier observation that corporate governance is a social process, and hence, should also be investigated from a social perspective.

From the review of literature on board of directors in an earlier section, it is noted that studies from the agency perspective have been concerned with the impact of percentages of outside directors on performance, directors' independence, CEO duality issues, and board structure (i.e. a unitary or a two-tiered system). Their focus was on the effectiveness of these mechanisms in curbing agency problems. While these studies have merit in that perspective, this present study aims to explain corporate governance, not as an economic mechanism, but as one shaped by social forces. How these are shaped by social forces would explain the effectiveness of some of the mechanisms.

Hoskisson, et al. (2000) observe that, despite being the most applicable paradigm for explaining firms' behaviour in emerging economies, the number of theoretical and empirical studies utilizing an institutional perspective in such a context is limited. Such need for the focus on institutions is because emerging economies are still heavily regulated, which means there are institutional influences. For example, the state-owned-enterprises are affected by government institutions, and at the same time, other private firms would also be influenced by institutional environments, namely cultural and political.

Aguilera et al. (2008), in challenging agency and stakeholder perspectives (which they termed 'closed system'), propose an organizational sociology approach to comparative corporate governance in order to better capture the patterned variation that results from interdependencies between firms and their environment. Their 'open system' perspective views corporate governance in terms of effectiveness in achieving their goals. They adopt a much broader definition of effectiveness as opposed to agency theory where effectiveness is "the accountability of corporate decision-makers and the legitimacy of decisions about their different economic and non-economic goals and values" (p. 476). Their proposed framework is comprehensive for assessing how an institutional context affects the appropriateness of an alternative governance process.

Hambrick, Werder, and Zajac (2008, p. 381) see corporate governance as referring to "the formal structures, informal structures, and processes that exist in oversight roles and responsibilities in the corporate context." They show how governance themes, and research on those themes, can span a level of analysis in both the micro direction and macro direction. The law and economics literatures tend to focus on the roles of formal structures in governance. Research on behavioural structure or informal structure tends to focus on power issues between and among key corporate actors; i.e. power struggles between managers and their overseers. Behavioural structure relates to who has the most power and influence within the boardroom and who has the least. Power differentials within a board helps explain variance in firm outcomes and increase our understanding of board actions and inactions. This study adds to the literature by investigating how these power differentials could exist; how the *Bumiputera* institution helps to explain the cause for these power differentials in corporate boards in Malaysia.

In the case of Malaysia, being masked by the economic analyses of the 1997/98 Asian crises, most Malaysian corporate governance studies inadvertently neglected the implication of the *Bumiputera* institution (e.g. Becht et al., 2005). Bridging this gap, this study argues that, although there is an economic angle in their analysis, as a dominant institution, *Bumiputera* provides indispensable lenses for studies in corporate governance in Malaysia, for this institution persisted long before the 1997/98 Asian crisis. By any means, this cannot be neglected for it acts as the dominant institution, reflecting the country's national economic policy, which has direct implications for apparatuses of corporate governance. It is argued that corporate governance is a social process; it cannot be isolated from social and other non-economic conditions and factors such as power, legislation, social relationships and institutional contexts (Letza et al., 2004).

2.9 Conclusion

The purpose of this chapter is to provide an overview of the trend or focus in the research of corporate governance with the aim of identifying the gaps in the existing literature. The review notes that although corporate governance research is dominated by an economic perspective, in particular the agency theory, there has been an increasing effort to study corporate governance from broader perspectives. Although influential, the agency theory is unable to provide sufficient understanding on many issues related to practices due to the fact that corporate governance is not happening in a vacuum; it is affected by social mechanisms. Given that the focus in this study is on these larger forces, this present study, hence, fits into the body of knowledge that focuses on the historical importance of corporate governance as well as it fits into the sociological perspective of economic institutions. It is also historical, as it relies on historical analysis in explaining corporate governance in Malaysia, in particular ownership structure and board representation. In addition, it is sociological as it investigates corporate governance from a sociological perspective by paying attention to social mechanisms. However, rather than focusing on the historical account of corporate governance, as carried out in Morck (2005), this study focuses on the historical account of the *Bumiputera* institution and examines how that influences the development of corporate governance. This study will also fit in corporate governance literature in emerging economies. The following chapter discusses the theoretical framework to be used in the analysis and interpretation of the findings of the study.

Chapter 3 - Theoretical Framework

3.1 Introduction

The aim of this thesis is to understand how corporate governance practices are influenced by the larger institutional environment in which they are embedded. Understanding the role of institutions[9] is important because corporate governance is not just an economic mechanism that owners of corporations use to minimise the loss in value of their corporations as a result of agency conflicts (Denis & McConnell, 2003); it is also a social process. Hence, it is affected by various social mechanisms, including institutions (March & Olsen, 1989). Also, contrary to the economic perspective, corporate governance does not arise as an automatic response to efficiency issues, rather it is socially constructed (Berger & Luckmann, 1966). How corporate governance is constructed is also influenced by surrounding institutions.

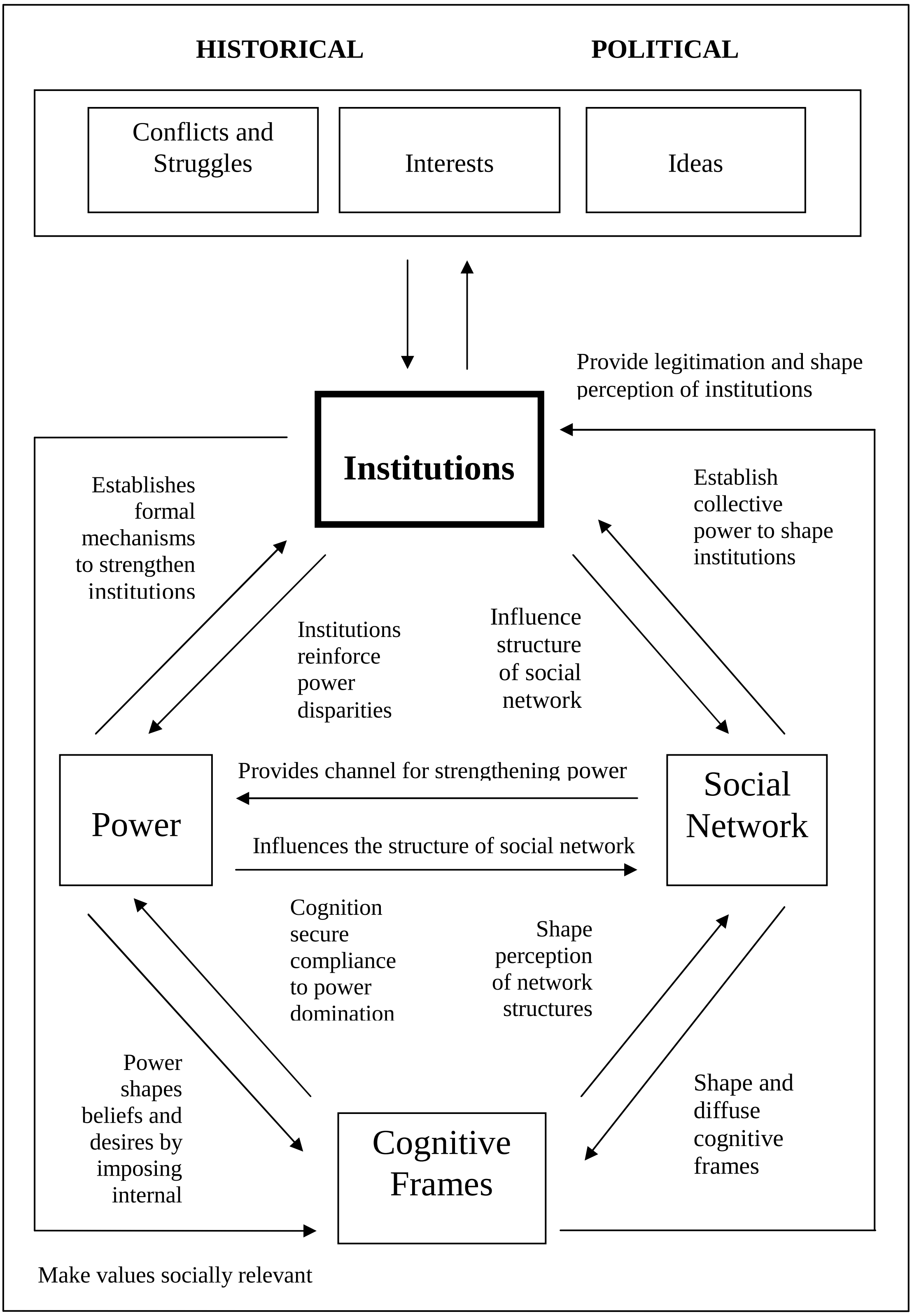
How institutions influence corporate governance practices cannot be explained by economic theories. In fact, in accounting studies there have been many attempts to study accounting from alternative perspectives due to the empirical failure of efficient market theory and contingency theory to provide rationales for the development of accounting techniques and systems (Richardson, 1987). The new economic sociology (NES), which investigates economic phenomena from a sociological perspective, could enhance the understanding of corporate governance practices in this context. In their analysis, new economic sociologists have drawn insights from other theories, including organisation theory; new institutionalisms from organisation theory is claimed to represent an important contribution to this perspective (Swedberg, 2003, pp. 33-41). To illustrate the case, this study investigates corporate governance in Malaysia, focusing on the role of *Bumiputera* institution in shaping such practices. This chapter outlines the theoretical framework developed to inform the research issues identified in Chapter 1.

[9] The term 'institution' will be defined later in the chapter; different paradigm of institutionalism defines the term differently.

The framework developed is based on the integration of paradigms and perspectives for better understanding of the phenomena (Beckert, 2010; Campbell & Pedersen, 2001a; Dillard et al., 2004; Hopper & Major, 2007; Jones & Dugdale, 2002). Firstly, two paradigms of the new institutionalisms are drawn upon; historical and sociological. Historical institutionalism from political science (Campbell, 1997; Hall & Taylor, 1996, 1998; Thelen & Steinmo, 1992) considers the importance of history in providing context of the study. It seeks to explain institutional choices by examining the development of the institution over time (Christiansen & Vanhoonacker, 2008). It shows how *Bumiputera* institution emerged and developed, and affects the country's policy outcomes. How institution emerged influence how it becomes institutionalised. Historical institutionalism is also important in explaining change or persistence of institutions. Sociological institutionalism aims to provide insights into institutionalisation of *Bumiputera* and how that affects corporate governance practices in the country (DiMaggio, 1998; DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Zucker, 1977, 1987).

In discussing institutionalisation impact of *Bumiputera* on corporate governance, other social mechanisms are also relevant. Beckert's (2010) framework that shows how institutions, social networks and cognition are interrelated and become sources of dynamics in explaining the economic field is adopted in this study. The framework is extended to include the role of power as advanced by Steven Lukes (1974, 2005). *Bumiputera* is social as much as political, hence, power plays significant role, not only in the emergence, but also in the institutionalisation process of *Bumiputera*. This integration is useful in explaining how the reciprocal influence of these social mechanisms affect the behaviour of corporate governance actors. The integrated framework (**Figure 3.1)** provides an alternative perspective to understand corporate governance from its socio-political context. The discussion in the rest of this chapter will focus around **Figure 3.1** below.

Figure 3.1: Theoretical Framework from Integrated Paradigms and Theories



Source: Extended from "How do fields change? The interrelations of institutions, networks, and cognition in the dynamics of markets" by Jens Beckert, Organization Studies, 2010

This chapter is structured as follows: the following section provides justifications for deviating from the dominant economic perspective, in particular agency theory, in addressing the research problem. The section discusses the failure of agency theory in providing adequate insights into the practices of corporate governance, and shows how institutionalisms could provide a better lens to investigate such issues. This leads to the next discussion of the new institutionalisms. **Figure 3.1** will be explained further in the subsequent sections of integration of theories and institutional change. How the framework will be applied in the study will be discussed following that. A conclusion section closes the chapter.

3.2 Limitations of Economic Perspective

Economists are said to have established itself as a discipline by restricting its attention to that aspect of social life concerned with the allocation of scarce resources (Krippner, 2001). Economic analysis of corporate governance, including the analysis of the institutional legal arrangement, hence, is efficiency-oriented focusing solely on agency issues. The dominant perspective of the economics argues that corporate governance came into existence because of agency problems; it is the agency costs that create the need for institutional arrangement for corporate governance. Managers are claimed to always be rational; i.e. they always pursue their self-interest and try to maximize their utility. Therefore, corporate governance research has been hugely focusing on the efficacy of the various mechanisms available to protect shareholders from the self-interested managers (Daily et al., 2003).

However, while their perspectives and analysis have merit on their own, there are many criticisms levelled against economists, which justify the need to search for alternative explanations for the observed phenomena or practices of corporate governance. First of all, corporate governance is not created exclusively by agency costs; rather it is affected by other factors including political and societal concerns. This is because, corporate governance does not operate in vacuum; rather it is embedded in the larger social context. Embeddedness means that the economic actions and decisions of corporate governance actors are affected by the surrounded social relations, institutions and other social mechanisms (Dobbin, 2004; Granovetter, 1985; Zukin & DiMaggio, 1990).

Economists' assumptions of 'maximizing utility' and 'self-interest' are also contestable. 'Maximising utility', for example, is not possible under the situation of uncertainty (Beckert, 1996). Economists then interpret 'uncertainty' as 'risk' in their analysis, but that would challenge the notion of 'rational choice' as the core assumption of economic theory; hence, the need "to look at those cognitive, cultural, structural, and cultural mechanisms that agents rely upon when determining their actions […]" (Beckert, 1996, p. 814). The concept of 'self-interest', which is always central to economic theories, is also not sufficient to explain why corporate governance actors behave in certain ways or why economic behaviour or practices vary across nations. This is because pursuing self-interest is not the actors' only objective; economic actors might also pursue other interests including power, prestige, and social recognition.

Related to the notion of 'self-interest', under the embeddedness perspective mentioned earlier, actors are still assumed to be pursuing interests; but instead of a narrow self-interest, they are assumed to be pursuing other interests as well (termed as economic interests). Furthermore, even though actors may be self-interested and rational, their rational behaviour is shaped and constrained largely by social relations or networks and resources available to them, and the institutions in which they are embedded (Dobbin, 2004). In short, under this embeddedness perspective, corporate governance actors are not viewed as irrational and institutions are not regarded as inefficient, but their actions are constrained by context.

Therefore, despite being the mainstream for corporate governance research with impressive empirical results, agency theory is not sufficient to explain the situations observed in practice mainly because it ignores 'context'. Ignoring social relations, political and societal concerns means that economic perspective ignores some important analysis of corporate governance. The effectiveness of institutional legal arrangements and the impact of institutional arrangements on corporate governance are, in fact, contingent upon the context in which they are embedded. A controlling shareholder, for example, could have a strategic position in corporate governance; but, the consequences of the strategic position of the controlling shareholder are also contingent upon the specificities of the context (Goyer, 2010). While substantial shareholders could mitigate the agency issue, it also could give rise to the problem of them securing private benefits of control at the expense of minority investors. Politics, conflict, social actors and societal concerns, therefore, matter (Kogut & Ragin, 2006; Milhaupt & Pistor, 2008). The effectiveness of legal institutions on various outcomes also is contingent upon its interdependency with other institutions. Taking into account social networking in the analysis is a way of re-incorporating 'context' into the study (Friemel, 2008).

In the 1960s, economists started to consider 'context' in their studies. The New Institutional Economics (NIE) was described as a body of thinking based on two propositions; first, institutions matter; and second, institutions are susceptible to analysis (O. E. Williamson, 1998). NIE concerns the institutional environment and combines a level of analysis where one level informs the other. However, its analysis is still based on the assumptions of self-interest and atomisation or methodology individualism. Atomisation or methodology individualisms means that economic perspective conceptualises actors' identities, interests or preferences as separate to the institutions they inhibit (J. Gregory, 2010, p. 64). Again, this means that economists ignore the existence of social relations or networks between actors, which play an important role in affecting the practice.

Secondly, corporate governance institutions also are not an automatic response to certain conditions as believed by the economists; but they are, in fact, socially constructed (Hall & Taylor, 1996). Economists believe that corporate governance is an automatic response to conditions that require the institutions or the forms to be what they are in order to minimise costs or maximise efficiency. Economists work deductively; in other words, they recognise issues and problems first and then seek the optimal solution - the institutions emerge as a response to those issues and problems. However, even though the economists want people to believe that the way society or institution is structured is the 'way it should be' or the most efficient or desirable way, an alternative perception of the sociologists, for example, believe that it is constructed socially 'to be that way' and that the process of construction is influenced by social relations. Corporate governance institutions may be configured in quite different way depending on the shapes of the interpersonal network of leading actors. The principle is that, the actor whose network reaches into the largest number of relevant institutional realms will have an enormous advantage in what Granovetter termed as "the strength of weak ties" (Granovetter, 1973). Furthermore, ideal institutions do not exist; and "globally inefficient institutions sometimes persist because they favour particular actors who have the power to defend them" (Ingram & Clay, 2000, p. 526).

This 'social construction of the economy'[10] refers to the argument that almost every aspect of society is constructed socially and very little has to be the way it is. This is to say that economy, institutions and even societies are constructed by societies or individuals depending on how those within the societies want it to be; it is dependence on contingent aspects of our social selves (Boghossian, 2001). It could not have existed in the way it did if the societies or individuals did not construct it with that values, interests or ideas to be in that shape. Hence, different individuals with different values and interests would have constructed it differently. However, the way it is constructed is for people to believe that this is the only way it should be as argued by Granovetter in the interview with Swedberg (1990) that part of the process of construction of institutions and societies is "to make it look as if it couldn't be any other way, since society becomes more stable when people have that impression. It's when people realize that things are socially constructed that these constructions fall apart" (Swedberg, 1990, p. 109).

These notions of 'embeddedness' and 'social construction of the economy' are, in fact, interrelated; i.e. the economic institutions are socially constructed by the context within which they are embedded in; hence, influenced by the social network,

[10] For the purpose of analysis, this concept is adopted broadly, i.e. employing the core idea of social construction. Besides these core ideas of worldly items, *beliefs* also could be socially constructed (Boghossian, 2001). However, this study will not go to that extent due to the limitation of the methodology and data collected in this study and the different in ontological perspective. But, the fact that the study of social construction of *beliefs* or cultural cognition framework provides deeper foundations of institutional forms is acknowledged (Scott, 2008).

power, cognition and other social institutions, which, in turn, constraint actors' behaviour.

Because of these limitations in agency theory and the existence of institutions which constrain free choices, an alternative perspective is needed to explain the impact of *Bumiputera* institution on corporate governance practices. Hence, the point of departure in this framework development is 'institutionalism'. Institutionalism asserts that actors pursue their interests by making choices within institutional constraints. Institutions constrain actors such that their best choices are consistent with the collective good, enabling, for example, mutually profitable exchange between actors (Ingram & Clay, 2000). This leads to the next discussion, which is to explore the meaning of institutions and how they are theorised. It is through this lens that corporate governance practices in Malaysia are to be understood in this study. It thus will explain why practices in Malaysia vary from other constituents.

Since the focus of the study is on the historical emergence of commitment towards the *Bumiputera* institution and how it then shapes corporate governance practices in the country, historical institutionalism from political science and sociological institutionalism are relevant to help frame the analysis. The following section, however, will firstly provide an overview of diverse paradigms of the new institutionalisms developed in social science before a more detailed discussion on historical and sociological institutionalisms are provided. Some definitions of institutions from different paradigms are also presented. At the end of the next section, *Bumiputera* as an institution will be defined accordingly.

3.3 The New Institutionalisms

New institutionalism emerged as a response to behavioural perspectives that were influential during the 1960s and 1970s (Hall & Taylor, 1996; March & Olsen, 1989). However, it does not constitute a unified body of thought; there are several paradigms or analytical approaches that had emerged in the study of institutions. **Table 3.1** below summarises some major classification of new institutionalisms in the study of social sciences. Some authors classify institutionalisms according to their disciplinary affiliation, while others identify them based on theoretical orientation. Hall and Taylor (1996), for example, identify three[11] different schools of thought; the rational choice institutionalism from an economic perspective, historical institutionalism from political science, and sociological institutionalism from sociology. DiMaggio (1998) continues discussing the paradigms identified by Hall and Taylor (1996), but argues that the major streams of institutional analysis are no longer carried out by disciplinary affiliation. Instead, he categorises the work on new institutionalism on the basis of theoretical orientation, arguing that disciplinary identities are “becoming poorer proxies for theoretical orientation in the study of institutions” (DiMaggio, 1998).

Looking from different angles, Scott (2008) argues that institutions are comprised of three pillars or analytical elements; regulative, normative and cultural-cognitive. He defines institutions as consisting of the three elements that, “together with associated activities and resources, provide stability and meaning to social life” . This means that all institutions are made up of all three pillars regardless of the paradigms from which the analysis is made. However, different disciplines would normally focus more on one analytical element than the others, based on different underlying assumptions, mechanisms and indicators (W. Richard Scott, 2008, p. 51).

Even though there are different label given to the paradigms, they are not inconsistent with each other. The differences in classification suggest that there are disagreements within each paradigm over theoretical and other issues; but they are grouped together insofar as they have the same assumptions (Campbell & Pedersen, 2001a). Furthermore, all paradigms share the same goal, which is to seek to clarify the role of institutions in the determination of social and political outcomes (Hall & Taylor, 1996). However, although all paradigms agree that institutions matter, to what extent they matter differs between paradigms. This study adopts the classification made by Hall and Taylor (1996).

[11] They originally identified four schools of thought; the rational choice institutionalism, historical institutionalism, sociological institutionalism, and the new institutionalism in economics. However, since the new institutionalism in economics overlaps heavily with rational choice institutionalism, therefore, they treat them together even though they acknowledge that rational choice institutionalism emphasises more on strategic interaction while the new institutionalism in economics stresses more on property rights, rents and competitive selection mechanisms.

Table 3.1: Different Paradigms of New Institutionalism

Author(s)	Classification of new institutionalism/proponents		
Hall and Taylor (1996)	Rational choice institutionalism	Sociological institutionalism	Historical institutionalism
DiMaggio (1998)	Rational-action neoinstitutionalists (RAN) [“rules of the game”]	Social-constructionist neoinstitutionalism (SCN) [Elements of rational action models are “socially constructed”]	Mediated-conflict neoinstitutionalists (MCN) [how state institutions structure and mediate conflict among the interests of groups]
Nielsen (2001)	- new institutional economics, - rational choice political institutionalism, - rational choice sociology	- new institutionalism in sociology and organisation theory, - new institutionalism in political science	- historical institutionalism in political science - historical and comparative sociology - old institutionalism in sociology
Campbell and Pedersen (2001a)	Rational choice institutionalism	Organisational institutionalism	Historical institutionalism
Scott (2008)	Neoinstitutional theory in economics - transaction cost economics - evolutionary economics	Neoinstitutional theory in sociology - cognitive theory - cultural theory - ethnomethodology	Neoinstitutional theory in political science - historical institutionalism - rational choice theory (positive theory)
Scott (2008)	- regulative pillar - normative pillar - cultural-cognitive pillar		

Table 3.2 below highlights the similarities and differences across the three paradigms. The concepts in **Table 3.2** will be discussed further when the framework is developed.

Table 3.2: Similarities and Differences in the New Rational Choice, Organisational, and Historical Institutionalism

	Rational Choice Institutionalism	Historical Institutionalism	Organisational Institutionalism
Similarities			
Favoured patterns of change	Punctuated equilibrium, evolution	Punctuated equilibrium, evolution, punctuated evolution	Punctuated equilibrium, punctuated evolution
Favoured causal concepts	Path dependence: based on feedback, increasing returns, and choice within institutional constraints	Path dependence: based on feedback, learning, and choice within institutional constraints	Path dependence: based on constraining and constitutive aspects of institutions
	Diffusion: based on information contagion, feedback, and imitation	Diffusion: based on learning and coercive processes	Diffusion: based on mimetic, normative, and coercive process
Role of ideas	Increasing: cognitive structures, beliefs, and norms constrain actors (and make institutions inefficient)	Increasing: policy paradigms and principled beliefs constrain actors.	Substantial: taken-for-granted cognitive and normative structures constrain (and enable) actors
Differences			
Theoretical roots	Neo-classical economics	Marxist and Weberian political economy	Phenomenology, ethnomethodology, and cognitive psychology
Definition of institution	Formal and informal rules and compliance procedures; strategic equilibrium	Formal and informal rules and procedures	Formal rules and taken-for-granted cultural frameworks, cognitive schema, and routine processes of reproduction
Level of analysis	Micro-analytic exchanges	Macro-analytic national political economies	Organisational fields and populations
Theory of action	Logic of instrumentality	Logic of instrumentality and appropriateness	Logic of appropriateness
Theory of constraint	Action is constrained by rules, such as property rights and constitutions, and bounded rationality.	Action is constrained by rules and procedures, cognitive paradigms, and principled beliefs.	Action is constrained by cultural frames, schema, and routines.

Source: From "Institutional Change and Globalization," by John L. Campbell, 2004, Princeton University Press, p. 11.

Literatures show that scholars have had endless disputes over the definition of the term ‘institution’. For the purpose of analysis, this study defines the term according to what fits with the issue at hand and the aim of the thesis. Although the study utilises historical and sociological paradigms only, the perspective of rational choice is still given here for the purpose of comparison.

Definition of Institutions

Rational choice institutionalism defines institutions as consisting of formal and informal rules. The widely-cited definition by North (1990), for example, sees institutions as “the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction” . According to North, there are two types of games rules; formal (constitutional, property-rights rules, and contract) and informal (norms and customs). Informal norms include the implicit contract, which may be expressed verbally in statements of expected behaviour. Violations of the norms lead to forms of punishment such as anger or refusal to continue the interaction. Informal norms arise in the course of social interactions as standards of expected behaviour, and are maintained when reward is expected to follow conformity and punishment for deviance. Reward relates to social approval, while punishment relates to social disapproval. Aoki (2001, pp. 1-2) argues that:

> “Even *if good formal rules are borrowed from without, tension may be created since indigenous, informal rules are inert and difficult to change. As a result a borrowed institution may be neither enforceable nor functional”*.

This is consistent with North’s (1990, p. 6) argument that “although formal rules may change overnight as the result of political or judicial decisions, informal constraints embodied in customs, traditions, and codes of conduct are much more impervious to deliberate policies. These cultural constraints not only connect the past with the present and future, but provide us with a key to explaining the path of historical change”.

Historical institutionalists define institution as “the formal or informal procedures, routines, norms and convention embedded in the organizational structure of the polity or political economy” (Hall & Taylor, 1996, p. 938). Institutions are essentially ‘structural frames’, thus, they structure the relationship between individuals in various units of the polity and the economy (Hall, 1986). Historical institutionalists are interested in “the whole range of state and societal institutions that shape how political actors define their interests and that structure their *relations of power* to other groups” (Thelen & Steinmo, 1992, p. 2).

Sociological institutionalists define institutions to include formal rules, procedures or norms, symbol systems, cognitive scripts and moral templates that provide the “frames of meaning” guiding human actions (Campbell, 1998; Hall & Taylor, 1996). institutions, hence, comprise of the formal and informal social constraints that shape the choice-set of actors (Nee, 1998). Meyer and Rowan (1977) see institutions as broad abstractions, wide cultural and symbolic patterns, rationalised and impersonal prescriptions, and powerful rational myths that infuse and diffuse in the organisational world. From embeddedness perspective, Granovetter defines institutions as “results from actions taken by socially situated individuals, embedded in networks of personal relationship with non-economic as well as economic aims” (cited in Nee & Ingram, 1998, p. 24).

Level of analysis

As shown in **Table 3.2**, rational choice institutionalism focuses more on micro-level, whereas historical institutionalism focuses on macro-level and sociological institutionalism focuses on organisational fields and population.

Problematic

Each paradigm is motivated by different problem (Campbell & Pedersen, 2001a). Rational choice institutionalism, such as the work of North (1990) and Williamson (1985), is concerned with how rationally-motivated actors build institutions to solve problems, such as reducing transaction costs and managing principal-agent relations (Campbell & Pedersen, 2001a). Their principal interests are the institutional environment or “rules of the game”, and the institutions of governance or “play of the game”, which include markets, firms and bureaus (O. E. Williamson, 1998). Rational choice institutionalism concerns enforceability and conceptualises an institution as an equilibrium outcome of the game (Aoki, 2000). Historical institutionalists are more concerned with how variations in political or other institutions shape actors' capacities for action, policy making and institution building (see for example, Campbell, 1998). Organisational institutionalists focused more on explaining how the rationalization of institution building is culturally and cognitively-constituted and legitimised. They argue that many institutional forms or procedures were not adopted merely for efficiency reasons, but should be seen as "culturally-specific practices, akin to the myths and ceremonies devised by many societies, and assimilated into organizations, not necessarily to enhance their formal means-ends efficiency, but as a result of the kind of processes associated with the transmission of cultural practices more generally" (Hall & Taylor, 1996, pp. 946-947).

Bumiputera consists of formal and informal rules, promulgated by formal organization, backed by constitution, and comprised of regulative, normative, and cultural-cognition elements which act as constraints as well as enabling factors affecting corporate governance actors. Given that the aim of this thesis is to investigate the emergence, the operation, and the change in *Bumiputera* institution, and how those affect the practice of corporate governance, hence, the perspectives of historical and sociological paradigms are more relevant in this study. This also justifies the need for an integrated framework[12], which is discussed next. A more detail discussion on historical institutionalism and sociological institutionalism are provided in the following section.

3.4 Integration of Theories

This section discusses the integration of relevant institutional perspectives and social mechanisms in building up the framework. Integration of theories is necessary because, in isolation, the theories are unable to provide a clear picture of the country's corporate governance practices. It has also been encouraged by many scholars in the social science studies. In institutional theories, the efforts to integrate different paradigms in analysing institutions is termed as 'second movement'

[12] Although not directly using rational choice paradigm, the insight from the theory is deemed important as the study also adopt regulative pillar of institution in discussing corporate governance change.

(Campbell & Pedersen, 2001a, p. 2). This movement is motivated by the increasing recognition among scholars that institutions and institutional change are more complex than any paradigm portrays; hence, the need to explore “how paradigms complement and connect with each other in ways that might eventually generate new insights, if not a new problematic, for analysing institutions” .

Similar attempts to integrate theories have been made in accounting studies including the work of Jones and Dugdale (2002), Dillard et al. (2004), and Hopper and Major (2007). To frame their understanding of the theories and practices of Activity Based Costing (ABC), Jones and Dugdale (2002) relied on the integration of two theories: actor-network theory (ANT) and Gidden’s discussion of the dynamics of modernity. They begin their two-step methodology by drawing upon ANT for the detailed analysis of the construction of ABC through a network of human and non-human allies. The second step is to draw upon Gidden’s discussion of dynamic of modernity, which views ABC as an expert system and aims to connect local and global aspects of this construction work.

Dillard et al. (2004) integrate institutional and structuration theories, and draws on Weber’s notions of rationality, power, and representation to explain institutionalization process in organizations. Their framework explains how accounting standards are institutionalised, embedded, and de-institutionalised. While structuration theory is used to explain the process of organisational change, Weber’s notions of power, rationality and representation are used to circumscribe the context for action and change, and form “axes of tension useful in specifying the extant context within economies employing administrative hierarchies as the primary organizing structure” (Dillard et al., 2004, p. 517). Hopper and Major (2007) adopted Dillard et al.’s (2004) model of institutional change but extend it further via theory triangulation to include economic, labour process, and ANT for the purpose of enriching their observations in the adoption of a particular management accounting system. Arnold (2009) who is a proponent of interdisciplinary research, also proposes the integration of institutional analysis with different perspectives. She argues that institutional perspectives can be enriched by bringing back economics and politics.

Taking a similar approach to Jones and Dugdale (2002), this study integrates two paradigms of institutionalisms in two-steps methodology. The integration is done through 'linking' the arguments from these paradigms by considering "the *stages* through which institutional development occurs and determine the degree to which aspects of different paradigms explain each stage" (Campbell & Pedersen, 2001b, p. 264). In the first stage, the ethnic conflicts and income gaps drove *Bumiputera* institution building, which then constrain action by limiting the ability of actors to respond to, and solve, their problems (Campbell, 1997, 1998). This is a feature of historical institutionalism. In the second stage, concerns with firm's legitimacy influence the board appointment process; hence, a feature of interest under sociological institutionalism.

The integration of historical and sociological institutionalisms would show how different causal factors operate in different contexts. The use of different paradigms here is for the purpose of explaining different institutional impacts as well as different causal factors. **Table 3.3** below shows that, although the study investigates the role of *Bumiputera* institution in affecting corporate governance, the focus, context and causal factors differ; thereby, justifying the integration of paradigms. A more detailed explanation of the perspectives is given in the next section. In terms of the research focus, historical perspective seeks to explain the emergence of, and changes in, institutions; here, the attention is to explain the macro-political factors that create and change institutions. Understanding history is important to provide explanations of why corporate governance is practiced in certain ways. History shows the emergence of institutions that affect corporate governance practices or behaviour, including the role of state intervention and power. A sociological perspective focuses on how institutions impact on economic actions; here, the focus is on micro-logic that links institutional structures to actions (Hall & Taylor, 1998). It seeks to reveal how institutions shape social, political and economic life. Institutions provide cognitive scripts and taken for granted practices for the actors and influence their behaviour by enabling them to interpret and make sense of the world around them (DiMaggio & Powell, 1991; Meyer & Rowan, 1977).

Table 3.3: Integration of Two Paradigms of New Institutionalisms

	Historical Institutionalism	**Sociological Institutionalism**
Focus of research	- Emergence of *Bumiputera* institution - Impact of institution on public policy/political decision making - Impact on equity ownership and board representation	- Impact of *Bumiputera* institution on corporate governance practices - Impact of social mechanisms on economic actions
Context	- Post-independent; struggling economically and socially - Malays were weak economically - Political power for economic decision-making in the hands of Chinese	- More developed Malaysia - Malays have economic power/advantages derived from various mechanisms - Political power for economic decision-making in the hands of Malays.
Causal factors	- *Bumiputera* institution - Political power - Interests - Ideas - Social struggles	- *Bumiputera* institution - Social network - Cognitive - Political power - Legitimation
Causal process	- Rules; imposed upon	- Legitimation
Institutional change	- Mechanisms of change: political struggle, learning	

In these two research focuses, the context of the case is also different. In the historical analysis, the country was struggling economically and politically, and the position of Malays or *Bumiputera* people was quite weak. In the analysis of the impact of *Bumiputera* institution on corporate governance, the present context of the country has changed, as noted in the table above. Causal factors in influencing outcomes, processes and institutional changes will be explained more in the following sections.

Historical and sociological institutionalisms complement and connect with each other in this study since both share the view on the importance of historical accounts of institutional development and the "interpretive characterization of the meanings political actors assign to their own acts and those of others" (R. M. Smith, 1992, p. 2). Furthermore, although sociological institutionalism is criticised for neglecting the role of power and group interests (Abernethy & Chua, 1996; Clegg, 1989; Covaleski et al., 1993; Dillard et al., 2004; DiMaggio, 1988; Perrow, 1985; Zucker, 1987), these could be complemented by historical institutional analysis. In this study, however, the theory of power is integrated into both historical and sociological institutionalisms. Also, although institutions are important, they are not the sole cause affecting economic behaviour (Thelen & Steinmo, 1992). Therefore, adopting a similar approach to the work of Dillard et al. (2004) and Hopper and Major (2007), this study then incorporates other social mechanisms into the framework. Historical institutionalism, sociological institutionalism, and the NES are discussed next.

3.4.1 Historical Institutionalism

The work of political scientists using historical institutionalism is commonly concerned with how political institutions affect policy outcomes. Their evidence then illuminates that this happens because institutions structure political situations and mediate political struggles (Thelen & Steinmo, 1992, p. 2), which then affect the outcomes. From this perspective, institutions are not only important but also play a determinant role in shaping the actions of individuals involved (Hall, 1992). As Hall and Taylor (1996, p. 937) argue, "institutional organization of the polity or political economy is the principal factor structuring collective behaviour and generating distinctive outcomes". Institutions thus act as constraints for political action (see Blyth, 1997). Therefore, unlike rational choice institutionalists who see actors as acting rationally, historical institutionalists see actors as rule-following satisfiers. This means that actors would normally follow societally-defined rules, although this may not be directly in their self-interest (Thelen & Steinmo, 1992). This is because, for historical institutionalists, institutions do not only define strategies of political actors but also define their goals. Furthermore, institutions also affect policy outcomes by shaping the way actors define their interest (Hall, 1986).

Institutions consist of discursive elements that shape political and economic perceptions, the definition of actors' interests, and hence, behaviour (Campbell &

Pedersen, 2001a, p. 6). The discursive elements of *Bumiputera* institution could be seen from the ability of Malay political leaders to rationalize the *Bumiputera* affirmative policy as being in the interest of the whole nation. Historical institutionalists define 'interests' as "the real, material interests of the principal actors, whether conceived as individuals or as groups" (Hall, 1997, p. 176). Interests or preferences are seen as artefacts of institutions (Immergut, 1998); their motivations are institutionally-determined (Campbell, 1997). This means that actors' preference formations, goals and strategies are endogenous part of policy formation and institution building (Thelen & Steinmo, 1992), and need to be explained rather than assumed, as in the case of rational choice perspective. Therefore, historically-based analysis is needed to explain the goals actors are trying to maximise and why they choose those specific goals. Institutions determine preferences, interests and other motivations "by shaping patterns of interaction, opportunity structures and the distribution of power, and thus the objectives of political actors" (Campbell, 1997, p. 22). Conversely, interests also are expressed through institutions (Immergut & Anderson, 2008).

Besides shaping actors' strategies, goals and preference formations, institutions also mediate actors' relations of cooperation and conflict. However, when facing conflicts, macro-economic strategy tends to favour the material interests of some social groups to the disadvantage of others (Hall, 1992). In discussing the emergence of historical institutionalism in the political science, Hall and Taylor (1996, p. 937) explain that "conflict among rival groups for scarce resources lies at the heart of politics", and the explanations for the distinctiveness of national political outcomes and for the inequalities that mark these outcomes could be found in "the way the institutional organization of the polity and economy structures conflict so as to privilege some interests while demobilizing others". 'Groups' refers to different segments of society, such as the working class and capital, which could have conflicting interests. In pursuing the objective, conflicts within segments could occur from which clear winners and losers emerged. However, those conflicts are mediated by political and economic institutions and profoundly affect the balance of power (Hall, 1992). Moreover, institutions affect policy outcomes by shaping the way they structure power relations among the actors that privileged some and disadvantaged others (Hall, 1986).

According to Schattschneider (1957, pp. 935-936), “all forms of political organization have a bias in favour of the exploitation of some kinds of conflict and the suppression of others because organization is the mobilization of bias”. Immergut and Anderson (2008, p. 348) further discuss ‘mobilization of bias’ as relating to “organization of interests and the political structures within which they shape the demand and issues that are put on the political agenda, and whether or not they even get there”. Institutions are important in the “mobilization of bias” in political processes; therefore, politicians would “have been willing to stake their careers not on particular policy outcomes but on institutional ones” (Thelen & Steinmo, 1992, p. 10). Mobilisation of bias involves power; Knight (1992) examines the differential in the power of participants in the bargaining process involved in the evolution of institutions (see also Ostrom, 1995). His study focuses on changes in rules and he argues that rules (policies) changed or sustained depending on the relative power balance of participants, which shows that institutions often reinforce power disparities (see also Hall, 1986; Thelen, 1999).

Related to the concept of interests is the concept of ‘ideas’. Campbell and Pedersen (2001a), argues that ideas matter in the study of institutional influence on policy outcomes. When certain ideas are accepted over the others, the question that arises is “why those ideas, rather than others, were taken up by key actors and why those actors, rather than others, were able to secure influence over policy” (Hall, 1992). In this context, ideas are defined to include economic theories, norms and values (Campbell, 1998). For historical institutionalists, the set of policy ideas that political elites would find acceptable is restricted by the underlying normative structures. Hence, consistent with the argument concerning mobilisation of bias, formal institutions also mediate the degree to which elites transport different ideas into policy-making arenas for consideration. Ideas could constitute the explicit arguments that appear in the *foreground*, or just as underlying assumptions which form the *background* of policy debates (**Table 3.4**). Its influences could be at cognitive level -

referring to descriptions and analyses that specify cause-and-effect relationship, and normative level - referring to ideas which consist of values and attitudes.

Table 3.4: Types of Ideas and their Effects on Policy Making

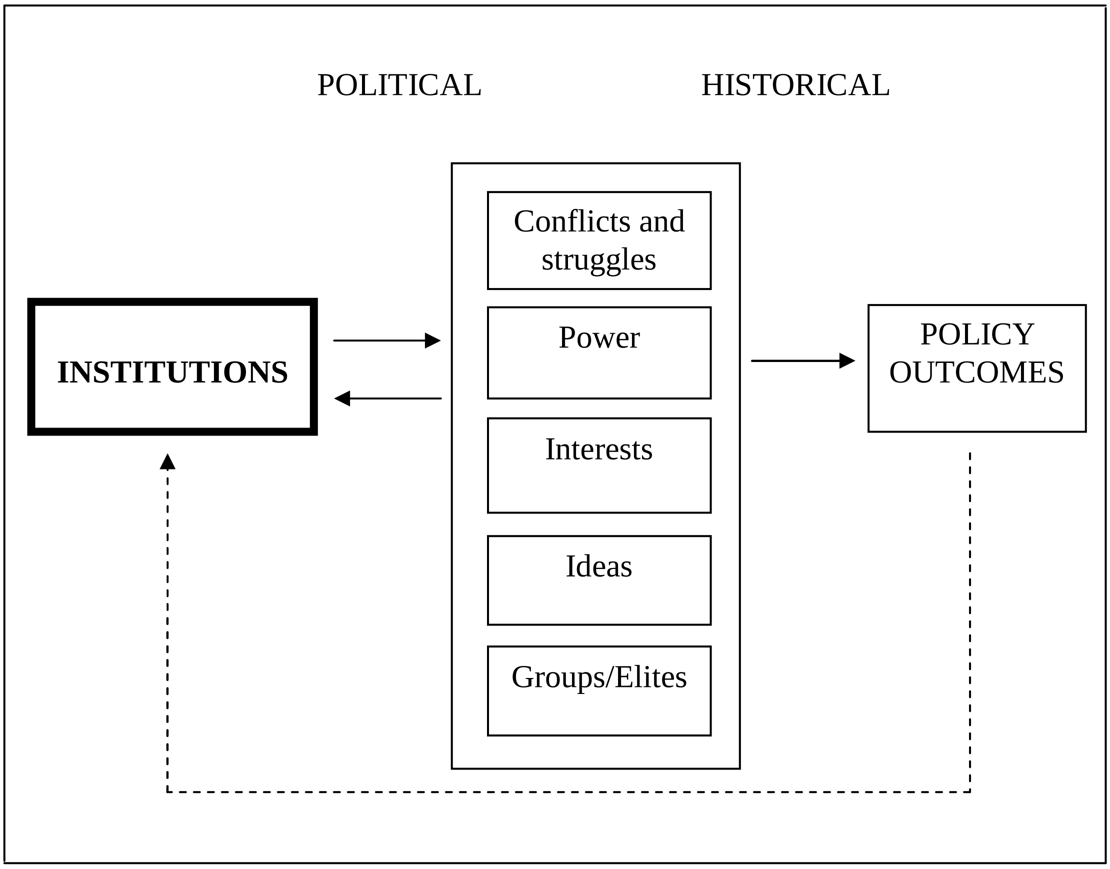
	Concepts and theories in the ***foreground*** of the policy debate	Underlying assumptions in the ***background*** of the policy debate
Cognitive level	**Programs** Ideas as elite policy prescriptions that help policy makers to chart a clear and specific course of policy action	**Paradigms** Ideas as elite assumptions that constrain the cognitive range of useful solutions available to policy makers
Normative level	**Frames** Ideas as symbols and concepts that help policy makers to legitimise policy solutions to the public	**Public sentiments** Ideas as public assumptions that constrain the normative range of legitimate solutions available to policy makers

Source: Campbell (1998) Institutional analysis and the role of ideas in political economy, p. 385

The power of ideas depends largely on the amount of support they receive from various actors, including influential political and intellectual elite, as well as how much institutional access actors have to critical policy-making arenas (Campbell, 2001). New ideas can cause groups to rethink their interests; consequently, the way in which various policies are packaged can facilitate the formation of certain coalitions and hinder others (path dependence). Leadership can play a key role in this process. Campbell (1998), however, argues that historical institutionalists have neglected how elites and other actors package and frame policy ideas deliberately to convince each other, as well as the general public, that certain policy proposals constitute plausible and acceptable solutions to pressing problems. Similarly, few argue that the role of ideas, i.e. an important element of discursive, has not received the attention it deserves in the work of political scientists (Béland, 2005; Blyth, 1997). Recently, the turn to ideas and discourse in political science constitutes a fourth new institutionalism, called 'discursive institutionalism' (Schmidt, 2008b, 2010). However, for the purpose of this study, ideas are considered as one of the factors that could influence policy formation given the institutional context in which they operate; hence, is analysed using historical institutionalism approach[13].

Based on the above discussion, a theoretical framework is drawn for the purpose of analysing the development of *Bumiputera* institution and the related policy outcomes. The emergence of commitment towards the *Bumiputera* people and the development of *Bumiputera* itself as an institution was the outcome of various events and forces, mediated by institutions in an overarching historical and political context (**Figure 3.2**). [14]

Figure 3.2: The Historical and Political Context of *Bumiputera* Institution



[13] Although the discussion above focuses on how institutions and other elements constrain actions, they are also enabling mechanisms. Ideas, for example, could facilitate action by providing a 'road map' out of policy dilemma (Campbell, 1998).
[14] This figure forms part of **Figure 3.1**.

Institutional Change

Historical institutionalism views institutions as the legacy of concrete historical processes; it provides answers to questions of not only of institutional origin and stability, but also institutional change. This contradicts rational choice institutionalists who see institutions as coordinating mechanisms that sustain a particular equilibrium among individual actors and, thus, "hold together" a particular pattern of politics (Thelen, 2002, p. 99). Therefore, for rational choice institutionalists, institutions are stable and persist for a long time, and, if there are changes, they are simply shifting to a new equilibrium. They regard institutions as "patterns of regularized behaviour that reflect Pareto-optimal equilibria" which are stable; changes occur when there are exogenous shocks to the system of institutions (Hall, 2010). The sociological approach also sees institutions as regularised practices, but they stress the intrinsic ambiguity of institutions or the cognitive aspect; rather than rules. There is underpinning in norms that are subject to interpretation and reinterpretation. Sociological institutionalism emphasises rituals and symbol systems and 'logics of appropriateness' in institutions; historical institutionalism has a tendency to see the persistence or change of institutions as a result of actors exercising their power. However, the literature related to the work of historical institutionalism in analysing institutional formation, stability and reproduction is huge; and there have been many 'cross-borders' between the three institutionalisms as researchers tried to answer their questions. therefore, although differences persist between perspectives, as argued by Thelen (1999), historical institutionalism has been enriched by encounters with alternative perspectives.

Earlier studies in historical institutionalism, including comparative institutional analyses, have seen institutions as stable and unchanged; they are a 'sticky' legacies of previous political battles and are 'frozen residue' of critical junctures (Thelen, 2002). Therefore, these analyses ignore why and how institutions change or persist (Campbell, 2010). Critical juncture refers to "a period of significant change, which typically occurs in distinct ways in different countries […] and which is hypothesised to produce distinct legacies" (R. B. Collier & Collier, 1991, p. 29). Later, researchers started to explore and gain understanding about institutional stability and continuity through the process of 'positive feedback' and 'increasing returns', which explains the stable reproduction of institutions over time. The notion of 'path dependency' then becomes important in explaining this reproduction of institutions.

Path dependence means that future changes to the established institutions would be constrained by the decisions made when the institution emerged initially. This model comes from two perspectives; technological models from economics, and 'shared cognition' from sociology. Historical institutionalists draw from these while making two distinct claims; first, the 'critical juncture' becomes a crucial founding moment for institutional formation which results in countries having different development path. Rational choice institutionalists ignore the historical account of institutional emergence in their institutional analysis. Secondly, historical institutionalists see institutions as evolving in response to changing environmental and political conditions in ways that are constrained by past trajectories or path dependence (Thelen, 1999). The concept of critical juncture could also result in a more *revolutionary* change in institutions. The argument is that 'exogenous shock' or environmental shift could occur and result in the breakdown of institutions, or be termed as 'punctuated equilibrium' (Krasner, 1988).

Although the notion of 'punctuated equilibrium' is used widely in historical institutionalism analyses, Thelen (2002) argues that not every environmental shift is destabilising and not all exogenous shock causes institutional breakdown. In fact, institutional changes could be more *evolutionary*, i.e. while being resilience of some institutional arrangements or even historic breaks, institutions also could undergo "subtle shifts beneath the surface of apparently stable formal institutions that, over time, can completely redefine the functions and political purposes they serve" (Thelen, 2002, p. 101). This means that, change occurs in institutional function while its formal rules have not (Streeck & Thelen, 2005). Thelen (2002) also suggests that, in order to know which exogenous events are likely to be politically consequential, it is important to know what is sustaining these institutions; i.e. the ideal and material foundations that, if shaken, yield possibilities for change. Campbell (2010) shares Thelen's view; but he criticises the notion of institutional changes in relation to the functions of institutions.

3.4.2 Sociological Institutionalism

The NIS focuses upon informal institutions rather than formal rules. It sees behaviour as routine and stresses the role of interpreting decision-making situations as a function of the institutionalised individual (Nielsen, 2001). Institution is a social mechanism through which social norms are produced and maintained that give rise to social order, and not the norms themselves. Informal norms are monitored by sanctions as common as social approval and disapproval, as a result of social interactions in close-knit groups (Nee, 1998). "Institutions are transported by various carriers – cultures, structures, and routines; and they operate at multiple level of jurisdiction" (W. Richard Scott, 2008, p. 33).

As mentioned earlier, Scott (2001) identifies three types of elements that underlie institutional order, which are cultural-cognitive, normative and regulative elements. Regulative elements stress rule-setting, monitoring and sanctioning activities. Normative elements introduce a prescriptive, evaluative and obligatory dimension to social life. Cultural cognitive elements emphasise the shared conceptions that constitute the nature of social reality and the frames through which meaning is made. Scott argues that these institutional elements, although symbolic, provide cognitive schema, normative guidance and rules that constrain and empower social behaviour. They could be preserved or modified by the behaviour of social actors. Institutions could be composed of various combinations of the elements or structures. The focus of this study is on how the normative elements - i.e. the social structure, the individuals, and collective actors pursuing their independent goals - provide explanations about the institutions. It concerns the interests and contests involved in influencing regulators, pushing and pulling for political changes. Actions are regarded as strategic and bounded by the mutual expectations of others (Fligstein, 1997; Hall & Taylor, 1998).

3.4.3 New Economic Sociology

Economic sociology refers to "the sociological perspective applied to economic phenomena" or more specifically, "the application of the frames of reference, variables, and explanatory models of sociology to that complex of activities, which is concerned with the production, distribution, exchange, and consumption of scarce goods and services" (Smelser & Swedberg, 2005, p. 3). In 1985, Granovetter's article re-introduces the term 'embeddedness'; bringing context and social relations or network to the centre of analysis. The economy is viewed as enmeshed within society and, in making decisions, economic actors consider their social relations to other actors[15]. Although economic actors behave rationally, they are constrained by their networks. Besides social relations, economic sociologists also identify institutions, cognition, and power, as social mechanisms[16] that could influence economic institution (Dobbin, 2004). Hence, this study combines the analysis of economic interest (i.e. the corporate governance institution) with the analysis of these social mechanisms.

Economic decisions are shaped by power and politics (Carruthers, 2004). Power shapes convention,[17] and actors would take for granted those conventions surrounding them and interpret them as rational (Dobbin, 2004). Conventions, therefore, are not dictated by economic laws but are worked out by powerful groups. Power also shapes the public policies that govern competitions between firms. Power over economic institutions and economic norms operates through various networks. Fligstein (1999) argues that the process of institution building occurs in the context of powerful actors attempting to produce rules of interaction to stabilise their situation in relation to other powerful and less powerful actors. Hence, fields such as corporate governance, operate to help reproduce the power and privilege of those powerful actors (the first group mentioned above) and define the position of challengers (Ibid, p. 6). A further discussion on the theory of power will be provided in a later section.

Cognition refers to "the psychological process of making sense of the world and its social conventions" (Dobbin, 2004). Zukin and DiMaggio (1990) define cognitive embeddedness as "the ways in which the structured regularities of mental processes

[15] Social relations could be sealed based on family, religion, school ties, etc. and are built on trust.
[16] Zukin and DiMaggio (1990) identified three other types of embeddedness on top of personal relationships or structural embeddedness; they are political, cognitive and cultural
[17] "Conventions […] are understandings, often tacit but also conscious, that organize and coordinate action in predictable ways. Conventions are agreed-upon, if flexible, guides for economic interpretation and interaction" (Biggart & Beamish, 2003, p. 444).

limit the exercise of economic reasoning”. In a broad sense, cognition refers to the full range of mental activities, including values, attitudes and norms. A narrower sense of cognition would have affective and valuative aspects separated from it; cognition is related closely to culture (Dequech, 2003).

3.4.4 Beckert’s (2010) Framework

Beckert (2010) proposes a framework that examines the impact of interrelatedness of social mechanisms on economic outcomes. The aims are to understand the mechanisms through which social mechanisms reinforce each other, and how actors employ resources gained from one of these mechanisms to reconfigure other parts of the mechanisms in a way favourable to their goals. She argues that the social mechanisms of institutions, social networking and cognitive frames are interrelated and not just subsumed or integrated into one particular mechanism[18]; they could exercise their influence simultaneously. The inter-relatedness serves as one important source to market dynamics that leads to stratification of the economic fields by positioning actors in more or less powerful positions. Therefore, analysing each force individually would be deemed incomplete and at risk of “drawing a distorted picture of the embeddedness of economic action and the dynamics of market fields” . Her concept of *fields* is taken from Fligstein (2001), who sees them as “local social orders or social arenas where actors gather and frame their actions vis-à-vis one another”.

Applying this framework, corporate governance is regarded as an economic ‘field’ where the population of actors constitute a social arena by directing their actions towards each other. Hence, an agency of corporate governance field is structured by the influence of these social mechanisms on the actors. A local order then emerges as actors develop mutual expectations with regard to each other’s behaviour. These social mechanisms shape opportunities, constraint the behaviour of actors, and shape

[18] For example, the combining of cognitive frames with networks and institutions as seen in sociological institutionalism “which emphasises the role of cognitive frames and meaning structures as decisive for the explanation of economic outcomes by broadening the notion of institutions”; institutions “thereby become indistinguishable from cognitive frames” . Similarly, cognitions are indigenise in networks to be interpreted as ‘networks of meaning’, hence, “the objectivity of networks is not constituted by the position of nodes and the structure of their connections as such, but by the dominant interpretations through which actors perceive the network structure”. Beckert argues that these approaches fail to take into consideration the mechanisms analytic disconnection.

perceptions of legitimacy and illegitimacy. Social networks create power differences and status hierarchies between actors; regulative institutional rules allow certain types of behaviour while discouraging others; and cognitive frames provide the mental organisation of the social environment. However, these mechanisms are not neutral; they are subject to rival interests. Consequently, actors are engaged in an ongoing struggle *to change* or *defend* the social mechanisms operating in the field by mobilising the resources obtained from the relative position they occupy. The stability or change in these mechanisms would influence the economic outcome of the field.

As shown in **Figure 3.1**, through reciprocal influence, these three mechanisms condition and restrain each other for their reproduction and change. The reproduction of firms' network positions, for example, depends on the support from prevalent institutional regulations as well as in cognitive framework; changes in institutions and in perceptions could cause changes in composition of networks as well. This is because contradictions developing from changes in one of the mechanisms are "a sources of conflict, destabilizing existing structures by reshuffling power resources in the field and thereby providing new avenues for action for some actors while blocking others" (p. 614). Institutional changes can affect network structures by preventing dominant players from applying strategies through which they reproduce dominant position. Changes in cognitive frameworks can affect network structures by making actors aware of profit opportunities and by aligning actors in joint activities allowing for new control projects. Hence, institutions influence the structure of social networks while cognitive frames shape the perception of network structures.

Looking at institutions, any changes in network and cognitive frames could lead to institutional changes through their impact on the power of actors interested in the preservation of existing institutional rules or their change. For example, actors or key players in specific network who are then come into responsible positions of institution-building could affect changes through their network. Similarly, in the competition for dominant cognitive frames, actors might simply fail to gather enough support for their ideas to influence institutional rules in the field, which could then lead to institutional change. Social networks establish collective power to shape institutions, while cognitive frames provide legitimation and shape perception of institutions.

Finally, social networks and institutions could affect the evolution of cognitive frames in influencing behaviour in the corporate governance field. Institutions influence cognitive frames through socialising institutions, such as accounting professional bodies, which shape the cognitive frames of their members. Institutions also influence cognitive frames through sanctioning capacity. Social networks influence cognitive frames by, for example, influencing the interpretations of collective events. The structure of social relations and the positioning of actors influence the spread of new ideas. Institutions influence how values are regarded as socially relevant, while networks shape and diffuse ideas, hence, cognitive frames.

3.4.5 Power: Beckert's Framework Extended

Power could directly and indirectly affect economic behaviour. Individuals or groups who possess power could influence practices or policies that are advantageous and camouflage it as if it could be of advantage to everybody. Citing his earlier work in investigating the cause of change in railroad industry in the US between 1880 and 1910, Dobbin (2004) illustrates how the four mechanisms mentioned earlier, including power, operate together to shape economic conventions. He argues that, in facing challenges towards conventions, which group of actors will win "depends on both power and networks, but the winning strategy must be accompanied by a cultural and cognitive framing that lines up with existing conceptions of efficiency" .

This element of power is missing from Beckert's (2010) model. In her framework, power is seen as inherent to the interrelatedness of the other mechanisms, although it is not explicitly discussed. However, power is important in this study; it plays a major role in the establishment of *Bumiputera* institution. In fact, corporate governance itself is a structure of power. Therefore, power is integrated in the framework presented in the bottom half of **Figure 3.1**. In explaining the influence of power on corporate governance, this study utilises the theory of power developed by Lukes (1974, 2005) who views power as having three dimensions as well as the notion of power as domination. While the new economic sociology asks what corporate governance actors actually do to reach decisions in complex economic situation, the focus on power as advanced by Lukes (1974, 2005) seeks to answer why such choices are made.

3.4.5.1 Lukes' Theory of Power

In his book "Power: A Radical View", Lukes (1974, 2005) introduces (and later clarifies) his theory of power called *three dimensional-view* of power, by first critiquing and then building up from the earlier works of Dahl (1957, 1958) and Bachrach and Baratz (1962, 1963), which he labels *one dimensional-* and *two dimensional-views* of power respectively. The first dimension of power focuses only on decision-making and observable or overt conflicts. The second focuses on decision-making and non-decision-making, as well as observable overt and covert conflict. For Lukes, power is not only "totally embodied and fully reflected in concrete decisions" as in one dimensional-view, or creating or reinforcing "barriers to the public airing of policy conflicts" as in the two dimensional-view, but more importantly, it is "the capacity to secure compliance to domination through the shaping of beliefs and desires, by imposing internal constraints under historically changing circumstances" (p.143-144). Below are the discussions of these dimensions or faces of power.

First face of power

The first face of power was advanced by political scientists who see power as participation in decision-making, or more specifically, successfully making a concrete decision. This dimension of power is also called "pluralist's view of power" because they favour the view that power is diffused rather than centralized; hence, they argue against sociologists' theory of "ruling elites". Examining power as a relation and actors as the objects, Dahl (1957, p. 202) defines power as "A has power over B to the extent that he can get B to do something that B would not otherwise do". Even though this definition suggests that power is about 'capacity', as pointed out by Lukes (1974, 2005), Dahl also mentioned three properties of power relations; one being the indication that it concerns the 'exercise' of power when he suggested that “it (power) seemed to involve a *successful attempt* by *A* to get *a* to do something he would not otherwise do” (Dahl, 1957, p. 204).

In his critique of the ruling elite thesis, Dahl (1958) repeated this position by contesting that “unless it is true that in all or very nearly all of these cases [disagreement on key political choices] the alternative preferred by the ruling elite is *actually adopted*, the hypothesis (that the system is dominated by the specified ruling elite) is clearly false. […] But I do not see how anyone can suppose that he has established the dominance of a specific group in a community or a nation without basing his analysis on the careful examination of a series of concrete decisions” (Dahl, 1958, p. 466). His focus was on observable or *overt* conflicts and decisions-making. Hence, Lukes (1974, 2005) summarises that this one-dimensional view of power “involves a focus on behaviour in the making of decisions on issues over which there is an observable conflict of (subjective) interests, seen as express policy preferences, revealed by political participation”.

Second face of power

Bachrach and Baratz (1962) argued that the different conclusions regarding power between sociologists and political scientist, where the former found that power is highly centralised and the later found power to be widely diffused, was due to differences in their assumptions and research methodology; both of which, they argue, were flawed. They criticised the pluralists’ view that power could be observed only in decision-making situations, and argued that “power may be, and often is, exercised by confining the scope of decision-making to relatively ‘safe’ issues” (1962, p. 948). Hence, they proposed that “there are two faces of power, neither of which the sociologists see and only one of which the political scientists see” (Bachrach & Baratz, 1962, p. 947). These two faces of power involve examining both decision-making (that pluralists argue for) and non-decision-making (excluded by the pluralists’ view).

A decision is “a choice among alternative modes of action” while a non-decision is “a decision that results in suppression or thwarting of a latent or manifest challenge to the values or interests of the decision-maker” (Bachrach & Baratz, 1970, pp. 39-

44). They also define non-decision-making as a mean by which demands by the community can be suffocated before they are even voiced; or kept covert or killed before they gain access to the relevant decision-making arena. Bachrach and Baratz (1962, p. 949) state that "to the extent that a person or group – consciously or unconsciously – creates or reinforces barriers to the public airing of policy conflicts, that person or group has power". This is consistent with the statement made by Schattschneider (1957, pp. 935-936) concerning *mobilization of bias,* where "political organizations have a bias in favour of the exploitation of some kind of conflict and the suppression of others. […] some issues are organized into politics while others are organized out". Further, power is relational, rather than possessive or substantive (Bachrach & Baratz, 1963).

Third face of power

Lukes (1974, 2005) sees both first and second faces of power as sharing a common feature, i.e. both stress on actual and observable conflict, overt or covert. Therefore, while agreeing with the criticisms that Bachrach and Baratz levelled against the one-dimensional view of power advanced by Dahl and other pluralists, he believes that the two-dimensional view of power is inadequate. He, therefore, presents three arguments and proposes a third face of power. Lukes argues that, firstly, while Bachrach and Baratz criticised behaviourism, their critique is too qualified in the sense that it is still too committed to behaviourism by focusing on 'actual behaviour' and 'concrete decisions' in situations of conflict. This provides a misleading picture of how individuals, groups or institutions succeeded in excluding potential issues from the political process. The second critique on two faces of power is in its association of power with actual, observable conflict, while Lukes argues that "the crucial point that the most effective and insidious use of power is to prevent such conflict from arising on the first place". Thirdly, Lukes critiques the second face of power as inadequate because "its insistence that non-decision-making power only exists where there are grievances which are denied entry into the political process in the form of issues". He suggests that "is it not the supreme and most insidious exercise of power to prevent people, to whatever degree, from having grievances by shaping their perceptions, cognitions, and preferences in such a way that they accept their role in the existing order of things, either because they can see or imagine no alternative to it, or because they see it as natural and unchangeable, or because they value it as divinely ordained and beneficial?"; hence, "to assume that the absence of grievance equals genuine consensus is simply to rule out the possibility of false or manipulated consensus by definitional fiat" (Lukes, 1974, 2005, pp. 25-28).

Therefore, in this third dimension of power, Lukes talks about power as domination; and the dimension occurs not only when there is domination but where the dominated acquiesce in their domination (see Dowding, 2006). "Power as domination is the ability to constrain the choices of others, coercing them or securing their compliance, by impeding them from living as their own nature and judgement dictate" (Lukes, 2005, p. 85). For Lukes, power refers to "an ability or capacity of an agent or agents, which they may or may not exercise" (2005, p. 63). In his revised discussion of the concept of power, Lukes see it as the "agents' abilities to bring about significant effects, specifically by furthering their own interests and/or affecting the interests of others, whether positively or negatively" (Lukes, 2005, p. 65). In this third face of power, the focus is on *latent conflict* that "consists of contradiction between the interests of those exercising power and the real interests of those they exclude" . Lukes (2005) extends Locke's (1975[1690]) definition of having power as being able not only to make or receive any change, but also resist it. The following section discusses how the framework will be used in making sense of the research data.

3.5 Studying Corporate Governance: The Integrated Framework

The theoretical framework developed (**Figure 3.1)** will be used to frame the analysis of *Bumiputera* and corporate governance institutions, as will be discussed further in Chapter 4. The analysis, and hence discussions, is divided into three parts; i.e. the emergence, operation, and change of *Bumiputera* institution (**Figure 3.3)**. Historical institutionalism and theory of power are utilised to explain the emergence of commitment towards the *Bumiputera* people, which then impacts on corporate governance mechanisms; in particular, equity ownership and board representation. How this commitment emerged and became institutionalised explain why corporate governance actors behave in certain ways in the operation stage (Lindner & Rittberger, 2003). In the second stage of analysis, the integrated framework of sociological institution and other social mechanisms of power, social network and cognition are utilised to demonstrate how subjective rules, taken-for-granted schema and cultural symbols constrain the behaviour of corporate governance actors. Then, in analysing institutional change, this study once again relies on the historical institutionalism approach, in particular, the discussion by Thelen (1999, 2000, 2003, 2002) and Campbell (2010). The aim of this final part is to investigate when and how institutions change. However, in discussing change the approach is eclectic in the sense that the perspective of rational choice is also taken into consideration. The empirical evidence of these analyses is presented in Chapters 5, 6 and 7 respectively.

In applying historical institutionalism approach (chapter 5), specifying empirical context defines the scope of the study; hence, a research agenda is developed from observed events (Thelen, 2002). In this study, observed events are, firstly, an increase in Malays' representation on the boards of listed companies not commensurate to their level of ownership; secondly, an increase in Malays' equity ownership quite significantly relative to the non-Malays post-NEP development; and finally, the Malays' domination on the GLCs. These observations create a research agenda to study corporate governance in the context of *Bumiputera* and its historical background. In analysing institutions historically, it is also important to pay attention to sequencing (Thelen, 2002); therefore, the question asked is: when does the pursuance of Malays interests emerged? The sequence of events which occur prior to the efforts (to pursue *Bumiputera*'s interests) not only gives validity to the causal claims but the sequencing also provides the explanatory work concerning *Bumiputera* institution and corporate governance.

Institutional change could occur because of functionalism and technical efficiency, diffusion, conflict and power, bricolage and translation, gaps between intentions and outcomes, and institutional complexity (Campbell, 2010). However, this study focuses only on diffusion and conflict and power in discussing institutional changes in corporate governance and *Bumiputera* institutions. Diffusion[19] occurs because

[19] This notion of 'diffusion' and 'logic of appropriateness' are used in this study for the purpose of discussing change in corporate governance institution. 'Logic of appropriateness' is "a perspective that sees human action as driven by rules of appropriate or exemplary behaviour, organized into institutions. Rules are followed because they are seen as natural, rightful, expected, and legitimate"

organisations seek legitimacy from their peers within a field; institutions and institutional change are not merely a result of efficiency consideration and they operate according to 'logic of appropriateness', rather than 'logic of instrumentality' (March & Olsen, 1989). The mechanisms of diffusion could be through coercive, normative and mimetic processes. However, recent studies have found that the processes could occur in combination, and there exist a fourth mechanism which is 'competition'. Furthermore, diffusing institutional practices could be modified and transformed when adopted by receiving countries. Conflicts and struggles over valued resources, markets domination and power could also lead to institutional change. However, this does not mean that the most efficient institutional models will win in the end.

'Power' appears in all three parts of the discussions. In trying to connect the theory of power and corporate governance practices in Malaysia, question arises as to who are the 'actors' or 'agents of power' in the corporate governance field. Huse (2005), for example, notes that corporate governance definitions most often identify the shareholders, the management and the board members as the main actors, but several others should also be included. Who the most important and powerful actors are, and their attributes, depends heavily on the context and the underlying political dynamics. Therefore, with the discussion of power above, actors include state and politicians who hold power to affect corporate governance in the country. For Lukes, one element of the third face of power is that "power may be exercised by collectivities, such as groups or institutions", which is consistent with the focus of *Bumiputera* institution.

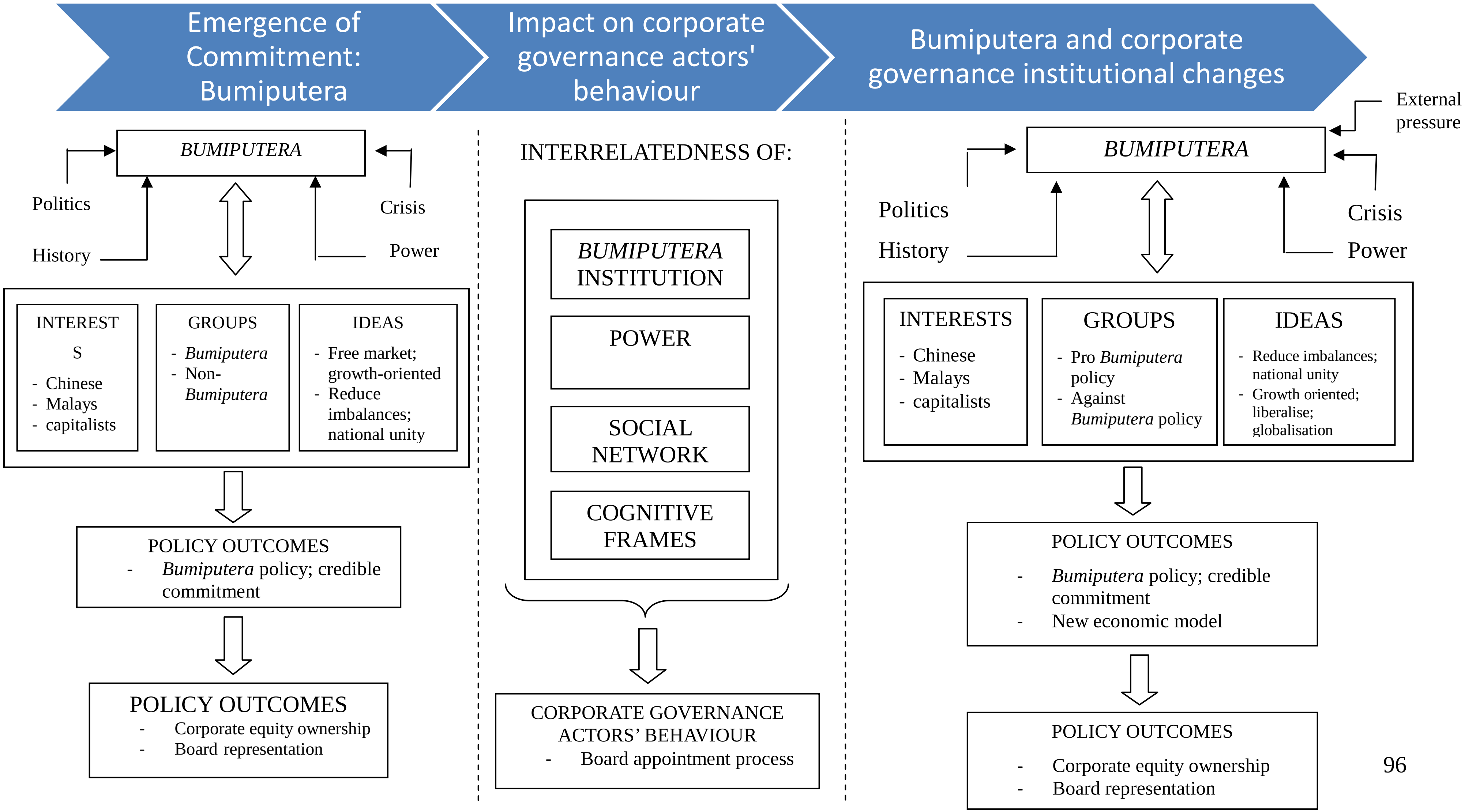
Power in this study is seen as a relation between individuals and groups; the focus is on how power is exercised *over* people and affects board appointment and subsequent corporate governance practices. *Bumiputera* 'arises' out of conflicts, hence, the element which is at play here in pursuing *Bumiputera*'s interest is power and not merely 'influence'. Board appointment, especially in the GLCs, is a key issue in *Bumiputera*'s term as it "involves a genuine challenge to the resources of

---

(March & Olsen, 1989, p. 2). 'Logic of instrumentality' is a perspective from rational choice institutionalism that sees actors as constrained by rules, procedures, and associated monitoring and sanctioning mechanisms (Campbell, 2006).

power or authority of those who currently dominate the process, by which policy outputs in the system are determined" (Bachrach and Baratz, 1970, p. 47). Furthermore, for Lukes (2005), power of domination "invokes the idea of constraints upon interests" of which could be unrecognised by the actors themselves. He also acknowledged that interests are many, conflicting and of different kinds. In this study, I ask a similar question to that posed by Tilly (1991); "if *Bumiputera* domination so consistently hurts the well-defined interests of subordinate groups especially the Chinese, why do subordinates comply? Why don't they rebel continuously, or at least resist all along the way?"

Figure 3.3: The Conceptual Framework



3.6 Conclusion

This chapter presents the theoretical framework developed for the purpose of analysing and explaining the research data. The focus is on explaining how *Bumiputera* institution influence corporate governance practices in Malaysia. The framework is developed based on integration of paradigms and theories; i.e. based on the integration of historical and sociological institutionalisms, as well as the new economic sociology, which, in isolation, is not sufficient to explain the impact of *Bumiputera* institution on corporate governance practices. This framework presents an alternative perspective to the dominant economic theories, since there have been several criticisms levelled against them for their limitations in providing insight into the practice of accounting and corporate governance.

Institutions are important as they act as both constraining and enabling mechanisms affecting corporate governance actors' behaviour and economic outcomes. Historical analysis provides context as well as a lens for understanding the emergence of *Bumiputera* institution and how it affects political policies and subsequently shapes the corporate governance landscape. The sociological institutionalism and the new economic sociology examine corporate governance practices by discussing the roles of not only institutions, but also power, social networking and cognition. Furthermore, these elements are interrelated and how their inter-relatedness shapes corporate governance landscape in the country is also subject to analysis. Power is important and appears in all three phases of analysis (**Figure 3.3**).

This theoretical framework then provides a basis for how to frame the analysis in the following chapter. Chapters 5 to 7 present the findings and discussions; and illustrate how the study of corporate governance in Malaysia is benefitting from this framework.

Chapter 4 - Research Method

4.1 Introduction

The aim of this thesis is to investigate how corporate governance practices are influenced and shaped by the larger institutional environment in which it is embedded. Malaysia is used as a case study and the role of the *Bumiputera* institution is investigated. Chapter 1 sets out the research questions, which are to be answered by breaking up the analysis of the *Bumiputera* institution into three levels, namely; the emergence, the institutionalization impact, and change. Each level of the analysis requires a different type of data and theoretical lens. While Chapter 3 presents the theoretical framework through which the data will be analysed, this chapter discusses the methodology employed and types of evidence gathered. As discussed in the earlier chapter, this study utilizes integrated perspectives of historical and sociological institutionalisms, while at the same time also considering how other social mechanisms of power, social networks, and cognition could impact on it. This is consistent with the arguments made in Chapter 2 that critiques the dominant perspective of the agency theory. This study aims to provide empirical illustration on how the affirmative policy, which aims to reduce economic gaps between ethnic groups, would affect corporate governance practices, with particular attention given to share ownership, board representation, and board appointment practices.

Hence, the focus of this study is on the "big picture". Instead of looking at organization as the level of analysis, a broad view of corporate governance projects in Malaysia is taken as a case study. A case study is defined as a detailed examination of an event, or series of related events, which the researcher believes exhibits the operation of some identified general theoretical principle (Mitchell, 1956). Case study researchers, who use a company as their case, see a company as a context; the company as an institution, an organizational structure, management system, accounting practices, and consisting of issues. Similarly, corporate governance initiatives or projects in a country also share all these attributes. Corporate governance is a social event; hence it should not ignore the various factors beyond corporations, which could influence it, such as the country's political system (Berglof & Thadden, 1999). Because of this, studying corporate governance requires greater “involvement” because, as a social event, it has to be set in its social context. In addition, the mundane should be treated with as much thoroughness as the exceptional and the dramatic (Malinowski, 1932). Hence this affects the choice of method or technique of data collection for this study.

This chapter, therefore, is structured as follows; the following section discusses the researcher’s ontological position, followed by epistemological position and methodology, as well as the choice of research technique. An institutional analysis is then discussed, separating the three stages of analysis of the *Bumiputera* institution. The chapter ends with a section on conclusions reached.

4.2 Ontological Position

Corporate governance practices do not operate in a vacuum; they are embedded in social structures and thus affected by the context. Although seen as a mechanism by which to address agency issues, corporate governance is also a social process shaped by historical events, and affected by the country’s economic condition, political situation, culture, as well as ethnicity. Corporate governance, therefore, is not free from conflicts. Furthermore, even though corporate governance actors are rational and able to act in their own interests, they are, in practice, restricted by the system of domination such as institutions, politics and economics. History and domination create conflict, which influences the way in which actors behave. Actors live in the taken-for-granted environment and, while being aware of the historical forms of oppression, are unable to alter their condition due to the conflicts (Guba & Lincoln, 2005, p. 2004).

Therefore, in order to understand corporate governance practices, there is a need to understand the set of relations that surround such practices (Chua, 1986; Guba & Lincoln, 2005). Understanding the history is crucial to uncovering the events, as well as the reasons and forces behind corporate governance conflicts. Also, in order to understand the corporate governance actors’ behaviour or actions, there is a need to study not only the actors, but also their environment or social context. As Chua (1986, p. 619) puts it, “the true form of reality lies not with particulars but universal that comes to be in and through particulars". Hence, a study needs to evaluate critically the form of life of actors, while at the same time not neglecting the major conflicts of interest which occur between classes in society.

In summary, corporate governance practice is a concrete reality which evolves in a rational manner in response to the needs of the actors to maintain domination and pursue their own interests. The actors are rational; seeking to survive and adapting their practices in order to maintain and accumulate resources. Actors perform within a matrix of inter-subjective meanings; hence, there is a need to learn the language of subject/object. Further, the process of coming to an understanding is context-dependent, as social scientists are necessarily immersed in and engaged with their socio-historical contexts (Chua, 1986). The next section discusses how to obtain the understanding of such practices.

4.3 Epistemological Position

As corporate governance is an economic structure evolving in, and influenced by, social environment, understanding such behaviour is not possible through scrutinizing publicly available information (such as companies' annual reports) alone. To gain such understanding, views, opinions, and experiences of the relevant actors need to be obtained. How corporate governance actors struggle, how they operate under specific institutions, and how their behaviour is affected by the context, could only be understood by getting the 'story' from the actors themselves. Such knowledge could only be known through interaction with the actors. However, the *Bumiputera* as a policy is a sensitive issue due to the way it has emerged and been enforced by the state. It is ethnically-related; hence, these affect the nature and the extent of information that could be obtained from the actors. The identity of the researcher influences actors' decisions to share such information. The following sections briefly discuss the field trajectory and exposure to information sources, including the exposure to the actors.

4.3.1 Field Trajectory

The field in this study is corporate governance in Malaysia. Hence, the interest is in all aspects of the country that concern corporate governance. This includes current and past economic situations, politics, culture, government policies, ethnic-relations, history, and the development of corporate governance itself. Being a person who was born and lived in the country, some of these are knowledge–accumulated, or became known to the researcher without having to search for them. In other words, they are knowledge obtained from life experience.

There was an interesting development in the economics and politics of Malaysia during the field work (the field work will be discussed later). It concerns the government's efforts to further liberalize the economy and the launching of its new economic policy, called the New Economic Model (NEM), which replaces the expired ten-year plan, New Vision Policy (NVP) 2001-2010. The content of the NEM caused uproar among a segment of the Malay community, which then led to the holding of the *Bumiputera* Economic Congress (BEC). There was subsequently a counter-action taken by Chinese through the Chinese Economic Congress (CEC). These developments are crucial in this study and are discussed later in Chapter 7.

One important component in this field is the actors, defined in this study as the people who play a major role in affecting corporate governance as well as those who are directly affected by corporate governance. This includes corporate directors and executives, regulators, relevant professional bodies, politicians, and accountants. The following section briefly discusses the researcher's exposure to these actors.

4.3.2 Exposure to Actors

The top players in the corporate governance field in Malaysia are mostly the "who's who" in the country. The corporate world and politics are closely connected, where it could be observed that these top directors (i.e. directors in large corporations) are those who came from the public sector, or maintain close relations with government departments. As will be discussed in the methodology section later, this study uses interviews with corporate governance actors as a method of data collection. Some of the interviewees are very top people in the country in their areas and are well known, since they sometimes appear in the media, giving interviews for the newspapers, etc., or presenting papers at conferences and seminars. A few are known to the researcher from the researcher's previous research work and employment. One of the politicians is someone that the researcher met while attending BEC, where he was one of the activists promoting the protection of the Malays' interests.

4.3.3 Exposure to Secondary Sources

Corporate governance is a social practice and cannot be isolated from various macrostructures surrounding it, both economic and non-economic factors. In order to understand these macrostructures, this study relies on publicly available information from various sources. In Malaysia, almost every day something must be written, or appear in the local news, related to *Bumiputera* and other ethnic-related matters. This is because these are political matters and are used by both government and opposition parties to gain support from the people. However, the mainstream media could be one-sided in terms of presenting the stories; hence, other sources of information are referred to in order to gain a more balanced understanding about the issues. Because of this, reading, understanding, and interpreting information from public sources are different depending on the source of information. For example, some newspapers in Malaysia are pro-government and some are against the government. Similarly, blogs are written by pro-government and pro-opposition individuals. Hence, the study cannot rely on solely one source to make a conclusion about anything. The information from the secondary sources, together with the researcher's own experience and knowledge about the country, gives some kind of awareness on the relations surrounding corporate governance practices in Malaysia.

4.4 Methodology

This section discusses how data is gathered, analysed, and presented in the thesis. It shows the methods and principles used to explore the social world of corporate governance. Generally, this study employs a qualitative narrative approach (see Denzin & Lincoln, 2005, p. 3) as opposed to a statistical approach. Data is gathered from secondary sources, from interviews, and from personal observations. Institutional analyses are performed utilising the theoretical framework developed (Chapter 3) to make sense of the data. The descriptive outputs are presented in Chapters 5 to 7. This methodology provides a link between techniques and theory, as it is concerned with the reciprocal relationship between data and theory (Burawoy, 1991, p. 271). The data gathering and analyses techniques are discussed next.

4.4.1 Data Gathering

4.4.1.1 Secondary sources of evidence

The gathering of secondary data involves two steps; first, identifying the kind of information the researcher is interested in, and second, identifying the sources of the information. **Table 4.1** below shows the range of information relevant to this study and related sources of such information.

Table 4.1: Information and Sources

Information regarding	Sources
• Malaysian history	Books, speeches, journal articles
• Politics and political situations in Malaysia	Newspapers, blogs
• *Bumiputera*, including non-*Bumiputera* resistance, etc.	Newspapers, blogs, social networks such as Face book, speeches, journal articles
• Economics	Newspapers, blogs
• Corporate governance in Malaysia including regulations and foreign concerns	Professional magazines, newspapers, journal articles, professional organizations/regulators websites, reports, websites of foreign organizations, presentations by various individuals
• Corporate scandals / malpractice / issues	Newspapers
• Specific corporations	The corporate website, Bursa Malaysia website, newspapers

Data from secondary sources are used in all three phases of *Bumiputera* institutional analyses. In the second part of the study, i.e. the institutionalization impact of *Bumiputera*, although the main source of data is the interviews, secondary data is also important. The purposes of the readings in this phase are to provide a broader understanding concerning relations surrounding corporate governance practices in Malaysia, which also serves as a preparation for the interviews; and to verify and confirm the information obtained from the interviews. Hence, publicly available information is used throughout the data collection stage as both a source of understanding and verification of understanding. As a person who was born, raised, and lived in the country, the researcher already has an “inherent” knowledge or perception about affairs in Malaysia which is shared with, or generally common among, fellow citizens – the taken-for-granted knowledge among the people. Therefore, information obtained from public sources would confirm, support, or otherwise contradict this perception.

4.4.1.2 Interviews

The fieldwork was conducted during the four month period the researcher stayed in Malaysia in the summer of 2010. The interviewees are divided into four groups; regulators, professional bodies and advisory in one group; corporate directors; politicians; and others. **Table 4.2a-d** presents a summary of the interviews done. A brief summary of the interviewees’ profiles is attached in ***Appendix 1***. Except for the interview with P1, all other face-to-face interviews took place in the respondents’ offices. Interviews lasted between 30 minutes to two hours, with an average of one hour. All interviews, except one phone interview, are tape-recorded. Interview data was then transcribed and analysed manually; coded, and themes were noted that emerged from the analysis.

For the regulators, professional bodies and oversight bodies, the starting point is the list of organizations involved in establishing the Malaysian Code on Corporate Governance back in the year 2000. However, not all organizations were selected as respondents. Since the year 2000, other new organizations have been established which have played a significant role in the corporate governance arena in Malaysia. Hence, these organizations are selected. Corporate directors are randomly selected, but representative of different types of companies and different ethnicities. In total, six corporate directors were interviewed during the field work in 2010. A further phone interview and email correspondence were made later in 2012 with the Chinese director, mainly to get his perspective on some matters which emerged after the analysis. Interview invitations were also sent to others who it was thought could provide relevant views concerning corporate governance practices or other factors in relation to or surrounding this corporate governance field.

Table 4.2a: Interviewees: Regulators, Professional Bodies, Institutional investors

Interviewee	Gender	Ethnicity	Position	Organization	Notes
R1	Male	Malay	Director (of a division)	Regulatory	
R2	Male	Indian	Vice President	Professional body	Interview attended by three other personnel; one Managing Director (Male/Chinese) and 2 Staff members (Female/Chinese)
R3	Female	Indian	Chairman	Advisory body	
R4	Male	Malay	Manager (of a department)	Institutional investor	Interview attended by two Assistant Managers; one male, one female; both Malays
R5	Female	Indian	Head (of a division)	Professional body	Interview attended by another staff member; Male/Chinese
R6	Male	Malay	President (of a professional organization); Head (of a division in a PLC)	Professional body	
R7	Male	Malay	Vice President (of a professional body); CEO (of a PLC)	Professional body	
R8	Male	Malay	Chairman	Professional body	

Table 4.2b: Interviewees: Corporate Directors

Interviewee	Gender	Ethnicity	Position	Organization	Notes
D1	Male	Malay	Independent Director	PLC/non-GLC	
D2	Male	Malay	CEO	PLC/GLC	
D3	Male	Indian	Senior Independent Director	PLC/GLC	
D4	Male	Malay	Independent Director	PLC/non-GLC	
D5	Male	Malay	CEO	PLC/non-GLC	
D6	Male	Chinese	Retired Director; Retired General Manager of an advisory body	PLC/GLC	Two phone interviews and email correspondence

Table 4.2c: Interviewees: Politicians

Interviewee	Gender	Ethnicity	Position	Organization	Notes
P1	Male	Malay	Senator		
P2	Male	Malay	Former Prime Minister		

Table 4.2d: Interviewees: Others

Interviewee	Gender	Ethnicity	Position	Organization	Notes
V1	Male	Malay	Manager	Audit firm	
V2	Female	Malay	Senior General Manager	Wholly-owned company of the Malaysian Government	
V3	Male	Malay	Chief Operating Officer	PLC/non-GLC	

Interviews involved unstructured, open-ended interviews. Unstructured interviewing can provide greater breadth to the study given its qualitative nature, and it attempts to understand the complex behaviour of members of society without imposing any priori categorization that may limit the field of inquiry (Fontana & Frey, 2005). The interviews aimed to obtain respondents' views concerning corporate governance regulations and practices in Malaysia. Efforts were made to solicit opinions on the *Bumiputera* policy and its impact on corporate governance practices.

The list of interview questions is attached in ***Appendix 2***. However, during the interview some modifications were made to the questions, additional questions were asked, and some were omitted, depending on the responses received. There were also some variations in the questions, depending on who the interviewee was. For example, questions asked to corporate directors were more to understand their processes, such as board meetings, directors' functions, etc. as well as their views about corporate governance practices in general. For politicians the focus was more on *Bumiputera* affirmative policy.

Not many invitations or requests for interviews were sent to corporate directors because initially the plan was to gain access to two companies for case studies; these interviews with the directors were supposed to provide additional perspectives to the case studies. Four companies were approached through personal contacts; however the responses were not positive, despite an informal agreement having already been obtained prior to the researcher commencing her PhD study. Hence, the interviews with various directors have become the main data source for this study.

The researcher recognized the difficulties of doing elite interviewing (Conti & Neil, 2007) and acknowledges the limited number of respondents. However, as mentioned earlier, having been born, living and working in the country has actually given the researcher a direct involvement in the form of life in this particular setting or society. This allows the researcher not only to understand local meanings and actions (Pollner & Emerson, 2001, p. 123), but also to have the knowledge to make judgement on the data obtained. The number of directors interviewed is also relatively smaller compared to the number of regulators; therefore, most of the relevant information would have come from the regulators. But the views of the regulators cannot be undermined; although they are not on corporate boards, they cannot be seen as being detached from the corporate world. Some of them were holding directorships before, or are working closely with companies in their day to day operations.

4.4.2 Institutional Analysis

As mentioned earlier, institutional analysis is carried out in order to understand the context in which social relations are embedded. Institutional analysis seeks to answer the following four questions; it aims to reveal how the *Bumiputera* institution influences corporate governance:

1) What are the problems, the solution of which needs institutions?
2) Why this existing institution rather than another?
3) How do institutions achieve their effects? (Lindenberg, 1998)
4) Why and how do institutions change?

The analyses are divided into three stages as mentioned earlier, utilising two different paradigms of institutionalisms, namely; historical and sociological. Both paradigms are consistent in their focus on informal institutions and cognitive repertoires and tendency to privilege collective over individual actors (DiMaggio, 1998). This is consistent with the argument put forward by Jackson (2010, p. 63) for the need to adopt a more historical and process-oriented approach in studying institutions. The historical institutionalism shows the emergence of the *Bumiputera* institution and its impact on share ownership and board representation, while sociological institutionalism is concerned with the institutionalization impact of *Bumiputera* on corporate governance practices. Below is the research method in relation to the performance of institutional analysis based on historical institutionalism.

4.4.2.1 The Emergence of Bumiputera

A methodology is crafted for the purposes of understanding the emergence of the *Bumiputera* institution and its impact on corporate governance. Data is collected from both primary and secondary sources. Secondary sources, such as books and articles, are used to draw out important political and social events in Malaysia from pre-independence to recent times. These are then supported by primary sources from the public domain, such as speeches by politicians and influential books by prominent figures. This will enable the study to pronounce that these social and political events were influential in developing the *Bumiputera* institution. Further data was collected from more sources, such as government reports, government websites, press releases, government officials' speeches, and reports from international organizations, to show how the ideas were then to be put into the national economic policies. In order to show social realities concerning the practices of corporate governance which are impacted by the *Bumiputera* institution and government policies, the study relies on the following: the information available on the websites of the Malaysian regulators, the codes of corporate governance, books, previous studies, as well as a collection of companies' annual reports. The study also relies on newspaper reports to obtain data in order to further support our theoretical framework.

Analysis of the data was mostly based on in-depth readings and in-depth reflections. Ongoing reflection of the data was also done to position it against the theoretical framework (Ahrens & Chapman, 2006). Logical analysis is also performed for the whole data available by using a diagram to show the historical events pictorially and is accompanied by a written description (D. Ratcliff, n.d). **Table 4.3** below lists the sources and methods of analysis used in this phase. Since this study relies on narrative analysis for arguments, narratives were accordingly developed by relying on these resources. In analysing the data, attention was paid to the core issues to be addressed in this study phase, including the following: the *Bumiputera* policy development, major changes in the practices of corporate governance since independence, how changes in government policies have affected the *Bumiputera*, the setting of rules and guidelines on corporate governance, as well as the persons involved in affecting the policies or rules. Considering the substantial amount of materials obtained, it is now convenient to make sense of the data and provide a narrative discussion on the dominant *Bumiputera* institution and its impact on corporate governance.

Table 4.3: Sources of Data and Methods of Analysis

Sources	No.	Methods of analysis
Government / official report	11	In-depth readings
Acts, codes, pronouncements	8	In-depth readings
Speeches by Prime Ministers	98	Quasi statistics
Other politicians' / government officials' speeches	6	Content analysis Reflection with other information
Press releases / government announcements	7	Reflection with other information
Newspapers	79	Analytical induction Reflection with other information
Autobiographies	1	Reflection with other information
Politicians' book	1	In-depth reading and reflection Hermeneutical analysis
Government and other regulators; websites	7	Content analysis
Foreign government websites	2	Reflection
International organizations' reports	3	Reflection
Annual reports of Malaysian listed companies	87	Quantitative method of analysing directorships

4.4.2.2 Institutionalization of Bumiputera Institution

Data for this part of the study mainly comes from the interviews conducted, and complemented with some further documents. As the study is concerned with understanding of the social world, hence, an interpretive accounting research approach is utilised (Ryan, Scapens, & Theobold, 2002). "The interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. […] It sees the social world as an emergent social process, which is created by individuals concerned" (Burrell & Morgan, 1979, p. 28). The focus is on the understanding of the social world through an examination of the interpretation of that world by its participants (Bryman & Bell, 2003) who are, in this case, the board of directors and other corporate governance players. Corporate governance is a process; it is constructed, it is shaped by social meaning, it is always dependent on a certain *point of view* or perspective and is therefore tied to social location, and is always *dynamic*, since it is negotiated (Hollstein, 2011a).

This stage of analysis utilises a qualitative method, which involves understanding of meaning ("sinn-verstehen"). The aim is to reconstruct such meaning; and making sense of action and meaning involves understanding the respective actors; and relying on interpretation and understanding (Hollstein, 2011b). Meaning depends on context. For the researcher, having lived in the country the whole of her life is in fact a direct involvement in the form of life in this particular setting or society; and this allows her to understand local meanings and actions (Pollner & Emerson, 2001, p. 123). Given this is the case, the researcher is also open to the subject matter and that, although preconceptions exist in mind, but in analysing or interpreting the data, those preconceptions are restrained from influencing such judgement.

4.4.2.3 Institutional Change

One important question in institutional analysis concerns institutional change. In identifying change, Campbell (2004) suggests identifying the patterns of institutional change when they occur by specifying the dimensions of the institution that are subject to change and the time frame over which the change occurs. Patterns of change could be revolutionary or punctuated equilibrium, where a discontinuous change occurs as a result of major events or disruptive processes that trigger the change; whereas evolutionary change is continuous change which is characterised as smooth and gradual in process (see Chapter 3). **Table 4.4** below summarizes the factors to be considered in analysing institutional change. This is used as a guide in performing institutional analysis of institutional change.

Table 4.4: Guide for the Analysis of Institutional Change

Dependent variables	
Pattern	1) Punctuated equilibrium and revolutionary change – requires major events/disruptive processes that trigger change 2) Evolutionary and incremental change – continuous; proceed is small
Dimension	1) Theoretical perspective – whether cultural-cognitive, regulative, or normative pillar 2) Perspective of the researcher and the people who occupy the institutions that the researcher is studying. 3) Level of analysis – historical institutionalists: nation-states and national economies; organizational institutionalists: organizational field; rational choice institutionalists: small group of people.
Time	1) Historical hindsight – i.e. based on a consideration of the phenomena and its historical context. 2) Theoretical orientation, hunches, hypotheses. 3) Levels of analysis – macro level requires longer time period than micro level; rational choice institutionalists assume shorter time period required compared to historical institutionalists. 4) Pragmatic methodological considerations – such as availability of data 5) Critical events – mark appropriate time frame.

Source: Summarized by the researcher based on “Institutional Change and Globalization,” by John L. Campbell, 2004, Princeton University Press, pp. 31-47

4.5 Conclusion

Many corporate governance researchers considered that methodology is “given” and, accordingly, they followed a positivist approach in researching corporate governance; hence, they were more or less quantitatively biased. For example, studies in Malaysia rely on quantitative analysis to explain corporate governance environment in the country. This chapter shows that different approaches to methodology could be employed to study corporate governance, and hence can see corporate governance practices from a different perspective. Methodology is affected by a researcher’s ontological and epistemological position and the assumption about human nature (Burrell and Morgan, 1979). It is also constrained by the context of the study.

Chapter 5 - The Emergence of Commitment to *Bumiputera*

5.1 Introduction

The aim of this thesis is to understand how corporate governance practices are influenced by the larger institutional environment in which they are embedded. Corporate governance itself is an institution, or termed by Weiss (2010) as a "second-order" institution, which is affected by its larger context. Institutions, including corporate governance, come from historical contingencies; they form and evolve in historical complexities and the resultant patterns of relationships between economic actors and existing institutions (Alawattage & Wickramasinghe, 2009). Hence, understanding institution from its historical context is important as history provides explanation in the interpretation of social system of corporate governance (Boyer & Hollingsworth, 1997). Therefore, focusing on the role of the *Bumiputera* institution in Malaysia, this chapter presents a historical analysis of *Bumiputera* and its impact on corporate governance in the country, in particular, the corporate ownership structure and board representation. The focus is on understanding the historical context, from which the *Bumiputera* institution emerged and how it shapes corporate governance practices. How *Bumiputera* influences corporate governance practices has much to do with how and why *Bumiputera* emerged in the first place.

The importance of history and institutions in the study of accounting have been argued by many, including the view that economic perspectives, like technological and functionalism, obscure the ways in which historically-developed institutional and political actions have shaped the evolution of accounting practices (P. J. Arnold, 2009). The literature review in Chapter 2 provides a discussion on the trends in corporate governance research, including the increasing use of institutionalisms. Corporate governance researchers in Malaysia also acknowledge that institutions matter, although most of the studies take the *Bumiputera* institution only as an element or variable serving as a background to their studies. This is because those studies are conducted from an economic perspective; and, as will be discussed in the next section, the economic perspective views institutions as intervening variables capable of affecting individual choice and actions, but not determining them

(Koelble, 1995). However, in this study, institutions are argued to be playing a greater role and, in some instances, a determinant role. This theoretical framework provides methodological resources, or a lens through which data is analysed.

An institutional analysis is carried out, utilizing historical institutionalism approach, as set out in Chapter 3 (Campbell, 2004; Hall, 1992; Immergut, 1998; Knight, 1992; Ostrom, 1995; Thelen & Steinmo, 1992). Two fundamental issues in institutional analysis are, firstly, how to construe the relationship between institutions and behaviour; and secondly, how to explain the process whereby institutions originate and change (Hall & Taylor, 1996). While Chapter 6 focuses on the institutional impact of *Bumiputera* on corporate governance behaviour, this chapter pays attention to the second issue of origination or the historical relevance of the *Bumiputera* institution. Chapter 7 focuses on institutional change. The analysis and discussion in this chapter provides the background as well as setting the context for the discussions in Chapters 6 and 7.

Data for this chapter comes mainly from the secondary sources and supported with some interviews. The analysis conducted shows that the *Bumiputera* policy was born out of ethnic conflicts and struggles to maintain political and economic power, which had their sources in the colonial period. Although economically disadvantaged, the *Bumiputera* people have entrenched political power; therefore, it was possible for the Malay-dominated government to drive through the *Bumiputera* policy. An assessment of the impacts of the policy shows a significant increase in the *Bumiputera*'s equity ownership although they failed to reach the specified target. However, the assessment is not straightforward because data sources can be disputed. The *Bumiputera*'s representation on corporate board of directors also increased following the establishment of the policy.

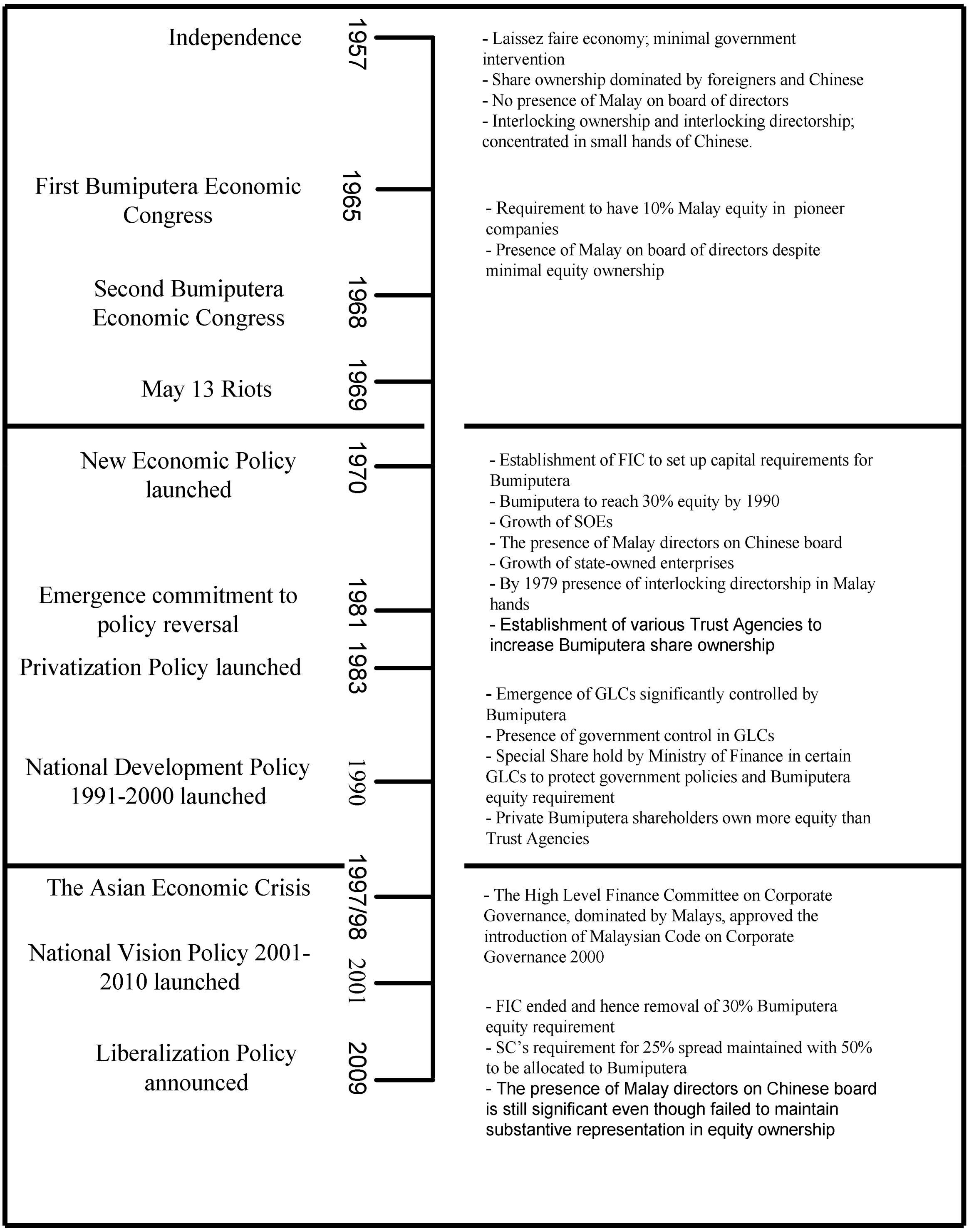
This chapter is structured as follows; the following section gives a brief overview of the identification of phases of the *Bumiputera*'s development for the purpose of analysis. This is then followed by the historical analysis based on the phases and events identified, which is divided into three parts. The first part discusses the British colonial policies and economic environment post independence, which gives the background on Malays economic and social positions prior to the promulgation of the *Bumiputera* policy. This includes a discussion on the unfortunate event of May 13, 1969 that saw the ethnic clash between the Malays and the Chinese, which then triggered the launch of the *Bumiputera* affirmative policy. This is then followed by sections that discuss the New Economic Policy; the *Bumiputera* mechanisms, i.e. the efforts that the government put in place to achieve the policy's objectives; and the impact of the efforts on corporate ownership and board representation. Section 5.6 discusses how the Asian crisis in 1997/98 had marked the beginning of some major efforts to strengthen the corporate governance system in the country and how that affects the roles of *Bumiputera* people in the economy. Since the crisis, the economic competitiveness of the country has been a major concern of the government. Recently the state has announced some steps towards a more liberalized economy. An analysis of what liberalization means to the *Bumiputera* institution and corporate governance is given next. This is then followed by a section on discussion. This chapter ends with a conclusion section.

5.2 The *Bumiputera* Phases

This study span from the year 1957, being the year the country gained its independence, until the present day. Some historical narration during the British colonial period is also given considering its role in instituting the *Bumiputera* institution. For analysis purposes, the time period under the study is divided into phases (**Figure 5.1**) based on "critical events" in order to help develop causal inferences of the *Bumiputera* institutional impact on corporate governance (Lieberman, 2001; Perusek, 2002). The identification of phases mirrors the periodization analysis as commonly used in comparative historical analysis although not in the same depth. This is because the focus of this study is more on the impact of the *Bumiputera* institution on corporate governance; and not focusing merely on the historical events and political outcomes.

The left hand side panel represents the important events, while the right hand side panel shows the related *Bumiputera* efforts and mechanisms. Three critical events or turning points are identified to mark the phases; they are, the country's independence, the launch of the NEP, and the Asian economic crisis in 1997/98. These three phases are labelled as “emergence”, “developments and impact”, and “change or persistence” of the *Bumiputera* institution respectively. Inferences about the impact of *Bumiputera* on ownership are made based on the fact that achieving certain percentage of equity ownership is explicitly stated as one of the *Bumiputera* policy’s goals. Various mechanisms have then been put in place to pursue this objective; hence, it is expected that the Malays’ share of ownership in corporate sectors would increase following the establishment of the policy. Therefore, in this chapter, the change in ownership is analyzed by comparing such changes to the efforts made at each phases identified. For board representation, generally there is no specific requirement for companies to appoint *Bumiputera* directors except for certain sectors reserved for *Bumiputera*, such as oil and gas industry; and for companies bidding for the government’s projects. However, because of the political significance of the *Bumiputera* institution, it is desirable for corporations to appoint Malay directors on their boards. Hence, it is expected that the existence of the *Bumiputera* institution would increase the involvement of the Malays on corporate boards.

Figure 5.1: *Bumiputera* - Events, Policy Developments and Corporate Governance Impacts



The independence is important for *Bumiputera* as it marks the transfer of political power from the British to the Malays, specifically, and to the people of Malaysia, generally. The NEP marks the state's intervention in the economy and the beginning of a more serious efforts and commitment to pursue the *Bumiputera'*s interests. Finally, the Asian crisis in 1997/98 brought to the fore many issues that force the country to undertake critical decisions concerning its various policies including *Bumiputera*. The crisis also marks the country's commitment towards enhancing the corporate governance. Each of these phases and their impacts on corporate ownership and board representations are discussed next.

5.3 The Emergence of *Bumiputera* Institution

5.3.1 The Colonial Policies – The Seeds of the Conflict

The *Bumiputera* institution was beginning to be instituted during the British colonial period in the late 18th century[20]; started with their migration policy, which saw a large number of Chinese and Indian workers were brought into the country. By the year 1921 there was a rough balance between Malays and the migrant populations. The British's 'divide and rule' policy had separated the Malays from the immigrant communities, physically and economically (Jesudason, 1989, pp. 26-29). While Chinese prospered economically, the British policy to protect the Malays' interests including the establishments of the Malays Reservation Enactment and Rice Land Act had, in turn, worked against their interest and left them behind while economic growth advanced (Horii, 1991). The Rice Land Act, for example, prohibited Malays peasants from cultivating any cash crop other than rice on the Reserved Land; hence, prevented them from engaging in modern economic activities (Lim, 1985). On top of these, the Chinese practice of "quangzi", which encouraged savings and ensured a pool of liquid capital within the Chinese community, had further excluded the Malays. Large Chinese businessmen also did their business principally with the Chinese community (Jesudason, 1989). The Malays, hence, remained economically left behind. Their political control also weakened substantially and the seeds of suspicion and separatism between the two communities were sown (Lim, 1985).

5.3.2 Gaining Independence – The Exchange of Promises

In 1946, the British offered the Malayan Union scheme to the Malays. The three most important provisions contained in the Malayan Union draft Constitution were the abolition of the Malays' '*sultan'* system, the granting of equal rights of political

[20] Prior to the British arrival, Malaya was colonized by Portuguese since 1511 and by Dutch since 1641.

and cultural participation to the whole population, and granting of citizenship and nationality to all permanent residents (Horii, 1991). Fearing the collapse of traditional Malays society, the United Malays National Organization (UMNO) was founded by the elite stratum of the Malays administrators, supported by majority Malays. UMNO rejected the Malayan Union plan and demanded that the 'sultan' system is retained under a constitutional monarchy, and there be specific references to the special position of the Malays in the Constitution (Horii, 1991). Following this, a new scheme, far more favourable to the Malays' interests – the Federation of Malaya Agreement was worked out in 1948 between the British officials, the Malays sultans, and UMNO. It upheld the sovereignty of the sultans and entrenched the special position of the Malays in the country.

As an effort to convince the British administration of ethnic harmony in Malaya, and hence, be given independence, an alliance was established between the three major ethnic dominant political parties; i.e. UMNO, the Malaysian Chinese Association (MCA), and the Malaysian Indian Congress (MIC); representing the Malays, Chinese, and Indians, respectively. Some suggest that the coalition was forced by the British on UMNO despite negotiating a special position for the Malays (Ritchie, 2005). A series of important bargain were made between them, which were later reflected in the 1957 Constitution of Malaya. In exchange for the relaxation of citizenship requirements and a tacit understanding that the Chinese economic interests would be safeguarded, the non-Malays agreed to the Malays political and symbolic paramount in the society. The concessions include the preservation of the Malays sultans within the framework of constitutional democracy (Jesudason, 1989, p. 44). Upon independence, the Alliance formed the government of Malaysia, with UMNO as the dominant party. The focus of the government of the new country was, then, to develop the economic ground.

5.3.3 Post-Independence - Economy without Intervention

Despite being independent, the Malays still found it difficult to prosper economically; the majority of them lived in poverty[21]. The economy was largely controlled by

[21] In 1970 for example, 64.8% of Malays households lived under poverty level compared to only 26.0% Chinese and 39.2% Indian.

foreigners[22] and the Chinese people while the Malays were continued to be marginalized. Although the *Bumiputera*'s special rights are set out in Article 153 of the country's Constitution, there was not much effort done to pursue the *Bumiputera'*s interest. The Constitution itself does not spell out in detail how the *Bumiputera* is to be helped. Faaland, Parkinson and Saniman (1990, p. 21) note that:

> *"The non-Malays as a group did not come forward with a genuinely helping hand to the Malays in the private sector. […] In practice, therefore, the Malays had given the non-Malays inalienable rights under the Constitution in exchange for what turned out to be little more than vague and empty promises by the non-Malays."*

Furthermore, the country was practicing laissez-faire economy that saw comparatively little state interference. Although the government had the power to interfere in the economy and despite pressures from some Malay nationalists for the government to do so and pursue *Bumiputera'*s economic interest, that did not happen. UMNO's position at that time was to pay more attention to stabilization and economic development. At the same time, the Chinese economic interest was further protected since the MCA's political power played a role in preventing excessive bureaucratic interference in private business (Jesudason, 1989, p. 60). In the 1960s, for example, the Chinese businesses were able to make impressive gains by taking advantage of the loss of foreigners' favourable political position in the post-colonial era.

5.3.4 *Bumiputera* Economic Congresses - Development of Ideas

The idea to pursue *Bumiputera*'s economic interest was made explicit when a group of young Malay nationalists within UMNO felt that they must champion the Malays cause. Also, by the mid 1960s, Malays businessmen started to exert pressures on the government through their connections with the political and administrative elites. The initiatives were then made through the convening of the First and Second *Bumiputera* Economic Congresses in 1965 and 1968, respectively, to kick off the efforts to pursue Malays' economic interest. Khoo (1987) documented one of the delegates' statements that captured the essence of the Congress's objective: "…if the Malays have no stake in this country… [it] is certain that the non-Malays will find it

[22] Foreign presence was most pronounced in the manufacturing sector where, in 1970, they controlled almost 60% of the share capital in manufacturing.

difficult to carry on their economic activities in peace and security". Similarly, Lim (1985) quotes a remark made during the First Congress: "If *Bumiputera* do not own their companies or do not share in the ownership of Malaysian companies, then this policy is a failure". The congresses produced a bulk of suggestions, which were consolidated into a policy to guide training opportunities for *Bumiputera* expertise, strategizing *Bumiputera* expansion in the economy, and solving the problems of the *Bumiputera*'s businesses (Khoo, 1987). However, that did not give much impact and Malays involvement in the country's corporate sector was still minimal.

5.3.5 The May 13, 1969 Incidence

After years of struggling with huge income gaps, in May 1969 an ethnic clash occurred between the Malays and the Chinese. The May 13, 1969 riot[23] started after the release of the general election results, which gave the lion's share of parliamentary gains to the non-Malay candidates from the opposition parties at the expense of the MCA. Reid (1969) provides a detail account on the incidence including the implications towards UMNO's politics. A declaration of a state of national emergency was made; the Parliament was suspended, and the country was temporarily governed by the National Operations Council (NOC) until 1971. From the viewpoint of the largely poor and rural Malays community, the appearance of a threat of political 'take over' by opposition parties was a disaster since control of the government was seen as the essential counterbalance to the Malays economic inferiority (Snodgrass, 1995).

At the political level, pressures mounted as the younger group of Malay leaders outside the Cabinet proposed a list of recommendations for the new Cabinet. This includes depriving the MCA of their Finance, and Commerce and Industry portfolios. The portfolios at that time were in the hand of the MCA President, Tun Tan Siew Sin, who holds it since independence[24]. The crisis makes evidenced the clash of ideology between the young nationalists within the UMNO party with the Malay elite leaders (Mohamad, 2008). The incidence had significant political impact to the country; it

[23] When the riot was over, hundreds were dead and thousands others were left injured. However, figures on casualty vary between reports; the Government's figure stood at 193 (Reid, 1969).
[24] He holds the office for 15 years, i.e. until 1974 when he resigned due to health reason. Since then, the portfolios have been in the hands of Malays until today.

contributed to the demise of the influence of older UMNO leaders who traditionally favoured the Chinese, and enabled the younger Malay leaders who were more sympathetic to the plight of the Malays to improve their economic position. With young nationalists' influence, new pro-Malays economic policies were put forward.

5.4 The Development of *Bumiputera* Policy

Although the ethnic clash happened following the release of the general election results, the official report claims that it rooted in concerns about economic disparity between ethnics. It then provided justification for the government to intervene in the economy, which then saw the establishment of the *Bumiputera* affirmative policy. The policy, as spelt out in the NEP place constraints on the corporate sector, the majority being Chinese firms. That significant event marked the turning point of how politics, social, and economics are to be practiced in the country; it marked the emergence of a social institution that will have significant impact in every aspects of life in Malaysia.

The formation of the NEP could be described as a clash of interests, ideas, and power between two major groups in Malaysia. This is because the NEP was drawn up by two departments, both pushing forward different ideas in an effort to protect their group's interests. They are, the Economic Planning Unit (EPU), representing the interest of the economically dominant non-*Bumiputera*; and the Department of National Unity (DNU), representing the interest of the *Bumiputera* people. Both departments are under the Prime Minister's Department. However, the EPU, was long established in 1961 and has been responsible for formulating the country's economic policy, while the DNU was set up on 1 July 1969 following the ethnic clash. The EPU was headed by a Chinese and staffed by several Chinese economists[25] (Heng, 1997, p. 265).

The policy that had been pursued by the EPU was inherited from the colonial system. Their conservative approach emphasised on a balanced budget, "growth first,

[25] The UMNO elites' pro-Chinese approach had seen the Chinese controlling the important economic portfolios in the country, including the Ministry of Finance, which was responsible for the appointment of the Governor of Bank Negara (Malaysian Central Bank).

distribution later", more effective implementation of the policies and strategies, and maintaining a political stability, with minimum interference of the government in the economic affairs. For them, the racial riot in May 1969 was just an unfortunate event that should not be of concern in formulating the economic policy. The newly set up DNU, on the other hand, saw the riot as an evidence of a structural defect in the country's political economy, which required some measures to tackle the imbalances in the economy between the ethnics. This was important because economic imbalances affect ethnic integration, national unity, and hence, social stability. Social stability needs to be maintained in order to achieve economic growth. Three imbalances identified in the DNU report titled "Racial Disparity and Economic Development" are imbalances in income, employment, and ownership of capital and assets. In contrast to the EPU's approach, the DNU's overall objective was national unity; and this should not be sacrificed even for economic growth. Hence, an alternative radical new treatment was proposed to supplement, rather than replace, the NEP strategy. It involved some separate and specific targets for Malays' participation in each major modern economic sectors and subsectors activity. The general target, however, was to maximize employment irrespective of race. Under this alternative policy, the government would play a leading role in the private sector.

In terms of pushing forward the ideas, the EPU initially had more advantages than the DNU. Their policy received support from the powerful foreign owners of major banks, plantations, mines, etc, through their chambers of commerce and embassies as this policy worked to the advantage of their interest as well (Faaland et al., 1990, p. 30). The MCA President at that time, who was also the Finance Minister, was a very respectable and powerful politician that "without his approval no policy could be adopted" (Ibid, p. 30). During his time he was able to fend off Malay economic nationalists' pressures in the urban sector. For example, in one incidence, he managed to influence the Prime Minister to sack his Agricultural Minister for attempting to set up state-owned cooperation which could jeopardize the Chinese interest (Heng, 1997). The EPU also had intellectual resources besides having "easier analytical and presentational task both to the country and to the world at large" due to the established nature of the past policies and the past performances (Faaland et al., 1990, pp. 30-34).

The DNU's approach, on the other hand, was still general and vague. To spread the ideas to people and implementing the policy had involved many "guess work" as explained by a former Prime Minister of Malaysia (P2) in one interview conducted by the author as follows:

> *"Well, basically the government doesn't know, didn't at that time. They just put a very general objective. The objective is to give 30% wealth, corporate wealth to the Bumiputera and efficiently, how do we achieve it? They thought it was simple."*

However, despite the supports received by the EPU, it was the DNU's approach that was accepted as the first draft of the NEP. The Economic Committee of the National Consultative Council was then established by the government, comprising representatives from various interested groups to deliberate the draft. However, the deliberations of the Council were not publicised; rationalization of the ideas only occurred at the high level. Due to the sensitive nature of the issue, the deliberations of the policy were kept away from the media, so that it could be thoroughly discussed and a true consensus arrived at for the benefit of all Malaysians (Faaland et al., 1990, p. 27).

Input from the MCA was also very minimal. The ethnic clash had actually weakened the Chinese at both social and political levels. However, the MCA President still managed to use his office of Finance Ministry to delay the implementation of the policy including delaying the passing of Industrial Co-ordination Act (ICA) 1975 (Heng, 1997). The NEP was only properly implemented after he resigned from his position in 1974. However, the final policy was considered moderate due to few reasons. Firstly, there was elite-level cooperation of the consociational variety produced more cautionary ethnic leaders; secondly, policy difference between the DNU and the EPU produced more moderate compromises; and finally, the need for electoral support from the Chinese community (Geoffrey & Stafford, 1997).

The discussion below shows how the policy affects corporate equity ownership and Malays' representation on board of public listed companies.

5.5 *Bumiputera*: Ownership and Board Representation

5.5.1 *Bumiputera* and Equity Ownership

This section discusses some important mechanisms put forward by the state under the affirmative policy and how those mechanisms gave impact on corporate share ownerships. **Table 5.1** below shows the breakdown of equity ownership in Malaysian limited companies between the *Bumiputera*, the non-*Bumiputera* and the foreign investors for the period 1969 to 2008 (plotted on **Figure 5.2**). The data is based on the figures disclosed by the EPU in the Malaysian five-yearly Economic Plans. The format of how the figures are disclosed in each period is not consistent; hence, the table is constructed based on the information given. In some instances, the information is not available, hence noted as 'not given'.

Table 5.1: Ownership of Share Capital in Limited Companies (1969 – 2008)

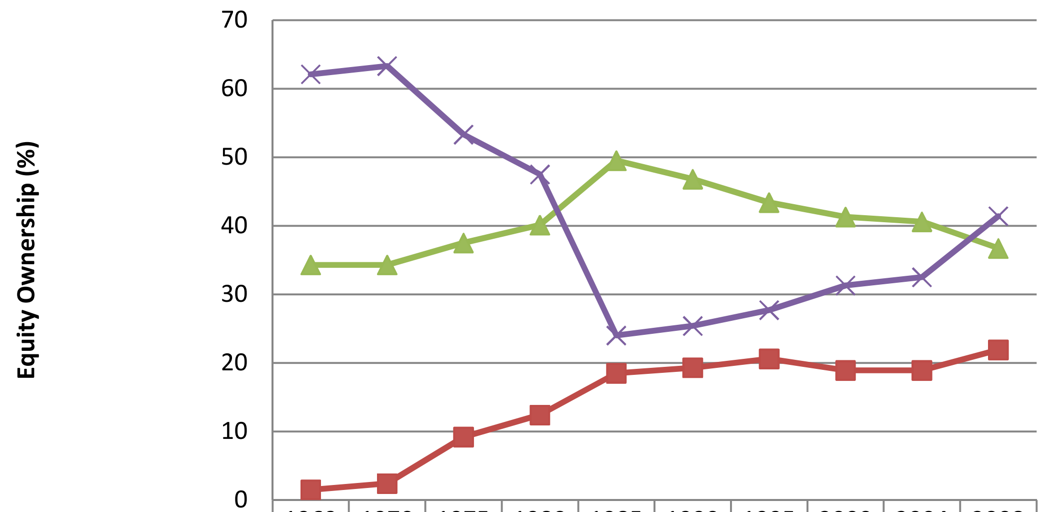
	1969 (%)	1970 (%)	1975 (%)	1980 (%)	1985 (%)	1990 (%)	1995 (%)	2000 (%)	2004 (%)	2008 (%)
Total *Bumiputera*	**1.5**	**2.4**	**9.2**	**12.4**	**18.5**	**19.3**	**20.6**	**18.9**	**18.9**	**21.9**
- Individual	1.0	1.6	3.6	4.3	n.g.	14.2	18.6	14.2	15.0	n.g.
- Institutions	0.5	n.g.	n.g.	n.g.	n.g.	-	-	3.0	2.2	n.g.
- Trust agencies	n.g.	0.8	5.6	8.1	n.g.	5.1	2.0	1.7	1.7	n.g.
Total Non *Bumiputera*	**34.3**	**34.3**	**37.5**	**40.1**	**49.5**	**46.8**	**43.4**	**41.3**	**40.6**	**36.7**
- Chinese	22.8	27.2	n.g.	n.g.	48.2	45.5	40.9	38.9	39.0	n.g.
- Indian	0.9	1.1	n.g.	n.g.	0.9	1.0	1.5	1.5	1.2	n.g.
- Others	10.6	6.0	n.g.	n.g.	0.4	0.3	1.0	0.9	0.4	n.g.
Nominees	**2.1**	n.g.	n.g.	n.g.	**8.0**	**8.5**	**8.3**	**8.5**	**8.0**	
Foreign	**62.1**	**63.3**	**53.3**	**47.5**	**24.0**	**25.4**	**27.7**	**31.3**	**32.5**	**41.4***
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Sources:

Second Malaysia Plan, 1971-1975 (Malaysia, 1971, p. 40)
Third Malaysian Plan, 1976-1980 (Malaysia, 1976, p. 184)
Fourth Malaysian Plan, 1981-1985 (Malaysia, 1981, p. 61)
Sixth Malaysian Plan, 1990-1995 (Malaysia, 1990, p. 13)
Seventh Malaysian Plan, 1996-2000 (p.86)
Ninth Malaysian Plan, 2006-2010 (Malaysia, 2006, p. 356-57)
Tenth Malaysian Plan, 2011-2015 (Malaysia, 2011, p. 148)

n.g. – not given

Figure 5.2: The Spread of Equity Ownership in Malaysian Limited Companies (1969 – 2008)



	1969	1970	1975	1980	1985	1990	1995	2000	2004	2008
Bumiputera	1.5	2.4	9.2	12.4	18.5	19.3	20.6	18.9	18.9	21.9
Non Bumiputera	34.3	34.3	37.5	40.1	49.5	46.8	43.4	41.3	40.6	36.7
Foreign	62.1	63.3	53.3	47.5	24	25.4	27.7	31.3	32.5	41.4

Earlier Efforts

As noted earlier, prior to the *Bumiputera* or the NEP, the Malays involvement in the Malaysian economy was very minimal. The effort made by the Ministry of Commerce and Industry following the first BEC in 1965 to urge pioneer companies to reserve at least 10% of their shares for the Malays in order to be granted licences for operation failed to make significant impact. In 1969, the Malays equity stood at only 1.5% (**Table 5.1**). This ownership holding reflects the Malays' overall position in the economy including their ownership of other more permanent assets such as land and buildings (Malaysia, 1971, pp. 39-41).

With the invigoration of the NEP, the government also established the Foreign Investment Committee (FIC) in 1974 under the Prime Minister's EPU that gives guidance on the acquisition of interests, mergers and takeovers by local and foreign interests. Generally, the FIC required that those companies seeking listing on the Bursa Malaysia to have, upon listing, at least 30% *Bumiputera* equity (Foreign Investment Committee, 2008). The government also established its investment holding company, the "*Perbadanan Nasional*" (National Trading Corporation or PERNAS), to encourage Malays involvement in the corporate sectors. Through

PERNAS, Malays bureaucrats were to receive managerial experience and Malay workers were to be given industrial employment opportunities in the state-owned companies. This was followed with the passing of the controversial ICA 1975[26], which originally required the non-Malays manufacturing firms of certain size to divest 30% of their equity to the Malays' interests. However, as pressures mounted from local and international Chambers of Commerce and manufacturers associations, accompanied with a decrease in private investment, the ICA was then amended in 1977 (Lim, 1981).

The government has, in addition, created a number of other mechanisms including the establishment of the "*Yayasan Pelaburan Bumiputera*" (*Bumiputera* Investment Foundation or YPB) and its investment company "*Permodalan Nasional Berhad*" (National Equity Corporation or PNB) in 1978. YPB provides funds to the *Bumiputera* people for the purpose of subscribing to shares in companies that wish to comply with the NEP. On top of that its investment arm, PNB, also purchases shares using the money from YPB and holds them in trust for subsequent sale to individual *Bumiputera* investors. Through PNB, substantial shares were acquired in major Malaysian corporations and were transferred to a trust fund and sold to *Bumiputera* individuals in the form of smaller units. By 1981, PNB became one of the leading *Bumiputera* investment institutions, having acquired RM487 million shares in 60 companies. In 2012 their fund amounted to RM150 billion (www.pnb.org.my).

With these efforts together with the expansion of the economy, the year 1970 to 1985 then witnessed a steady increase in the equity ownership of *Bumiputera*. Non-*Bumiputera* equity also increased accompanied with a continued decline in foreign ownership. In fact, the year 1980 also saw the non-*Bumiputera* reached its target of 40% share ownership. For the *Bumiputera*, the period saw not only increased in the equity ownership of individual *Bumiputeras*, but also trust agencies. *Bumiputera* ownership has also been affected through PERNAS, which over time acquired ownership of shares owned by foreigners and then held in trust for the Malays (Geoffrey & Stafford, 1997). This led to a growth of state-owned enterprises, which

[26] ICA aims to maintain an orderly development and growth in the country's manufacturing sector by requiring certain size manufacturing companies to apply manufacturing licence from the Ministry of International Trade and Industry (MITI).

provided more employment opportunities for the *Bumiputera* (Haggard & Low, 2000). UMNO also deepened its involvement in businesses during the 1970s, partly to reduce its dependence on the MCA financing[27].

Privatization

In the early 1980s the Malaysian economy was slowing down and the government responded by liberalizing its policy to promote growth. In 1983, two years after he became the fourth Malaysian Prime Minister, Mahathir Mohamad launched a privatization policy as a new approach to national development. The privatization contributed towards the growth and development of the economy and at the same time became part of the government's strategy to promote *Bumiputera* people's participation in the corporate sector. The privatization policy required privatised companies to allocate 30% of their equity to *Bumiputera* people. The policy also required concessionaries in any privatisation to allocate at least 30% of contractual works to *Bumiputera* contractors and to offer employment to the *Bumiputera* people (Department of Foreign Affairs on Trade, 2005, p.79). This was also accompanied by a government policy, which guaranteed large government contracts for *Bumiputera* companies[28] and a minimum of 60% of government procurement, contract work, and other related projects for *Bumiputera* entrepreneurs (Department of Foreign Affairs on Trade, p. xiii, 79).

The privatization policy has also seen the non-*Bumiputera* benefited from the efforts. In 1985, for example, Malaysian investors were in control of more than 75% of equity ownership in the country, which is above the original target set earlier. However, a significant percentage of the ownership was in the hands of the non-*Bumiputera*. The non-*Bumiputera* reached the highest level of equity at almost half of total equity ownership in the country or more than 70% of those in the hands of Malaysian. Although still below the target level, the Malays' ownership also saw a steady increase to 18.5%. Although in 1980 *Bumiputera* individuals[29] accounted for

[27] Previously UMNO relied on MCA for financing (Haggard & Low, 2000).

[28] To qualify as *Bumiputera* company status, company has to maintain majority *Bumiputera* at all times to exceed 51% in equity ownership, board of directors, position of Chief Executive, Managing Director, other key posts, staffs at management level and employees.

[29] Individuals include contribution made by private *Bumiputera* enterprises as well as the National Unit Trust Scheme and the PNB.

a little more than a third of the total *Bumiputera* equity, but their ownership grew at a fast rate of 32% per annum. By 1985 they accounted for more than the share of trust agencies in the total equity stock held by *Bumiputera* (Malaysia, 1986, p. 106); while foreign equity ownership hit its lowest at only 24%.

Government Linked Companies (GLCs)

The privatization policy marks the emergence of Government Linked Companies (GLCs). GLC is defined as a company that has a primary commercial objective and, in which, the Malaysian Government has a direct controlling stake (GLC Transformation Manual 2005). Controlling stake refers to the Government's ability (not just percentage ownership) to appoint members of board of directors and senior management; and make major decisions (e.g. contract awards, strategy, restructuring and financing, acquisitions and divestments etc.) either directly or through Government-Linked Investment Companies (GLICs). This includes companies where GLCs themselves have a controlling stake, i.e. subsidiaries and affiliates of GLCs. GLIC[30] is defined as the Federal Government linked investment company that allocate some or all of its funds to GLC investments. It is defined by the influence of the Federal Government in appointing and approving Board members and senior management, and having these individuals report directly to the Government, as well as in providing funds for operations and/or guaranteeing capital (and some income) placed by unit holders.

The End of NEP

In 1990, the NEP ended and the *Bumiputera* equity, as disclosed by the EPU, was at 19.3%; way below the targeted level of 30%. At the same time, the foreign ownership started to surge. This is because, besides privatization the liberalization strategy in the latter half of the 1980s also saw the government promoting inflows of foreign investment as the core strategy in their effort to boost export-oriented industrialization (Fukunaga, 2010). From **Table 5.1** it could be seen that foreign ownership started to pick up again in 1990. And from that period onwards, there has been a steady increase in the level of foreign ownership. The opposite is observed for

[30] Currently there are seven GLICs: Employees Provident Fund (EPF), Khazanah Nasional Bhd (Khazanah), Kumpulan Wang Amanah Pencen (KWAP), Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH), Menteri Kewangan Diperbadankan (MKD), and Permodalan Nasional Bhd (PNB).

the non-*Bumiputera* equity where their figure peaked in 1985 and then started to decline. With regards to commitment towards *Bumiputera*, it appears that the liberalization was the response to the short-term problem of recession but at the same time the government was still committed to the long run development strategy. It was argued that this pragmatism of the government with the *Bumiputera* policy that made growth possible (Snodgrass, 1995).

Even though the NEP ended in 1990, the policy to pursue *Bumiputera*'s interest continues. During the 6th Malaysian Plan 1990-1995, the government announced the establishment of the *Bumiputera* Commercial and Industrial Community (BCIC) with the objective of creating competitive and resilient, small-and-medium scale *Bumiputera* enterprises in the strategic sectors. This effort was strengthened by the establishment of the *Bumiputera* Joint-Venture Scheme following the resolutions passed during the Third BEC in 1992. The BCIC is a consortium of commercial banks to finance the establishment of genuine joint-ventures between the *Bumiputera* and the non-*Bumiputera* entrepreneurs (Malaysia, 1995, pp. 74-75). However, this program failed to give impact on the overall target of *Bumiputera* even though their ownership did increase by a very small percentage in 1995 due to increase in individual and institutional shareholdings. For trust agencies, 1995 saw a decline in their share of ownership as a result of the privatization and the sale of a portion of the holdings of trust agencies to *Bumiputera* individuals and institutions (Malaysia, 1995, p.85).

Up to this point, in terms of economic growth, the country witnessed high economic growth at 8.5% and a low unemployment rate at 2.6% for a decade, and was labelled a 'miracle economy' by the World Bank (World Bank, 1993). However, in 1997/98 Asian countries were hit by financial crisis and Malaysian economy fell into deep recession[31]. This is discussed in a later section but the pattern of ownership during this period is discussed next.

---

[31] The economy contracted by 6.7%; inflation rose to 5.3% and unemployment rate jumped to 3.9% (Thillainathan, 2001).

The End of Miracle Economy

It could be seen from **Table 5.1** that immediately following the economic crisis both *Bumiputera* and non-*Bumiputera*'s equity have been declining. From the year 2000, the non-*Bumiputera* shows steady decline in their ownership while *Bumiputera* remained constant at 18.9% until 2004 before picked up slightly in 2008. Foreign capital, on the other hand, increased relative to local ownership and exceeded the 30% target set by the government. However, given this is the case, a discussion in a later section will show that during this period Malaysia was losing its competitiveness in terms of attracting foreign investment.

Overall, the policies and mechanisms adopted by the Government including the establishment of unit trust agencies for the *Bumiputera* contributed to the progressive increase in their share capital. This increase is associated with the decline in foreign equity. During the NEP period, the non-*Bumiputera*'s equity has also increased. Hence, the government's effort in expanding the economic pie and pursuing the *Bumiputera's* interest has also given economic advantage to the non-*Bumiputera*. As argued earlier, the privatisation policy has also benefited the non-*Bumiputera* as well. It appears that, in terms of the size of the privatized firms, the non-*Bumiputera* was in control of larger firms compared to the *Bumiputera* themselves. For example, in the year 2000, from a total of 180 privatized companies, *Bumiputera* managed and controlled 109 companies with RM8.1 billion or 28% of the total equity of companies privatized, while the non-*Bumiputera* controlled only 28 companies but with equity of RM5.3 billion or 15.6%. The Government dominated through the control of 43 companies with the equity of RM16.5 billion or 56.4% of the total equity of the privatized companies (Malaysia, 2001, para. 4.29). From those privatized companies, 40 companies listed on Bursa Malaysia with *Bumiputera* equity of 21%, non-*Bumiputera* of 27%, foreigners of 10.2%, and the Malaysian government of 41.8% (Malaysia, 2001, para. 4.30). The Malaysian government, hence, continued to have a strong presence in the economy through the control of those listed GLCs.

GLCs and their controlling shareholders, GLICs, constitute a significant part of the economic structure of the country. GLCs account for approximately RM260 billion in market capitalization or approximately 36% and 54% respectively of the market capitalization of Bursa Malaysia and the benchmark Kuala Lumpur Composite Index (Khazanah, 2011). It also accounts for about 5% of the national workforce (PCG, 2005). Because of its significance, the performance of GLCs is critical to the future prosperity of Malaysia. GLCs are generally large in size; therefore, in 2005 for example, although GLCs representing only 8% of total number of listed companies but their market capitalization made up of 36% of Bursa Malaysia (PCG, 2006). The market capitalization and shareholding levels of listed GLCs and their subsidiaries in 2005 are presented in ***Appendix 3***. However, it is evidenced from the statistics that the number of listed GLCs has reduced. In 2007 the number stood at 39 and in 2009 there was only 33 GLCs listed on Bursa Malaysia. The list of the GLCs listed in 2009 is presented in ***Appendix 4***.

Equity Target Failure

Despite continuous government efforts, the *Bumiputera*'s equity has failed to meet the 30% target set by the NEP. In terms of new listings, *Bumiputera* companies represent 16% from the overall domestic Initial Public Offerings (IPOs) in the year 2008 with an average representation of 12% since the last 10 years (10th Malaysian Plan). Two possible reasons are that, firstly, the Malays' inability to hold their shares for longer term; and secondly, the manipulation of the equity requirement during the IPOs as claimed by a former Prime Minister quoted below. As early as in the 1995, the government had already recognized that the amount of the *Bumiputera*'s equity would have been higher had they retained the equity allocated to them by the government (Malaysia, 1995). Recently, it has been reported that, of the RM54 billion in shares allocated, only RM2 billion worth of shares are left in the hands of *Bumiputera* (Utusan Malaysia, 2011). As explained further by the former Prime Minister in my interview with him:

> *"But the problem arises because the Bumiputera has no money. However Bumiputera has no money, what does he do? He can either, borrow the money from the banks, get the shares, sell the shares, take after gains and repay the bank; or he may accept money from other non-Bumiputera, and then he can transact at a front._And yet the shares transfer it to the real owners. So the business still goes on. You see, the thing is the Bumiputera is so weak that even if they are given something they have no capability to carry it. So, because of that the idea failed."*

However, *Bumiputera* is social as much as political. Whether or not *Bumiputera* has achieved the 30% equity ownership target has become a debate recently due to disagreement in the figures obtained by different studies. In 2006, a study was conducted by two independent bodies, the Asian Strategy & Leadership Institute (ASLI) and the Centre for Public Policy Studies (CPPS), which claims that the *Bumiputera* equity has already reached 45% in 2005. The EPU rejected this finding citing flaws in CPPS-ASLI methodology. Later, a newspaper report disclosed another study conducted by *Universiti* Malaya, which shows that the *Bumiputera* owned 33.7% equity in the year 1997 (Ooi, 2006). However, from another perspective, Guan (2000) argues that despite the credible increase in the Malays equity, the bulk of it was held by the State under "trusteeship" approach. In 1985, for example, the trustee component was about 40% of the total shares held in the name of *Bumiputera*. Furthermore, the number of Malay entrepreneurs remained unimpressive. This is consistent with the claim made by a CEO (D2) in one of the interviews that the *Bumiputera* policy actually failed to create Malay entrepreneurs; rather it creates managers to manage GLCs.

The following section discusses the impact of the *Bumiputera* institution on Malays representation on corporate boards of publicly listed companies.

5.5.2 *Bumiputera* and Board Representation

The NEP did not explicitly specify the target for Malays representation on corporate boards. However, it was one of the policy's objectives to have more Malays involvement in top level management as a way to eliminate ethnic identification through profession or economic activities. This includes their involvement at board level. Prior to the NEP, Malays involvement in corporate boards was not significant as the economy was monopolized by foreigners; hence the boards were dominated by foreign directors. However, the Malays representation appeared significant if their composition is assessed relative to their shareholdings. For example, in 1969, Malays only held 1.5% of the share capital of limited companies but they formed 10% of the directors of pioneer companies. The appointments, however, were political and concentrated in the hands of very few influential Malays; 60% of them were former bureaucrats and/or politicians (Lindenberg, 1973, cited by Lim, 1985).

With the establishment of the NEP, the Malays appearance on corporate boards started to become more evidenced although foreign directors still dominated the Malaysian boards in the early years of the policy (**Table 5.2).** However, these directors were not involved in the management of the business as they were merely "functional directors" - a designation previously used for non-executive and non-owner directors. The services of functional directors are sought after because they perform extra-economic functions for the corporations and sometimes, they were put there to symbolically represent the *Bumiputera* (Lim, 1981). Their presence was politically significant to secure contracts, tenders, licences, or concessions from the state (Ibid). Lim (1985) also argues that, for the economy where government is a major client and with the increase in government regulation of the private sector, prominent Malays, especially politicians or former civil servants, were needed on their boards. The statistics in 1974 (from Lim, 1981, pp. 52-61), for example, shows that 50% of the Malay directors were politician-civil servant; while for the Chinese for the same category was about 7%. In terms of social status, more than 50% of the Malay directors were with title and for the Chinese was about 15%. However, in terms of occupation, more than 70% of the Chinese directors were businessman but for the Malays was only 35%.

By having influential directors on their boards, companies were able to exert influence over the government concerning their economic policies (Lim, 1981); one such example is the amendment of the ICA 1974. However, Mahathir Mohamad (1970) argues that the Malays representations on corporate boards are important since that serves as an opportunity for them to become familiar with business affairs. Perhaps more importantly, "their mere presence on the boards prevent bias against the Malays in general, and employing Malays in particular, from being as absolute as it was in the past" (Mohamad, 1970: p. 43).

Table 5.2: Board Representations by Ethnic (1974 and 2010)

Race	1974		2010	
	No.	**%**	**No.**	**%**
Malays	68	11.7	394	46.5
Chinese	110	19.0	353	41.7
Indian and others	11	1.9	35	4.1
Foreigners	390	67.4	65	7.7
Total	**579**	**100.0**	**847**	**100.0**

Source: 1974 figures from Lim (1981); 2010 figures are extracted from companies annual report available from the Bursa Malaysia website (www.bursamalaysia.com.my)

The privatization policy launched in mid 1980s had a quite significant impact on the Malays involvement in the economy since then as some of the privatized companies are managed and controlled by the *Bumiputera* people, including the emergence of GLCs as explained in the previous section. Majority of board members in the GLCS are Malays. This contributes to the increase in the percentage of Malay directors on listed companies. **Table 5.2** shows the comparison of directorship composition in top 100 companies on Bursa Malaysia in 1974 and 2010[32]. The figures show a significant increase in the percentage of Malay directors on corporate board between the two periods. Currently their representation in the FTSE Bursa Malaysia Index is even higher than the Chinese. These figures, however, might not give fair indication of the overall situation of corporate Malaysia because, quite a significant percentage of the FTSE Bursa Malaysia Index is made up of GLCs; and as GLCs are dominated by Malays, this could explain the high percentage of Malays board representation. ***Appendix 5*** presents the details for the directorships of the companies. Detail analysis shows that eighteen companies of the Index are GLCs; with 74% of their directors are Malays. Taking out these GLCs, the analysis shows that Malays made up of about 40% of board memberships of the companies listed in the Index while Chinese hold about 49% of directorships. Furthermore, for smaller listed companies (owned by Chinese) in certain industries might not have Malay directors on their boards.

[32] Top 100 companies listed on the FTSE Bursa Malaysia KLCI 2009.

Overall, since the establishment of the *Bumiputera* policy corporate board representations have changed significantly. Based on the FTSE Bursa Malaysia Index 2009, it could be seen that corporate boards are dominated by Malaysian. It is also common for the public listed companies now to have at least one Malay director representing their boards. Of the 100 companies on the Index, only five companies do not have any Malay directors. The political stability and economic growth following the launch of the NEP has given economic advantages to both the *Bumiputera* and the non-*Bumiputera* peoples.

However, the economic development in Malaysia came into halt in 1997/98 when the Asian region was hit by the economic and financial crisis. The following section discusses in brief how the crisis affected *Bumiputera* and corporate governance in general. The 1997/98 crisis marks a new phase in the development of both *Bumiputera* institution and corporate governance landscape in Malaysia. The discussions would show that, as a result of the crisis and international scrutinization, corporate governance then received significant attention; ahead of the *Bumiputera* agenda, at least immediately following the crisis.

5.6 The 1997/98 Asian Crisis: Change or Persistence?

In 1997/98 Asian region was hit by financial and economic crisis. Generally, the crisis has brought to the fore corporate governance weaknesses in the Asian countries. This is also true in the case of Malaysia although during that time, Malaysia had better regulations concerning corporate governance compared to other Asian countries (Capulong, Edwards, Webb, & Zhuang, 2000). So far, the discussion has mainly focused on *Bumiputera* institution and how efforts by the government to pursue the *Bumiputera* interest have impacted on the corporate governance, in particular, the ownership and board of directors' representation. However, the Asian crisis has caused an important turn in the study of corporate governance in Malaysia as it marks the point where corporate governance is no longer studied as merely 'an impact' of *Bumiputera*, rather, corporate governance has become the subject of government interest itself. While before, in the analysis, it is shown that ownership and board representation, which are the most important governance mechanisms, have been shaped by the *Bumiputera* policy, the discussion post Asian crisis would show how efforts are targeted towards board of directors themselves. Rules have been made concerning the working of boards including the appointment process. The Asian crisis has had important implications on both the corporate governance and the *Bumiputera* institutions. This is discussed further in Chapter 7.

5.7 Discussions

This study has benefited from the framework of historical institutionalism and the theory of power as advanced by Lukes (1974, 2005) in showing how history shapes corporate governance in Malaysia. The struggles of the Malays, economically and politically, during the British colonial period serve as overarching political and historical contexts to what follows after the country gained its independence. While the British policies had sow the seeds of conflicts between the ethnics, the granting of political power to the Malays had provided some advantage for them against the economically dominant immigrants, especially the Chinese. In fact, it was that institutional power which enabled the Malays to apply pressures against the British during the colonial period in their effort to resist Malayan Union. This resistance from the Malays is what Scott (2001) termed as ‘power from below’. Upon independence, the inclusion of clauses relating to the *Bumiputeras*’ special position in the Constitution becomes an institution, which further strengthens that political power. Then, when that political power and institution were seen as being threatened, a clash occurred between the two ethnics.

The May 13 ethnic clash is an evidence of the social, political, and economic conflicts that rooted deep down in the society. The counteraction from the young generation of UMNO nationalists, who were the legitimate members of the polity, represents the ‘power from below’. Again, similar to the earlier case of counteraction towards the British, the ‘power from below’ was strengthened by the Constitution which protects *Bumiputera* institution. The setting up of NOC and the declaration of the state of emergency were the mechanisms that the state, in particular, the political institution of UMNO, employed to mediate the conflicts. The mediation of conflict then led to a policy outcome, the NEP.

The NEP development illustrates the *Bumiputera* institution mediation of the clash of ideas, interests and power. The EPU and the DNU represented the different groups, interests, and ideas; and proposing their own policy 'routes'. Interests are shaped by institution. In this case the interest being pursued by the DNU was to reduce the economic gaps between ethnics via pursuing the *Bumiputera*'s interest. Through their power, UMNO was pushing forward the idea that the *Bumiputera*'s interest is in fact the nation's interest. The way power works during the establishment of the NEP is consistent with Dahl's notion of power where power is to affect decision making (Dahl, 1957; Lukes, 1974, 2005). *Bumiputera* institution and the relative power of these actors structure political situations and how the ideas were to be debated; hence, affecting the political outcome, i.e. the NEP (Thelen & Steinmo, 1992).

In pursuing the *Bumiputera*'s interest, ideas became a "frame" which concepts and theories concerning the *Bumiputera* institution were explicitly brought up during the policy debate; hence, helped UMNO to legitimize policy solutions to the public (Campbell, 1998). The influence of ideas depends on the circumstances of either economic or political, and are conditions by the institutional framework within which policy was made and power over policy acquired (Hall, 1992). When the NEP was being developed, the policy ideas pursued by the Chinese-controlled EPU was more established and supported by a fraction of economically and politically powerful groups. However, while the power of ideas depends largely on how much support they receive from relevant parties (Campbell, 1998), the case of the *Bumiputera* policy shows otherwise. The young UMNO political power that emerged with their new ideas was more dominant as their ideas and power are consistent with, and protected by, the Constitution. Hence, ideas are not the "causal primacy" or "causal force" in the initial NEP development; rather, it was the political power derived by young UMNO nationalists subsequent to the crisis that became the causal force for the policy. Therefore, *Bumiputera* as an idea was not persuasive in itself and was not independent of the Malays political power (Hall, 1997). Nevertheless, once the power was gained, the ideas about *Bumiputera*, which consists of alternative economic theory, norms, and values, had influenced the policy making processes. Various mechanisms have been put in place which, from corporate governance perspective, has influenced the *Bumiputera*'s share of equity ownership and their representation on the corporate board of directors.

From theoretical perspective, there is a causal connection between the *Bumiputera* institution and equity ownership, looking from the 'logic of sequencing' (Boyer & Hollingsworth, 1997; Thelen, 2002). That means, the sequence of events is important in showing the causal connection. The ethnic clash, the launched of the policy and the emergence of the *Bumiputera* institution affect the "credible commitments" on the part of the government to secure the *Bumiputera*'s economic rights in the form of ownership of equity (Weingast, 1995). Then the *Bumiputera*'s economic development was achieved right after the policy was put in place. This suggests that, although economic conditions have played significant role in influencing the increase of equity ownership of the *Bumiputera* as well as the non-*Bumiputera*, the existent of the *Bumiputera* institution contributes in driving the equity to that level. The level of equity ownership cannot be expected to be the same in the absence of mechanisms put forward by *Bumiputera*.

However, *Bumiputera* is not the sole "cause" of the outcomes; rather it only acts as central explanatory variable (Lieberman, 2001; Thelen & Steinmo, 1992). The outcomes are the joint effect of changing non-institutional variables or "background variables" and "sticky" institutional factors that tend to change more slowly (Lieberman, 2001). In this case, the background variables influencing equity ownership and board representations could be the economic conditions of the country as well as the global economic situation. *Bumiputera* mediates the economic performance of the country to give it distinctive outcomes of the spread of equity ownership as well as board representation. The causal connection between *Bumiputera* and corporate governance also occurs due to the context in which this institution operates (Falleti & Lynch, 2009); this shows the importance of history.

However, the study also found that the equity ownership would have been higher should there be no abuse on the *Bumiputera* policy. This happens due to lack of proper mechanisms to deal with the "unintended consequences" of the institution. As Beckert (2010) argues that "ideological innovations might also have unintended side effects that prevent the control of their consequences even by powerful market actors". Given this is the case, some still argue that the *Bumiputera* institution is important. For example, Tun Daim Zainuddin, a former Finance Minister of Malaysia, sees that due to the disparity in income between Malays and non-Malays:

> *"Ethnic economic aspiration becomes an important factor in economic development policies. […] Malays and Bumiputera are politically dominant; a political party not sensitive of this group cannot hope to rule the country" (Razak, 2011).*

This study illustrates how power was organized in *Bumiputera* terms through historical contingencies, which was orchestrated through various mechanisms by such power in later years. Here, both power and policy outcomes have worked in strengthening the *Bumiputera* institution itself as the policy established was in favour of the *Bumiputera* people and to the disadvantage of the non-*Bumiputera*. This shows the 'mobilization of bias' by the state. The emergence of the *Bumiputera* policy as spelt out in the NEP illustrates a turning point in the history of Malaysia. *Bumiputera* also, hence, is socially constructed and not emerged automatically because it is needed (Peters, 1999, p. 54). *Bumiputera* institution then constrains the choice of economic actors and affects their economic strategies (Thelen, 2002). It also provides legitimacy for the political position of UMNO (Case, 2010). However, as argued by Hall (1997, p. 178), "if a pattern of policy is to be sustained, it must advance the interests of broad segments of society"; and "policies tend to benefit some groups and disadvantage others, thereby tapping into the respects in which politics really is a struggle for control over scarce resources". It has also been argued that although *Bumiputera* is seen as a policy to pursue the *Bumiputera*'s interest, but the general aim was for the whole nation. When the policy was introduced, the Chinese were against it; but they subsequently accepted it as it does not work against their interest as much as they were afraid of (Heng, 1997).

5.8 Conclusion

This study aims to answer one empirical and one theoretical question. The empirical question is: what have been the changes in the *Bumiputera* equity ownership and board representations since the establishment of the NEP? And the theoretical question is: how historical institutionalism could be utilized to explain the role of the *Bumiputera* institution in shaping the corporate governance? The analysis shows how various mechanisms have been put in place to support the policy; and how these various mechanisms affects ownership and board representation, while shaping the country's corporate governance practices. The study finds that the policies adopted contributed to the progressive increase in the Malays equity ownership although it failed to meet the stated 30% target. The study also shows the significance of Malays representation on board of directors of public listed companies since the establishment of the policy. However, whether or not they contribute to boards, still needs to be investigated.

From the historical institutionalism perspective, the analysis shows the emergence of *Bumiputera* as a result of the conflicts and struggles between ethnics, Malays and non-Malays, which then resulted to the establishment of an affirmative policy aims to pursue the interest of the marginalized Malays. The NEP was created with the aims to eliminate poverty and reduce economic gaps between the ethnics, and hence, maintain social cohesion among the society. In an effort to reduce economic gaps and eliminate the identification of ethnic based on profession, the policy was written in a particular way to favour one ethnic group, which, at the time of the policy creation, was politically dominant but economically weak.

While pursuing its objectives, the policy then produced some unintended consequences which raised questions as to the relevant of it. Various external and internal pressures have forced the government to search for fresh development policy, and hence, maintained their legitimacy. Resistance came from a fraction of Malay society to defend the *Bumiputera* institution. The study argues that the change in institution is not primarily caused by the external forces; rather the relative strength of the actors' power.

Chapter 6 – Impact of Social Mechanisms on Board Appointments

6.1 Introduction

The aim of this thesis is to understand how corporate governance practices are influenced by the larger institutional environment in which they are embedded. An institutional analysis (explained in Chapter 4) is carried out on the dominant institution of *Bumiputera* in Malaysia to gain such understanding. Chapter 5 presents the first stage of the analysis. Utilising historical institutionalism, the analysis shows how the *Bumiputera* institution emerged and how the commitment by the state towards the institution has consequently shaped the corporate ownership structure and board representation in public listed companies in the country. This chapter aims to take this analysis further by investigating how the institutionalization of *Bumiputera* has influenced the behaviour of corporate governance actors. For this second stage of analysis, sociological institutionalism is utilized focusing on the board appointment process. This chapter also recognizes the role of other social mechanisms of power, social networks, and cognition in shaping such practices. Chapter 3 presents the theoretical framework used to analyse the data, which is extended from Beckert (2010).

The data for this study comes mainly from the interviews conducted with corporate governance regulators, advisory and professional organizations as well as corporate directors, auditors and top management personnel. The summary of interviewees' profiles is presented in ***Appendix 1*** while **Table 4.2a-d** in Chapter 4 provides some brief information on the interviews and interviewees. Combining the analysis of economic interests in the corporate governance field[33] with the analysis of social mechanisms, this study explains how board appointments decisions are affected by the way actors interpret the environment that they confront. This chapter is written based on the interviewees' opinions, views, experiences, and perceptions about the related issues. This study places emphasis upon "the importance of understanding

[33] "Corporate governance field" refers to the "arena" or "local social order" where actors would confront one another (Fligstein, 2001).

society from the point of view of the actors who actually engaged in the performance of social activities” (Burrell and Morgan, 1979). Therefore, this study is rather interpretive in nature, where the actors’ opinions, views, and perceptions are interpreted as the consequence of their direct involvement in the environment or context.

The study shows that the social mechanisms inter-relatedly influence the process of directors’ appointments in Malaysian firms. The development of the *Bumiputera* institution has helped the Malays to pursue their economic interests and make their appearance on the corporate boards significant. The further development of the *Bumiputera* institution is made possible through the political power gained by the Malays, while the non-Malays utilize their economic power to form ties with the Malays in pursuance of economic domination. The *Bumiputera* policy becomes acceptable to the nation because it is consistent with the people’s cognitive framing, which sees that reducing the economic gaps between ethnic groups is necessary for social stability, and hence, economic progress. This cognitive framing is shaped by the state’s power, which is able to influence how people interpret their own interests.

Therefore, while on the one hand, corporate governance practices are being enhanced by continuous regulative efforts aimed at efficiency; on the other hand, the practices are also greatly influenced by the existence of local social mechanisms. This analysis adds to the existing literature of corporate governance by providing evidence that whoever sits on the board matters more in this context; although it has been argued that board processes, such as how they are monitored, should matter more (Sharpe, 2011). Furthermore, the study also found that corporate governance itself has become a mechanism through which actors pursue their objectives, including larger social objectives. The analysis in this chapter shows how social mechanisms reinforce each other and act as a symbolic instrument to reproduce the historical institution of corporate governance. The institution of corporate governance, hence, is not driven by functional needs of capital providers, but is shaped by powerful actors. Chapter 7 takes the analysis to another level to show whether the institutions of *Bumiputera* and corporate governance have remained persistent or have been subject to change.

This chapter is structured as follows; the following section presents the findings of the study that shows how social mechanisms influence the board appointment process. The section starts with a discussion on the role of power, followed by the role of the *Bumiputera* institution, social networks, and finally, cognitive framework. This is then followed by a discussion on the impact of board appointments on other corporate governance practices. The inter-relatedness of the social mechanisms and how they influence board appointments is discussed following that. This chapter ends with a conclusion section which also details the implications of the study.

6.2 The Influence of Social Mechanisms

The Malaysian Code on Corporate Governance 2012 (MCCG 2012) spells out the guidelines in relation to the appointment of directors of companies listed on Bursa Malaysia. Among the recommendations is the need for companies to establish a Nominating Committee composed exclusively of non-executive directors (NEDs), a majority of whom are independent, with the responsibilities of, among others, overseeing the selection and assessment of directors. In assessing the suitability of candidates, consideration should be given to their respective competencies, commitment, contributions, and performance. Prior to the establishment of this revised MCCG 2012, Bursa Malaysia had launched a corporate governance guide to assist boards in applying the principles and best practices of corporate governance as contained in the previous Code. One of the guides on the appointment of directors is that the activities of nominating board members should be carried out without being beholden to executive directors or major/controlling shareholders (Bursa Malaysia, 2009). Given these regulations and guidance, the concern of this study is on the actual practices of how boards are appointed. The role of power, the *Bumiputera* institution, social networks and cognition are discussed here.

6.2.1 The Influence of Power

Corporate governance, being the authority structure of a firm, is directly related to the notion of power. It affects the creation and distribution of wealth; and at the same time reflects the policy choice and is shaped by a mixture of rules, laws, regulations and enforcement (Gourevitch & Shinn, 2005). From an institutional approach, corporate governance is seen as "reflecting underlying cultural or moral orders that define how social relations should be constructed and whose interests have priority" (Fiss, 2008). While "moral order" defines the manner in which social relations should be constructed, the social relations are then patterned in the desired manner so that actors can be counted on to behave in expected ways (Wuthnow, 1987, p. 145). Fiss (2008) further argues that these moral orders form the foundation of the governance system, and are expressed in the ways in which power and influence work. The discussion on power in this section, however, focuses more on the power of the state in shaping corporate governance practices. This is because, as shown in Chapter 5, *Bumiputera* owes its development to the state's power. The following sub-sections discuss how the state's power influences corporate governance regulations, as well as enabling their presence in the economy through GLCs, which signals their commitment towards *Bumiputera*.

6.2.1.1 Power in Shaping Regulations

The state plays a significant role in influencing corporate governance regulations in Malaysia; not only that, it initiates reform efforts, as well as continuing to influence regulations through regulatory agencies. The significant 'shift' in corporate governance development in Malaysia with respect to regulations, which occurred following the Asian crisis 1997/98, was initiated by the state as claimed by one of the key players in the reform (R8). According to R8, it was the Prime Minister himself who called for reforms as an immediate response to the crisis. Prior to that, even though efforts to improve corporate governance had been done on a periodical and on-going basis, they were not involved in the considerably concerted efforts as seen post Asian crisis. A committee was set up, consisting of both public and private sector participants, and a series of initiatives were put forward to build up corporate governance.

The government's involvement in the corporate governance environment in Malaysia could also be seen from its involvement with the enforcement bodies in Malaysia, i.e. the Securities Commission (SC) and the Companies Commission of Malaysia (CCM). This, however, has raised criticism from the Institute of International Finance (IIF), the world's global association of financial institutions, as it argues that the public perception on enforcement agencies that they are not operationally independent of Ministry of Finance actually weakens the regulators themselves (The Institute of International Finance, 2006). However, one of the interviewees from the regulatory agencies, R1 argues that such independence is not needed as they are part of the government. He maintains that:

> *"[The organization] is part and parcel of the government agencies; we are in the enforcement business, we are indeed in the policy-making business. So what form of independence and non-independence are you talking about? So, there's none".*

The need for government involvement in corporate governance is also stated by P2, an ex-politician. He argues that such interference is needed not only because the government has direct interest in the businesses, but also states the need for their involvement in order to stop bad practices. However, he also admits that the lack of knowledge on the part of the government puts them in a weaker position for such role. Part of his statement with regard to this issue is as follows:

> *"See, so the government unfortunately is not really made half of people who have knowledge about corporation, governance, business and all that. […] So the government must always beyond his tools and I think government supervision sometimes is very tedious but it is still very necessary, because government is a third party in this case. It has an interest in seeing that business do well, because it sense to gain from taxes and all that. But on the other hand, with not knowing how businesses are conducted it becomes a very weak one for supervision. Even in the countries of the west like America for example, we have seen how the idea crops up, there should be less government. The government should not supervise, that the market should regulate itself. But that has obviously failed in a very big way. So now the new thinking is government must come back and play a role in regulation, and also stopping bad practices such as monopoly and this, nowadays the mergers and acquisitions, has become a business in itself."*

The role of the state in the corporate sector in Malaysia is beyond regulations; it is also directly involved in economic operations. The following sub-section discusses how the state's power influences corporate governance institutions in Malaysia through the establishment of GLCs (and GLICs).

6.2.1.2 Power through the Establishment of GLCs

Chapter 5 shows how the *Bumiputera* institution has led to the emergence of GLCs; i.e. companies controlled by the state. This section shows how the state's involvement in the economy through GLCs has also shaped corporate governance practices. Their practices in the GLCs itself are different from those of non-GLCs, in particular with regard to board appointment processes. A director of a GLC (D3) explains this as follows:

> *"Although the corporate governance guidelines apply to everybody, the processes might work differently in GLCs and non-GLCs. It might be. […] But in GLCs, one issue is how do you appoint members of the board, right?"*

Their board appointment process is different because GLCs means that the Malaysian Government has a direct controlling stake; hence, the ability to make major decisions, not only in contract awards, strategy, restructuring and financing, acquisitions and divestments etc., (either directly or through GLICs), but also in the appointment of board members and senior management. Also, since GLCs (and GLICs) serve as mechanisms to pursue *Bumiputera*'s interest, hence, their boards are dominated by Malays, including the position of CEOs. The board of PNB, for example, consists of all Malays as the purpose of its establishment was to promote shared ownership in the corporate sector among the *Bumiputera*, and develop opportunities for suitable *Bumiputera* professionals to participate in the creation and management of wealth. The board of "Yayasan Pelaburan *Bumiputera*" or YPB (*Bumiputera* Investment Foundation), the holding company of PNB, is headed by high profile government leaders, i.e. the PM as the Chairman and the Deputy PM as the Deputy Chairman. D3 (non-Malay) questions this 'policy' of not appointing non-Malays for the position of CEOs in the GLCs. However, the following is stated in the GLC Transformation Program (GLCT)[34] concerning their board appointment policy:

> *"In expanding the pool of potential Directors, GLC Boards should look to those individuals who understand, and are sensitive to, the national development objectives of the GLCT Program, the National Mission and Vision 2020."* Green Book[35] (p.11).

Having people who understand and are sensitive to the national development objectives, including the pursuance of *Bumiputera*'s interest, is necessary in GLCs. This is because GLCs also act as mechanisms for the government to pursue their political interests, economic development, as well as their aspirations. An example of this is given by D2, who himself is a CEO in a GLC. He explained that, every

[34] GLCT was launched in 2004 to improvise the running of GLCs. This will be discussed later in the chapter.
[35] The initiatives for GLC transformation are identified and organised into 'Execution Books'. Green Book is one of the Execution Books; contains the initiatives to enhance board effectiveness.

quarter, all CEOs of the GLCs would attend meetings with the PM to update and advise him on relevant matters. This includes undertaking actions to fulfil the government's aspirations. Also, unlike the non-GLCs that mainly pursue maximization of economic interest, GLCs have other social obligations which require boards to balance and manage the sometimes opposing interests of various stakeholders. Therefore, in GLCs, decisions are sometimes made which are not the best economically, but serve other purposes or interests, including fulfilling social obligations towards *Bumiputera* as well as for the public in general. This is stated in the Green Book of the GLCs as follows (p.22):

> *"GLCs often have to carry social obligations such as providing universal access to basic services or develop a local and Bumiputera supplier base, even though it is uneconomical, or less than economical, for the GLC to do so. The Board should be engaged on the economic impact of these social obligations – including the benefits that the GLC derives (such as monopoly rights) and the actual costs associated with delivering the service."*

An example of conflicting social obligation is illustrated by D3, a director in GLC, who relates a decision taken by his company concerning the number of employees which exceeds the actual required number. He explains that:

> *"Even now there are issues like, you know, [the company] has got twenty over thousands [employees]. If you ask, as efficiently, how many people do you need? Let's see. We only need 20,000; so we got 5000 extra. If you are an American company, you will not be considering employing 5000 extra, right? Would you do it [terminate the employment of the 5,000 employees] here? You wouldn't do it because it's political. You can't do it."*

The political significance of GLCs also means that the board appointment could be made based on political reasons. An example for such a case could be seen in the appointment of an UMNO leader as the Chairman of Federal Land Development Authority or FELDA[36] in December 2010. Although appointing an ex-politician as the chairperson on GLCs is a normal practice, however, in this particular appointment it became a concern to some market players because the person, a former state's "*Menteri Besar*" (Chief Minister), has a track record of graft. He was found guilty by the UMNO Disciplinary Board in 2005 for money politics during the party's elections and was suspended from the party for three years. A Malaysian economic advisor of the National Economic Advisory Council (NEAC), who was

[36] FELDA is a GLC; it is in the agricultural business and the majority of the FELDA settlers are Malays.

involved in the drafting of the New Economic Model (NEM), criticized the appointment and called for a ban on politicians holding directorships or chairmanships in the corporate sector. He believes that corruption can be curbed if politicians are not allowed to hold senior positions in companies (Boo, 2011). His view was shared by the CEO of Maybank Investment Bank, Tengku Datuk Zafrul Tengku Abdul Aziz, who notes the lack of a talent pool existing in many appointments of GLCs' CEOs. Regarding FELDA, he says that:

> *"There have been many GLCs that have ex-politicians appointed as chairpersons, but FELDA is a rare case, where the market is concerned with such an appointment. It sends the wrong signals,"*

On the other hand, the appointment has received support from the UMNO-related parties. *Utusan Malaysia*, the UMNO-owned newspaper, for example, defended political appointments in GLCs saying this would ensure that policies to help *Bumiputera* are not abandoned. After all, that is the principle and basis of why GLCs were established (Teoh, 2011). The PM himself also defended the decision by saying that the appointment of heads of GLCs is based on qualifications, capabilities, and experience; hence the government would not hesitate to select anyone, including former civil servants and ex-politicians (Simon & Alagesh, 2011). However, V2, who is also a government servant, is of the opinion that the appointment is purely political; she believes that it is a move by the National Coalition (BN) to counter the opposition party's campaign among rural Malays in the FELDA settlements and a strategy to win the next general election. She, however, argues in favour of such appointment and said that:

> *"It is no use to put a professional director in that position if that professional director is not known to the settlers. The settlers need to see somebody familiar, someone who has been visiting them before. Besides, the Chairman will not be involved in running the organization; it should be done by his team."*

As a political figure, the former Chief Minister is a familiar face among the FELDA settlers, the majority of whom are Malays. Hence, this is seen as a strategy to win settlers' support for the government, which could not be obtained by putting in somebody from the corporate sector who is not known to the people. This shows how power is used to pursue political interests through board appointments, even at the expense of better governance.

As mentioned earlier, the state's involvement in the economy through GLCs affects the behaviour of other actors. It also influences the accounting profession and leads to the practice of social networking. According to V1, an audit manager, the commitment towards *Bumiputera* influences the accounting profession in the country, where there is a requirement for accounting firms to have a certain number of Malay managers and partners if they were to perform audits of GLCs. Considering the significance of GLCs as blue-chip companies in Bursa Malaysia, the Big 4 accounting firms then implicitly would have certain quotas for Malay partners and managers in order for them to be appointed by the GLCs to perform auditing services.

The strength of the state's economic power through the GLCs also induces the Chinese to form ties with the Malays. A more recent evidence on this practice or strategy by the Chinese is observed in the speech made by one of the Chinese tycoons in Malaysia, Tan Sri Dato' Sri Liew Kee Sin, during the Chinese Economic Congress (CEC) for the NEM in 2010. He urged Chinese businesses to form networks with the Malays, as he argued that the increased presence of GLCs in the market means that Chinese businesses would have to tap into Malay expertise and funds if they wished to increase revenues in the future. He said:

> *"Today, the government has money through GLCs […]. They can buy buildings off you; they can buy your supermarkets, your hypermarkets, your shopping centres, from you. That will give you a big source of income. […] It's up to us. Do we want to tap into their expertise, financial abilities? Do you want to tap into their so-called connections?"* (Chieh, 2010).

The above discussion on the state's power that leads to networking is also closely linked to the existence of the *Bumiputera* institution. This is because the *Bumiputera* institution plays a significant role in strengthening the state's power, which itself was the mechanism that led to the emergence and development of the *Bumiputera* institution in the first place. This inter-relationship then affects corporate governance practices. Besides these, the state also has the capacity or power to secure corporate governance actors' compliance in pursuing *Bumiputera*'s interests by controlling their thoughts and desires. This is discussed further in the later section on 'cognition'.

The following section discusses how the *Bumiputera* institution affects corporate governance practices in Malaysia.

6.2.2 The Influence of *Bumiputera* Institution

As an institution, *Bumiputera* consists of “rules and shared meanings that define social relationships, help define who occupies what position in those relationships, and guides interaction by giving actors cognitive frames or sets of meanings to interpret the behaviour of others” (Fligstein, 2001, p. 108). The cognitive scripts and the taken-for-granted practices that the *Bumiputera* institution provides for the corporate governance actors influence their behaviour by enabling them to interpret and make sense of the world around them (DiMaggio & Powell, 1991; Meyer & Rowan, 1977). The manner in which those interpretations would affect the practices of board appointments will be discussed as below. As mentioned earlier, the study focuses on the perceptions and views of corporate governance actors about corporate governance. Their views help in interpreting how actors make sense of their environment.

Bumiputera policy means that in some situations appointment of Malay directors is legally required in, for example; those companies which apply for *Bumiputera* status[37] and companies which deal with the oil and gas industry, including getting a licence from PETRONAS. In both situations, companies need to maintain a *Bumiputera* position of above 51% at all times in share ownership, board of directors’ memberships, and other key positions in their companies. Other than this, there is no specific requirement to enforce *Bumiputera* on corporate boards of directors. However, the insights from interviewees concerning whether or not the *Bumiputera* institution influences board appointment practices, despite no such requirement existing, are mixed. D1 and D4, both Malays, argue that board appointment decisions are not influenced by ethnicity or the existence of such an institution; it is purely based on merit. D4 further explains that the appointment of top management personnel also rests entirely on merit and not on ethnicity. However, a statement made by R2, non-Malays, suggests that *Bumiputera* does have an impact on board appointment decisions when he observed that:

---

[37] *Bumiputera* status is needed to obtain certain government projects or to be involved in the industries reserved for *Bumiputera*.

> *"You go through the published reports; almost every company has got usually invariably Bumi(putera) chairman."*

This norm is not limited to the public listed companies; many professional organizations also mostly have Malays as their chairman or president. As seen in Chapter 5, there are only four companies among the top 100 companies on the KLSE Index which do not have any Malay directors. D6, non-Malays, argues that ethnicity is particularly important for MNCs; not only that it paints a 'picture' of Malaysia, but also for working relationship purposes. Similarly, for companies other than MNCs, Malay directors are needed for working relationship purposes as they understand how to deal with government agencies better than the non-Malays. He argues that, for this reason, appointments require someone with a high profile or who is respected by others.

These practices reflect the political dominance of the Malays in the country. As the institution becomes institutionalized, this practice becomes a taken-for-granted practice and provides legitimacy for such organizations. Appointment for legitimacy reasons could lead to symbolic appointments; i.e. appointment of Malay directors in non-Malay companies purely for the purpose of showing support for the government's aspiration. For D1, having a different mix of people on board could portray a positive image to the public so that they could have confidence in the company. Symbolic appointments affect corporate governance practices negatively if the Malays do not contribute much to the company as argued by R3 (non-Malays) as follows:

> *"To some extent there probably will be (Bumiputera policy affecting corporate governance). Because, you see, when you have this kind of affirmative policy, 30% you know, what will happen if you will want to bring in Bumiputera who may not be; not even able to do the work, just to be appointed? So they are just lending the name, but not anything else. So don't you think that company will not be suffering? The rest of them will have to pay for his name, not ability. So of course there is a very, very, very clear-cut subsidising."*

Symbolic appointments could be worse if the appointment is made abusively, i.e. for the non-*Bumiputera* to take advantage of the priority reserved for *Bumiputera*. *Bumiputera* affirmative policy gives advantages to *Bumiputera* in the form of priority over certain economic benefits, such as projects awarded by the government and exclusive rights over certain industries. Because of the advantages that the Malays enjoy, it is not unusual for non-Malays to appoint Malays on their board specifically for their names and *Bumiputera* status. This abusive conduct is explained by D5 (Malays) as below:

> *"If you are a non-Bumi company, you want to compete with Bumi, you can hire Bumi director, you window-dressed it, you set up Bumi subsidiary, correct or not? It's not so difficult."*

D5's frustration is further evidenced from his statement which suggests that being Malay would not guarantee any priority; what is important is having the "right" people on the board. Social network is further discussed in the next section, but below is his view regarding some impacts of *Bumiputera*:

> *"I never felt that we were protected from the day we start. So it's always been competing with local companies and foreign companies who presented with local partners. So there was never at any point in the last 12 years I felt that we were protected. You know, we always competing with either bigger local companies or local companies presenting bigger foreign firms quite openly, you know. So, I'm not sure whether there was any protection at all. Foreign companies can always come and choose local partners. […] Because that Bumiputera policy can easily be window-dressed, isn't it? You put few Bumiputera directors, you ask some people to hold shares; it can be Bumiputera company, right? So, you know, that's my view. […] The Bumiputera policy actually was quite easily abused, you understand? So, I was competing in a free market."*

This claim about the abuse of *Bumiputera* policy through board appointment, particularly by Chinese-dominated companies, is also agreed by a Chinese director, D6. He cites the involvement of politics in such case:

> *"Actually what is said by this Malay interviewee is quite true in the Malaysian context. To correct this picture, the Malay directors must be appointed on their own merits in terms of their standards of technical, organisational and ethical performance. […] Often, political leadership is involved in such appointment of Malay directors in Chinese controlled companies."*

The requirement contained in the Code of Corporate Governance for companies to have independent directors gives the convenience for companies to make symbolic appointments, since independent directors (IDs) and non-executive directors (NEDs) are not involved in the day-to-day running of the business. And having Malay directors on Chinese boards as the chairman, namely of IDs and NEDs, does not affect the "power" of Chinese executives as "power within large corporations is not, in practice, monopolized by main board directors. Executives below the uppermost level, by virtue of controlling information flows and local contexts, may exercise considerable sway over strategic decision making and resource allocation" (Maclean, Harvey, & Chia, 2010, p. 335). Hence, while giving the impression of supporting government policy, they also maintain their power in the organizations. As argued by a retired Minister (P2), *Bumiputera* presence on a board would not affect the board's decision making:

> *"If they have found that the presence of Bumiputera is a hindrance, I don't think it is a hindrance. He attends the board meeting, he listens, that's about all; what they want to do they would still do whether there is a Bumiputera or not."*

Another indication that the appointment of Malays on Chinese boards is just symbolic or for legitimacy could also be observed from the appointment of top management. Top positions in Chinese companies are commonly dominated by Chinese and not many positions are filled by Malays. Despite refusing to acknowledge the issue of *Bumiputera*/non-*Bumiputera*, D4 (Malays) observed this scenario and explains that:

> *"All (positions in managerial level are filled by) Chinese. […] Employees of course they have Bumiputera. I think supervisory position also they have. But top positions, no. For example, you look at MNCs; also not many top management, financial controllers. If in Penang, MNCs that I've seen, a lot of Bumiputera [are] inside Human Resource Department. […] Human Resource managers [are] Bumiputera. But Financial Controllers, Managing Directors and all, usually [they are] non-Bumi."*

Commenting on this issue, D6 (Chinese) argues that:

> *"NEP is important but it must not be carried out at the expense of deserving minorities who are not Bumiputera. If minorities need to be helped for their economic progress, then NEP should also be beneficial to them."*

At the same time, D6 also argues that there are situations where Malay directors make genuine contribution to Chinese boards. However, problems arise when social network prevents more Malays from getting opportunities. He argues:

> *"You can see real contribution of Malay Directors on Chinese-dominated boards in Genting Group, Berjaya Group, YTL Group, KL-Kepong Group, Lion Group or IOI Group. The main problem is that Malay Directors in such Group tends to be long-serving Board members, some of whom are there for*

> *more than nine years. Why do they stay so long and do not want to leave so that other Malays have the opportunity?"*

The above discussions illustrate how the Chinese pursue their economic interests while operating under the *Bumiputera* institution, and how *Bumiputera* pursue their economic interests under Chinese economic domination. The discussion also shows how actors are able to shape the environment within which they operate; hence shaping corporate governance. The evidence shows that while trying to observe rules and guidelines, corporate governance actors also respond to their environment by making decisions, which they see as necessary in order to continue pursuing their economic interest or maintaining their economic domination. Having close ties with influential Malays seems to be a viable alternative that organizations choose especially for big organizations. For other companies which have no necessary requirements for political connections, they would still appoint Malay directors to their boards for legitimacy reasons. The implication of this practice is that, while the government could be successful in their target to have more Malays occupying top corporate positions (including being on the board of directors), in terms of their significance it might not, however, achieve the intended objective. Political appointment of Malays in the non-Malay firms would give a misleading view of the success of the government's aspiration of having more Malays holding top management positions.

Close connection with people in power (Malay political power) is important especially if organizations wish to receive business opportunities from the government; hence, appointing ex-government officials to the board of directors is a way to get the connection. This practice has become common in organizations in Malaysia, regardless whether they are Chinese or Malay organizations. The consequence of this practice is that, although initially it seems that the *Bumiputera* policy gives advantage to the Malays in terms of priority in certain aspects of the economy, social networks or ties between corporate directors and influential people has changed this scenario. When this is the case, ethnicity is not important anymore, but it is about whether or not companies have connections with the right people. This has led to occurrences of abuse of the policy and my conversation with D5, a Malay CEO, as cited above indicates the frustration that some of the Malay directors feel in relation to this development. The fact that they are Malays becomes less important if, due to lack of connections, they do not enjoy the protection promised. For D5, however, what they want is protection of the Malaysian industry as a whole and not really an ethnic-based protection. The following section discusses the influence of social networks on the board appointment process.

6.2.3 The Influence of Social Network

Social networking among corporate players has been practiced in many countries, including Japan and the US (see for example, Brass, Butterfield, & Skaggs, 1998; D'Aveni & Kesner, 1993; Davis & Greve, 1997; Davis, Yoo, & Baker, 2003; W. Gordon, Kogut, & Shan, 1997; Mason & Westphal, 2001). Its impact on corporate governance has also been investigated (see for example, Davis and Greve, 1997, Davis et al., 2003). Based on the interviews (R6, D6, D2, and D1), it is found that in Malaysia board appointments are also commonly based on social networks although there is a mixed view on whether other factors such as competency have been taken into account. R6 explains that directors normally have their own "preferred people" and this could be seen more obviously in conglomerates[38]:

> *"The groups [conglomerates] have got their own preferred network. For example, the Chinese has got many groups; the Hong Leong group, the IOI group, the Berjaya group, so they have their own clan. Whereas the Malays, you got the PNB group, then you got the Khazanah group, then you got the entrepreneur group like Syed Mokhtar group. "*

The same view is given by D6 and he argues that social networks in board appointments are important as a corporate board is about a team; and, as a team, they have to be comfortable with whomever they are working with. For him, social networks make it easier to look for new directors, although it must not overlook the balance of skills, knowledge and experience. Likewise, D2 rationalizes that having people from "your own team" is sometimes useful in order to speed up decision-making processes:

> *"Sometimes because certain decision-making process right, they want to expedite, they want to execute things smoother and that kind of things, right."*

[38] Analysis of directorship is done on a few conglomerates (Khazanah group, EPF group, Ananda Krishnan group, Syed Mokhtar, and Tan Sri Quek Leng Chan) noted for cross-directorship.

However, having "your own team" on the board could be taken to an extreme, as explained by D2, where there is a tendency for directors to remove other directors having equally strong personalities in order to maintain their dominancy:

> *"Why sometimes you see an organization, when a new MD comes in, at the board level, he already plans out the exit mechanism for some board members. […] to remove board members who have equal strong personality. So I think it's a board personality issue."*

Appointments based entirely on social networks could bring negative consequences to the operation of the board. For example, D1 relates his own experience on how he was "being ignored" during board meetings because he did not have as much experience as the others and had limited knowledge about the business. Hence, he was not able to contribute much in the deliberation of issues. He was appointed based on the personal friendship between the CEO of the company and his father. As explained by R6, in some cases, appointments are made solely based on social networks without having regard to competency:

> *"Some of the appointments are actually not because of competency, but more because of social network. […] That is quite a common practice here in Malaysia."*

From another perspective, D6 argues that, unlike the Executive Directors (EDs), knowing the business is not really important for the IDs and NEDs. What is important for these directors, he argues, is for them to have the right personality, be known to the community, be respectable and have integrity, so as to provide checks and balances to the boards. This justifies the practice of appointing directors with high social status, especially for the position of chairman. The social status is associated with the directors' education, club membership, and cultural prominence, or their life-style and social circles. In Malaysia, high social status refers to people with a high position, socially or professionally; and more importantly, most of them could be identified by their "title", conferred by the state. Such titles include: *"Tun, Tan Sri, Dato', Datuk, Dato' Seri"* etc. D1 and D4 both agree that social status is associated with goodwill, hence, desirability for a board appointment. Status is important when dealing with people, especially with government departments or authorities. High status commands respect, and hence, makes it easier to gain access to peoples or authorities. It is also in the Malaysian culture to give priority to "important" people; and people with titles are categorised as "important". Therefore, it is easier for them, for example, to receive approval or a licence, etc., from the authorities. The culture of respecting people with high social status is discussed further in the following section. For D1, status spells credibility and explains that:

> *"(We need) various approvals; licence, developer licence, advertising licence, CF, those kinds of things. So there we need a person who has credibility. If Tan Sri is the one who goes (dealing with the government officials), he could make way to other people, such as management; it would be easier for them later. Or they go and have tea in order for people to know about our company, so it will be easier to get approval."*

Some appointments could also be made because of political connections, which is quite common in the country as argued by R6 below:

> *"That is the way things work in Malaysia. You must have a god father in politics. It's the same everywhere. Even in England, also is the same."*

Given the discussion above, in forging ties, what is important is not the characteristics of the actors; rather the position (location) that the actors occupy in social relations or in the society. Hence, somebody who has more connections with the 'right' people has a stronger position in those relations. And, somebody who has a high social status occupies a higher position in society, and therefore, is a more desirable person for other actors to forge ties with. Furthermore, in a country like Malaysia, cultural aspects are very important and influential. Although the country is shared by a multi-ethnic society with multi-cultural practices, there are certain cultural aspects which are shared by all Malaysians. As corporate governance is embedded in the larger social context, culture then plays a role in corporate governance practice.

Although the focus of this chapter is on the influence of social networks on board appointment processes, the evidence also further shows that for social networks to have an impact, it does not necessarily need the network members to be on the same board. While Davis (1996) argues for the role of board interlocking in giving a direct form of legitimisation for controversial practices, evidence in this study shows that the impact could be gained just by being in the same circle. For example, in discussing the case of a GLC (which in 2010 incurred huge losses due to failed projects), D3, who is a director of another GLC, was being defensive in favour of the board of the company in question. He suggested that the blame should be on the management team for not giving the directors sufficient information. This is contrary to the view of R3 who blamed the board for being ignorant; and a view given by D5 (non-GLC director) who thought that the whole board should be sacked following the losses. The rationalization given by D3 could be due to the "sense of belonging", or what Koenig and Gogel (1981) termed as the sense of "we-ness", since they are all (ex) government people and he claimed that he personally knew some of the directors of the company in question. He rationalized that:

> *"Very often when these kind of things happen, it's often the management does not keeping the board informed; because, if you are sitting on the board, and the management doesn't report the information, how you are going to deal with that? When it goes wrong, […] but you could have asked them. […] I want to know what happened. Because some of them (board members) are known to me and they are very clever people, you know. I suspect information flow was chopped out or something."*

There is another form of social networks which does not affect board appointment practice, namely; social networks in relation to access to resources. From the Malays' perspective, Chinese in the country are still practicing "quanxi" which excludes Malays from their network (D2, P1). This commercial relationship or networking related to resources is different from the social networking discussed earlier, and most of the time ethnicity plays an important role here. While social networks are important in all business cultures (Braendle, Gasser, & Noll, 2005), "quanxi" differs from the other business cultures with respect to its high penetration level as well as its strong emphasis of informal relations and common experiences (Alston, 1989). Chinese in Malaysia have been practicing "quanxi" in business even during the colonial period (discussed in Chapter 5). For D2, the absence of such networking among the *Bumiputera* is one of the reasons why various initiatives taken by the government to boost the *Bumiputera* economic power has failed. History matters; and after all the efforts made by the government, Malays still fail to compete with Chinese in terms of having their own network for the purpose of obtaining resources. While Malays receive help from the government, the Chinese are stronger with their own trade associations that control the supply chains as well as having support from their political parties. For P1 (Malay politician), such practice makes it difficult for the *Bumiputera* to penetrate the market. Likewise, D6 (Chinese) argues that "quanxi" is not a good practice.

Board appointments are based on social networks. However, the evidence on whether such appointments are made based entirely on network with no regard to competencies is mixed. Some argue that this is the case, while others explain that despite social networks, the potential director's experience, knowledge, and expertise are important. A study by Chan (2012, pp. 24-25)[39] found that, despite the formal and informal social networks which lead to interlocking directorship, "the Malay and Chinese businessmen had invited particular Malays or Chinese or other elite business members with good credentials, good professional standing and good business management capabilities as directors […]." The ADB survey of Malaysian listed companies also found that the appointments of directors are most frequently based on professional expertise, followed closely by the percentage of shareholding (Capulong et al., 2000).

The discussion about social networks above focuses more on the "concrete" relations between actors. However, the role of networks in affecting corporate governance is not only limited to having concrete relationships, but also there is an important role played by the subjective meanings in a network, i.e. the cognitive social network. This aspect of cognition is discussed next.

6.2.4 The Influence of Cognitive Framework

Although cognition is situated in the individual consciousness, it is shared among the group of people exposed to common institutions; hence, corporate governance actors in the Malaysian context would share the same cognitive framework (Dobbin, 2004). For analytical purposes, cognition is discussed separately in this section, although the earlier discussion on power, *Bumiputera* institution, and social networks could be seen as being constitutive of cognition. This section focuses on how cognitive framework, as constituted in these social mechanisms, affects corporate governance practices. The cognitive aspect of power influences corporate governance practices by influencing or determining actors' very wants; hence, securing their compliance by controlling their thoughts and desires (Lukes, 1974, 2005). This shapes how actors view the *Bumiputera* institution, which then produced taken-for-granted assumptions and underlies corporate governance practices.

[39] However, this study is based on four prominent businessmen and the author does not claim that the finding could be generalised.

As discussed in Chapter 5, the *Bumiputera* institution stands on the mobilization of bias towards the non-Malays. However, from the interviews it appears that generally the non-Malay interviewees have a perception that such a policy to pursue *Bumiputera*'s interests is needed in the context of this country, although there is also evidence of their resistance or unhappiness. This could be deduced from the terms that they use to describe *Bumiputera* policy, such as *"selfish in wealth creation"* (R3) and *"funny clauses"* (R2) and the term used to refer to the non-Malays' interest such as "*deserving minorities"* (R3, D6), which suggests that the acceptance is imposed on them. D6 is of the opinion that some control in the hands of the Malays, including the quota system, is necessary for long term social stability. He is also positive about the role and extent of the state's control in ensuring this although he stresses the need to provide assistance only for "deserving *Bumiputera*". On the other hand, he argues that:

> *"The minorities represent some 30 to 40 per cent of Malaysia's population, yet hold only a small percentage of government posts. As we move towards a High Income Economy, the rapid convergence of business, politics and societies is forcing Malaysians to take a fresh look at how the major races intersect and interact for good of Malaysia as a developed nation or face risk that can bring consequences, damaging the national well-being."*

Likewise, R3 makes the following statement concerning *Bumiputera* policy:

> *"I tell you, even the NEP I'm not saying a bad policy. I believe it is a very good policy, but as it went along the way, instead of need-based, they go and give it to only one person; so the rest of the Bumiputera are still going to be poor. […] But if you are going to be, you know, selfish in wealth creation, you won't have a bigger pie; you will have a smaller pie all the time. Your corporate governance will be affected and then people won't come to your country. […] Bumiputera, the affirmative policy, I think, you asked me, I think it should be, now 50 years, I think it should be looked at in a different light."*

D3 also shares the same view:

> *"But because of the historical reason, any program you have, most people will need help will be the Malays. The question is then, who is (the) needy Malays? That's the debate going on in the country, isn't it? […] The question to ask is, in the 50 years of independence, has our program of supporting the Malay achieved the result?"*

The Malay interviewees mostly do not acknowledge the influence of the *Bumiputera* institution in creating positions for the Malays, although some talk about the abusive conducts regarding *Bumiputera* policy. In discussing the observed trend that Malays are always the ones appointed to head various organizations, including those related to corporate governance, R8 has the following to say:

> *"I'm not here because I am Bumiputera. […] they (prominent Malays) are there because of their ability. "*

Similarly, the following comment is made by D1 regarding the ethnic composition of board of directors:

> *"I think in Malaysia it is difficult to say whether Chinese or Malays because we are multi-racial actually. In one company, they have Malays, they have Chinese. […] in our company, we have two Malays who are executives, (and) 5 Chinese who are executives. So it's ok in terms of composition, I think race is not that important."*

However, in terms of ownership, he explains that:

> *"So to give private placement also, we are afraid that if we give private placement to Chinese, suddenly our percentage of Bumiputera reduced […] cannot be that way. So we have to also look for rich Malays."*

This shows that the impact of *Bumiputera* in shaping the firms' practices is taken for granted by the corporate governance actors.

In relation to corporate governance institutions, the views of corporate governance players interviewed give an indication that power is in operation in influencing actors to believe that the adoption of the Code developed in the Anglo-Saxon system is the best to serve their interests (Luke, 1976). The regulative perspective of corporate governance assumes that regulations have coercive power to 'force' corporate directors to adhere to those guidelines and regulations. However, the evidence gathered here shows that power and other social mechanisms play an important role in influencing how people behave; and this affects the way regulations are complied with and adhered to.

Another aspect of cognition is the cognitive social network. Evidence shows that being in the "right" network is important because people evaluate corporate governance actors based on their perceptions of connection in the network (Kilduff

& Brass, 2010). D2 uses the case of PERWAJA Steel to illustrate this. When it was set up in 1982, the GLC was intended to be a flagship of the country. However, mismanagement has landed it with debts of $2.6 billion and losses of $790 million. Eric Chia was the Managing Director (MD) of the company, and was personally appointed by the then PM, Tun Mahathir Mohamad. In 2004, he was taken to court for allegedly embezzling RM76.4 million[40] (BBC News, 2004). During his time as the MD, he was allegedly giving the impression to others in the organization that his actions were backed, and had the agreement of the government, in particular the PM. This was possible since he was perceived to have a close connection with the PM when in fact no such connection existed. By giving this impression, he was able to by-pass many internal controls. The employees never questioned him because they had the impression that his actions were legitimate; that it was under his authority to carry out such actions. According to D2:

> *"[…] He (the MD) was perceived to have the so-called blessings of the PM then. But that is the perception. […] So people think, "oh this is Dr. M's (Tun Mahathir) project" and everything. Dr. M's aware of certain decision. No, none. It's how he wants people to perceive. So, because of that, even the corporate governance so-called calling for 3 tenders, 4 tenders, all to bid nonsense and everything right, all by-passed! Because, he said, […] "I want this thing done. You got no time to waste and I have spoken to the government". He didn't say PM, he said the government. So, who wants to question him? So, what corporate governance? Nothing; so, by-passed. We by-passed a lot of processes and of course history speaks for itself".*

Although the MD did not have that very close personal connection with the PM, it was that perception that gave him the prevailing authority to act. In this case, his reputation as somebody who has power or authority is significantly affected by others' perception that he has connection with powerful people, irrespective of whether or not he had that connection (Kilduff & Krackhardt, 1994). From the power perspective, two conflicting theories about power are that, namely: one, as advanced by the mainstream organization theorists that "seeing power as something exercised by organizational members is not formally sanctioned with authority". The other view is consistent with Weber's structure of dominancy, and states that power is regarded as a socially constituted norm. The case of PERWAJA appears to be more consistent with the first view of more political influence, rather than being

[40] He was acquitted in 2007 when the Court ruled that the prosecution had failed to call two material witnesses who would have been able to confirm some important evidence (Wong, 2007).

legitimised by the perception of others that he has the power. People perceived that he had a close connection with the PM and assumed that he had received the agreement from the government to make decisions. And that was the reason why people did not question his orders and decisions, together with the fact that he has a very strong personality. An actor's attributes are important in having impact on others in less powerful groups. The interviewee's statement about having "lots of frustration" shows the resistance of the management level employees to having to submit to the MD's authority.

The evidence presented above concerning the influence of social mechanisms on board appointments gives an indication that, to some extent, board appointments are not made with the spirit of purely achieving efficiency as advanced by economic theorists. As corporate governance actors pursue their interests, the social mechanisms shape their interpretation of the field and the actions of the others. Therefore, corporate governance itself, in particular board appointments, is used as a mechanism to achieve their objectives. This gives impact on other practices, which relate to the board appointment process. The next section discusses these consequences.

6.3 The Consequences on Corporate Governance

6.3.1 Independence, Competency, Accountability

While the previous section discusses how the four social mechanisms influence board appointment practices, this section focuses on the consequences of such practices on the characteristics of the effectiveness of corporate governance itself. This includes the issues of independence, competencies, accountability and other related issues such as the board's ability to monitor management. This is because, even though corporate governance regulations have been continuously improved, there are still concerns about these issues. Incompetency of directors, for example, is still the biggest issue faced by corporate governance regulators in Malaysia. An incompetent board affects their efficiency in discharging duties, including their function in monitoring management as explained by R5 below:

> *"I think the biggest issue we have is competent board. Our boards, I think, they come to the board thinking it's just, you know, good, cushy, and of course, your board fees and all that. But I think after a while you realised that they*

are not able to ask the right questions and not able to direct management accordingly. Because, when we take actions on directors, when they appear before us in the disciplinary committee, you can see how much they lack, the knowledge, even the companies, you know; even basic stuffs. Because they rely on auditors and management for advises, you know, whenever decisions they took. And that, I think, the biggest issue we are facing."

Directors have fiduciary duties towards the company; and, in order to discharge those responsibilities, directors should be able to make informed decisions. This requires them to ask relevant questions of the management. The ability of directors to challenge, question, probe, discuss, test, inform, debate, explore and encourage are important for them to achieve accountability and the directors' behaviour in fact affects board effectiveness; whilst structure, composition and independence just condition it (Roberts et al., 2005). However, due to incompetency, this accountability of the board is questionable, and the concern is voiced by R3 as below:

> *"You have actual work to do. To see so much of papers, to ask correct questions because finally the fiduciary you have; you are sitting there, in that capacity of director."*

Lack of expertise and knowledge on the part of individual directors leads to lack of challenge at board meetings. In her speech recently, the then Chairman of the SC reveals this issue (Securities Commission, 2011):

> *"But sometimes the lack of challenge at board meetings may be due to the lack of knowledge of the business being discussed. I think it is critical that members of the board have adequate knowledge of the industry that the company is involved in, so that they can question and challenge recommendations being put forward for their consideration, as well as why potential alternatives have been rejected. Knowledge of the industry will give them an understanding of what can go wrong and what measures need to be put in place to prevent problems from arising. Indeed it can prevent a company from being destroyed by competition or by the mere effluxion of time."*

Besides competency, the issue of independence also has received a great deal of attention from academics, researchers, practitioners and regulators (see for example, Abdullah, 2004; Hashim & Selvaraj, 2008) . R6 claims that independence, as well as other corporate governance issues, is rooted in the appointment process. He said:

> *"I think before you could address the question of directors' independence, I think you should look at the bigger landscape in corporate Malaysia. You should look at the directors concept, the quality of the directors, how directors been recruited on board, who determine the selection, who*

determine the recruitment, what are the criteria for being directors. Then only you ask, what we mean by independent directors, what are the rules and all that. I think, again, the quality of our directors is extremities. Some companies, they are very good. Some they are not there. They don't make the cut at all."

Among the reasons why independence is affected by board appointment are, firstly: when a board appointment is made by majority shareholders; and secondly, if the appointment is based entirely on social networks, as claimed by R5and R6 below:

> *"Yeah, possibly, the controlling shareholders will appoint them. And then, or maybe because that they are friends, golf friends…you know. I think the whole appointment is an issue."*
>
> *"The majority shareholders have major say in the selection; even in independent directors. […] It is very difficult for independent directors to have independence in mind when the recruitment, their selection, is being made by majority shareholders"*.

The practice of appointing directors based entirely on social networks at the expense of competency creates many problems concerning corporate governance. The fact that these people, most of the time, are corporate elites who have political connections (power domination) and high social standing, affects the way they behave on the board. Davis (1996) argues that the corporate board has become a social space for corporate elites. High social status is found to contribute to ignorant behaviour; unwillingness to develop oneself or equip oneself with knowledge about the industry as well as about governance in general. Citing the case of a recent scandal in a prominent GLC, R3 claims that the board of the company is represented by "too high people" such as retired government personnel and those holding important positions in other organizations[41]. These are the Malay elites who were chosen by the government to head the company. And because of their position, they had a "complacent" attitude and left everything in the hands of the company's CEO, which then led to the scandal. R3 argues that the board is too large and represented by too many prominent figures. This subsequently made them think that everything will be fine. The argument is that the ignorant attitude comes in because they are together in a group of very influential people. Furthermore, they have government

[41] Information about the directors was obtained from the company's annual report; it was noted the chairman was an ex-cabinet minister and the rest of the board are all very prominent persons in the country, especially among the *Bumiputera* community.

power behind them. Social networks actually influence how corporate governance actors behave and their understanding on how people in other roles should behave.

The impact of social networks or business being embedded in social relations is also seen in the case of a corporation that experienced a director's breach of fiduciary duties, but did not pursue with legal action; instead the director was recommended to retire. Settlement of disputes is eased by this inherent embedded quality of business in social relations (Macaulay, 1963 in Granovetter, 1985). This is explained by D1 as having occurred in his company as follows:

> *"[…] but he submits tenders and all, using other people's name. So that thing when the Audit Committee discovered, it was like he was not fulfilling his fiduciary duties. So we recommend him to retire, to resign. So we recommended; because to bring that case to…. [Not keen to bring the case to court or initiate legal actions]."*

The practice of social networking then leads to the formation of interlocking directorships. These networks are established networks, or termed as the "old-boys networks" by R6. The network is made up of people with influence and status. R6 further argues that these old-boys networks are actually blocking very good senior managers from advancing in positions and becoming corporate directors. This move is political, and by doing it, the networks become exclusive. Hence, corporate boards become their social space and that contributes to a lack of accountability (R6).

High social status could also bring other negative consequences to corporate governance practices, i.e. with regard to the way people behave in the organizations. The impact of social status is more significant considering the culture of Malaysian people, who normally would not question a superior person. Consequently, this affects how governance is practiced in organizations. R6 calls this a "culture of high power distance" where, because of the title held by an individual, his actions will not be questioned. He argues that this is the single greatest stumbling block to progressing forward, including for corporate governance and the government itself. He further argues that:

> *"The culture [of not questioning people with high social status] is, because it actually keeps program your mind, the way you think, and the way you behave. That is why I said earlier in our discussion, even if you put the most superior people in this culture, you will become inferior."*

While the above are the consequences of abusive board appointment practices on corporate governance generally, there are other issues specifically related to GLCs. The following section discusses governance issues specific to GLCs.

6.3.2 Governance Issues in GLCs

Although GLCs represent a significant part of the country's economic structure[42], they however underperformed the broader Malaysian market on all key financial indicators except for size (Green Book, p. 3). Therefore, in 2004, the government then initiated a transformation programme, namely the GLC Transformation Programme (GLCT), with a set of '2004 Measures' as a kick-start. The following year, the Putrajaya Committee on GLC High Performance (PCG) was formed to design and implement comprehensive national policies and guidelines to transform the GLCs into high performing companies, and establish the institutional framework to program-manage and oversee the execution of these policies and guidelines. Following that, the PCG then launched the GLC Transformation Manual that consists of five thrusts, one of which is concerned with upgrading the effectiveness of boards and reinforcing their corporate governance. To help GLCs to do this, the PCG then launched the 'Green Book'. One of the immediate measures taken was to change the corporate culture, which involved a change of leadership, board members and senior executives.

Prior to the introduction of the Transformation Programme, GLCs were dominated by government servants who were lacking in terms of business knowledge. Their appointments are seen as politically motivated. D2 questioned their appointments as below:

> *"This government policy, there are Malays and Malays right? There are Malays and Malays that you should appoint, when you see that, you should appoint the right ones. […] Trouble with us, as I said, lots of this are politics also, right? Tendency to be politically inclined, you know. You know who, you get the job, and you get this and that and that. And you based on politics."*

[42] GLCs and their controlling shareholders, GLICs, constitute a significant part of the economic structure of the nation. In 2005, GLCs accounted for about RM260 billion in market capitalization which translated to 36% of market capitalization of Bursa Malaysia, and 54% of the benchmark KLCI (Khazanah, 2005). However, at least since the year 1990, the companies had shown underperformance in terms of operations and financial indicators which justified the need for transformation.

He argues that the government's decision to appoint civil servants to the GLCs' boards contributes to failures in monitoring; and the case of PERWAJA (discussed earlier) illustrates such failures. He argues:

> *"I think the government must really address the issue, […] appoint the right people to represent them. Civil servants were just being civil servants. […]. Don't ask them to be involved in business because they know nuts about business, right? […] So, this is the failure of the government institution actually because of the government themselves. Why couldn't the government have appointed Malays to represent them but don't come from the ministry? Why can't you take from the industry? Good Malays that technically competent, who's got no love, no lost, you know, […] who are able to make some drastic comments on the MD."*

Another issue raised by interviewees related to GLCs is the issue of lack of accountability. Despite their domination in the economy, GLCs have been making losses due to their lack of accountability at all levels, including top management and board of directors (see cases involving Malaysia Airline System, for example). R3 gives the following example of wastage and inefficiency in GLCs:

> *"[GLC] is a good company, but the driver of this; I think they should change already. I find it so archaic. […] (CEO), he went and bought huge, big printing machine about three, four years ago, at RM1 billion; now archaic. It's not being used, what for?"*

Following the launch of the GLCT Programme, the CEOs of the GLCs have been replaced by people from relevant industries, which, according to D1, affects all GLCs. The changes in culture and top management have shown positive results as claimed by R3 as below:

> *"This one, I must tell you I have seen it; I must say that I'm quite happy to see the positive changes that occurred in the GLCs, you know."*

R3's statement suggests that the root cause of corporate governance, and to some extent the companies' performance, are related to the choice of people by the board appointment process. Further comments by D2 on the positive progress of GLCs are as follows:

> *"Talking about GLC's, now they bring in many from private sector, to make the organization turnaround. Then things are looking…result are looking well. Gone were the days when GLCs were run by civil servants. (This company) was caught into trouble (in the past) because it was run by the civil servants. […] So now if we look at GLCs' profiling, I would dare say, all, all GLCs are from private sector, the Chief. Meaning, they brought in new culture, new*

ways, and new approaches. But they are still been stifled by old environment, right? The culture; the people."

D2's comment about the transformation being "stifled by old environment" is evidenced in the appointment of the FELDA Chairman as discussed in the earlier section. In FELDA's case, the statement made by Tengku Zafrul concerning the appointment of ex-politicians suggests that the state's position of dominance enables them to make political appointments that have gone unchallenged before. Their power has enabled them to rationalize their actions as legitimate (R. A. Y. Gordon, Kornberger, & Clegg, 2009). However, while power acts as a construction of legitimacy in board political appointments, Case (2010) shows that the state's skewed use of constant resources favouring its politicians has led to 'legitimacy deficits' of the Malaysian government, in particular, the UMNO. This is evidenced by the growing public resentment towards the state on various issues including favouritism towards its politicians, which led to the government setback in the 2008 General Election (Case, 2010).

This case also illustrates a conflict between an economics view and social relations view on the meaning of corporate governance. It shows how dominant power could affect economic decisions and shape practices of corporate governance. Also, the *Bumiputera* institution is used to justify political moves. Whether or not this move would benefit the *Bumiputera* community specifically or the whole nation generally, is still questionable. What could be seen here is that economic rationality is unable to change the decision made backed by the dominant political power that was using *Bumiputera* as the rationalization. At the same time, the case also gives evidence on the cultural impact of corporate governance as will be discussed later. The case also shows how understanding the corporate governance of Malaysia could help in understanding the country itself. Through GLCs, the state is able to secure both political and economic power. The political and economic power then goes hand in hand in shaping public policy.

6.3.3 Other Governance Issues

The discussion in the last section illustrates the fact that social status, political connections and social networks give the corporate governance actors dominant power over others. Culture affects accountability and affects how things are practiced. For example, Malaysian culture, especially Malay culture, is to respect older people and to respect leaders or superior persons (R7). This often leads to the practice of not questioning the leaders' conduct. In some circumstances, especially in the public sector, there are adverse consequences for people who do not adhere to this 'unwritten rule' of respecting the hierarchy. This includes the possibility of being thrown out of the organization. Therefore, this is a culture that does not breed, or does not encourage superior thought (R6, D2). Perhaps this unquestioning behaviour is also the reason for low shareholder activism in Malaysia. This is observed by representatives from one institutional investor in Malaysia, R4, when they argued that it is common in the AGM that the board of directors would not be asked much by shareholders. Hence, corporate governance is used to pursue personal agenda, resulting in adverse impact or loss to the community at large. The following discussions illustrate this point.

One case that could serve as an example is a case of obtaining a government project "from the inside"; involving a building project for the Malaysia External Trade Development Corporation or Martrade (Izatun, 2006). It was reported that the Finance Ministry and the Public Works Department decided to appoint a contractor through direct negotiation for specific contracts that were technical in nature and one which required specific skills from certain suppliers and manufacturers. The then Public Accounts Committee (PAC) Chairman pointed to the loss of funds in the project that allegedly involved poor decisions by the ministry. He was quoted as saying that:

> *"Even though the project comes under the ministry's jurisdiction, it is difficult to understand why direct negotiation was used to appoint the contractor. Although the project site was changed, it could have been undertaken within three months through open tender. It is not appropriate to use direct negotiation." (Izatun, 2006).*

Another sensitive case that occurred around the same time involves a relative of a former minister of Malaysia in relation to the merger of ECM Libra and a GLC, Avenue Capital; a case of a smaller entity swallowing a bigger one. This is explained by a retired Minister, P2, as below:

> *“Then, there are cases like ECM Libra. This is a company that, is a number of companies which are failed companies which are put together and then there are, they give it a new name. And for some reason they valued it as certain amount and it was sold for 400 million dollars. And suddenly a company, which has nothing inside it, is worth 400 million dollars. And then they have good relations with the government; they get a lot of jobs from the government. Everybody wanting to deal with the government has got to go through them; they get commission and all that.”*

The nature of the business dealing above has raised a great deal of concern, including concern from the PAC, since Avenue Capital was owned by the *‘rakyat’* (the people) through the Treasury (Ministry of Finance). According to the PAC Chairman, the SC had provided a thorough explanation on the issue, but PAC was concerned that the government could lose its control over this newly-merged entity. He argued that:

> *"We are concerned who will sit on the board and who will regulate the company," (Bernama, 2006).*

The above case does not only relate to corporate governance issues, but also affects the judiciary process. As explained by P2, the court was not objective in dealing with the matter when it refused to give consideration to somebody’s complaint about such matter. He informs that:

> *“But the judges refused to do anything about it […] effectively tell him "please drop this completely". And then when he went to the court, the judges was [..] and eventually he ended up in jail, for contempt of court. You see that kind of thing doesn't give confidence for people to report.”*

When asked about whether there was a connection between the parties involved and the judiciary, this is the comment that he gave:

> *“Well, the assumption is that, somebody has applied pressure somewhere.”*

Perhaps the “issue” with the judiciary system in the country is one of the reasons why shareholders are not interested in furthering actions against directors for breaching fiduciary duties. The process is also lengthy and involves costs which might not be justified by the value of investments of individual shareholders. P2 also relates another case involving bad decisions on the part of a company’s management that cost shareholders millions of ringgit and yet no legal actions were brought up:

> *“Now, one clear case where the shareholders, either they are ignorant, they just don't care, or they don't have shareholders group to take up the case.*

Now, Proton bought the Italian motorcycle company for RM409 million. And then the management decided to sell for RM4. Now, of course that's losing RM400 million. Shareholders ought to be unhappy about this, but shareholders did nothing because they were, I don't know, they dare not take action. To take action on your own involves having the lawyer and all that and the expenditure is very big whereas their investment maybe quite small. So, we don't see many cases like this (legal action against directors).”

The above cases involve GLCs; and normally cases that involve GLCs should be of concern to the public generally, and the *Bumiputera* community specifically, due to the reasons of their establishment in the first place.

Together with the issues cited above, another problem which has been mentioned by many interviewees is the issue of enforcement. Lack of enforcement is one of the major problems in the country. From one perspective, this issue is closely related to the issue of political connections and the benefits of being “protected”. And the discussions above show that the “protection” then comes in the form of legal protection. The enforcement capacity of the legal system is crucial to effective corporate governance (H. J. Gregory & Simms, 1999). Hence, this political interference is found to be affecting international perception about Malaysia, as reluctantly explained by personnel from a regulatory body, R5:

“Ok, ok, I think we are political (laugh)…[…] I think that’s how we are rated quite low three years ago by the international rating, corporate governance rating […] Our decisions have political interference and then our enforcement are slow, there’s a lot of negative comments on Malaysia. And we are slow because of our court system…you know. […] Government interference, ok, here, if I’m not mistaken, their view is that, when we go to court and enforcement action; you may get a call from “this party” says, this company you may want to be slow on them. Now, that call we get is nothing to do with Bumiputera. It’s just that the politics comes in, you know. You know, we get subjugate calls but not much now.”

Based on the information obtained, it appears that the impact of directors’ political connections could give economic benefits to directors and organizations, but would adversely affect the nation as a whole. Disregarding rules and regulations, lack of transparency, and negative international perceptions are some of the negative impacts resulting from abusing connections. According to R3, politically connected directors, because of the political power that they have for example, pay less regard to accountability issues. Directors who are very well connected also would expect things to come to them easily. They are not serious in meeting corporate governance guidelines; they resort to manipulation in meeting requirements, such as the requirement for directors to attend training. But now as awareness grows, the shareholders are becoming more discerning; hence, R3 argues, directors need to improve their practices in order to step up to the expectations. However, due to their high social status (the "who's who" in Malaysia), the effectiveness of the effort is questionable, although the new generation is showing good changes. To some extent, these people appeared to be arrogant as R3 reported:

> *"You know that arrogance level is there. […] People sent their drivers to go (to directors training programme) on their behalf. […] That is another problem; too high person, they do not want to come down on earth. […] Because you have the stature, you have the ability to bring businesses in; so be it. […] Let's say retired government personnel, they come and sit on these companies."*

The above discussions illustrate the negative consequences of corporate governance rooted in appointment practices. As shown earlier, these social mechanisms play influential roles in affecting the board appointment process. The following section provides a discussion on how these mechanisms are also reciprocally influencing each other, and in turn, influencing board appointment practices. The discussion is made utilising the framework developed in Chapter 3.

6.4 Discussion: The Interrelatedness of Social Mechanisms

As discussed in Chapter 5, the *Bumiputera* institution emerged from ethnic struggles; and the political power gained by the Malays has established some formal mechanisms by which to pursue *Bumiputera*'s economic objectives. The evidence presented in this chapter further shows how those established mechanisms have strengthened the *Bumiputera* institution. The established mechanisms, in particular the GLCs, are used to affect the corporate governance landscape in the country; and corporate governance, in turn, is itself a mechanism that strengthens the *Bumiputera* institution. Power also strengthens the *Bumiputera* institution by protecting its legitimacy.

The existence of the Sedition Act 1969[43] provides a legal restriction for the discussion or questioning of the *Bumiputera* institution, if such discussion would amount to sedition. The utilization of the Sedition Act could be seen as the state's exercise of their covert dimension of power to prevent decision-making, or to exclude that discussion of *Bumiputera* legitimacy from the process of decision-making (Bachrach & Baratz, 1962). This power of excluding *Bumiputera* from discussion (which leads to resistance), in turn, strengthens the legitimacy of the state's role and their practices; in particular, practices of corporate governance of prioritising the Malays. On top of this dimension of power, another dimension of the state's power, i.e. the third face of power, influences the way in which corporate governance actors perceive the *Bumiputera* institution, which then affects the pattern of board appointments. This relates to cognitive frameworks.

The evidence presented concerning GLCs' operations, which make pursuing *Bumiputera*'s interests their goal at the expense of economic profit, shows that the *Bumiputera* institution has influence in making that value socially relevant. Some operational decisions made by the board are not entirely based on economic rationalization, but more because of social expectations of the organizations. An example is given in the study regarding the employment of *Bumiputera*. Consistent with the legitimacy explanation above, the "institutionalized, rationalized elements are incorporated into the organization's formal management system because they maintain appearances and thus confer legitimacy whether or not they directly facilitate economic efficiency" (Dillard et al., 2004). Likewise, the views given by non-Malays about such practices of giving priority to the *Bumiputera* suggest the same. The implication of this acceptance could also be seen on board appointments where, on the GLCs, a majority of Malays are chosen to be on the boards as they understand the government's aspirations concerning *Bumiputera* better.

The discussion also shows that the *Bumiputera* institution gives cognitive scripts to corporate governance actors and affects their perception of legitimacy of corporate governance practices, in particular with regard to appointment of Malays to the board. As a result an isomorphic practice is observed where Malays dominate the

[43] Established by the British during their colonization in 1948, and then revised in 1969.

position of chairman in companies and an isomorphic practice for companies to appoint at least one Malay director to their boards. Therefore, while the *Bumiputera* institution creates social values of helping *Bumiputera* by reducing the economic gaps between ethnic groups as socially relevant, cognitive frameworks, on the other hand, also influence the *Bumiputera* institution by legitimising and shaping perception of corporate governance actors about the institution. And as mentioned earlier, these then affect corporate governance practices by affecting board appointment decisions.

While power establishes mechanisms to strengthen the *Bumiputera* institution, on the other hand, the *Bumiputera* institution, in turn, influences power by reinforcing power disparities. The mechanisms to pursue *Bumiputera*'s interests, which stand on 'mobilization of bias, provides evidence for this power disparity as they advantage *Bumiputera* while disadvantaging others. Therefore, corporate governance reflects the underlying distribution of power between ethnic groups, and hence, becomes an object of struggle (see Goyer, 2010). Powerful groups or organizations are able to promote certain practices or policies that are *in their interest* as being rather *in the common interest*. Initially, political power was the vehicle used to bring out the commitment towards *Bumiputera*. However, evidence shows that it is now the policy which becomes the justification to pursue political power; and corporate governance is a medium by which to achieve this.

Board appointment processes are political in nature and are based on social networks; and the practice of social networking is influenced by the larger social context of history, cultural, and political factors, as well as the existence of the *Bumiputera* institution. *Bumiputera* policy gives certain economic priorities to *Bumiputera* people; hence, making it desirable for the non-*Bumiputera* directors to forge ties with influential *Bumiputera* in order for them to pursue their economic interests (Dacin, Ventresca, & Beal, 1999). This creates a social network between *Bumiputera* and non-*Bumiputera,* which would have been less evidenced in the absence of such policy. In a situation where there is a lack of transparency at a higher level or among people in power, it becomes necessary for directors to "know who"; and this creates social networks, which are based on political connections, image and prestige. This reflects the particular constraints under which the firms operate. These constraints, one of which is the constraint of the *Bumiputera* policy, are the products of the multiple social institutions of each society (J. Scott, 1991).

Bumiputera institution structures a social network of corporate directors by making the presence of Malays on corporate boards necessary and important. At the same time, the establishment of GLCs has created a network of Malay directors; in particular, one monopolized by the people chosen by the government. As a result isomorphic practices of board appointments are observed; first, the presence of Malays on almost every board; and second, the presence of politically correct Malays on the GLCs. This finding adds to the existing literature on corporate networking in Malaysia showing that, prior to the NEP, Malays had no impact on the patterns of directors interlocking which occurred among the biggest corporate cliques in the country (Lim & Porpora, 1987). However, the evidence further suggests that, in some cases in the Chinese companies, the presence of Malay directors does not affect their decision making process.

While the *Bumiputera* institution structures a social network of corporate directors, on the other hand, these social networks in turn establish collective power to shape the *Bumiputera* institution, and hence, the corporate governance institution. Some cases which involve an abuse of corporate positions in the GLCs for example, or an appointment made purely for political purposes, affect the legitimacy of the *Bumiputera* institution and create resistance. This resistance and its impact are discussed further in Chapter 7.

The evidence presented earlier shows how power can shape the beliefs and desires of corporate governance actors by imposing internal constraints. This power, as Lukes (1974, 2005) calls it “the third face of power”, shapes the non-*Bumiputera*’s thought into believing that such protection for *Bumiputera* is desirable. This belief or cognition then secures compliance to power domination and affects board appointment practices. The interplay of this third face of power could be deduced from the evidence of “resistance” by corporate governance actors, despite their compliance. The “resistance” comes in the form of abusive appointment of Malay directors by the Chinese, such as an appointment just for legitimacy. In such cases, *Bumiputera* directors only lend their names to those companies.

One of the important areas of evidence discussed earlier concerns the legitimacy of directors' practices, especially the dominant behaviour that adversely affects the corporate governance system in the organization. This is important considering the various issues which have been brought forward by the regulators, such as their independence, competency, and news relating to corporate scandals. Power might be playing its role in the construction of legitimacy of these directors similar to the finding by Gordon et al. (2009). They found that the legitimacy of actions of public sector personnel are maintained from the organization's existing structure of domination that were taken-for-granted, i.e. internally, rather than through desirability or appropriateness of the actions. Gordon et al.'s (2009) study is built on Clegg's work on structures of dominance and the mobilization of bias, and Courpasson's (2000; Courpasson & Clegg, 2006) conception of a structure of legitimacy. They argue that when structures of dominancy and a mobilization of bias exist simultaneously, then problematic structures of legitimacy, i.e. structures of legitimacy which privilege the practices and perspectives of a selected few in positions of dominance, are formed. They argue that legitimacy is also subject to the dynamics of power and politics. In this study, such legitimacy could also be established by power which influences the cognitive framework of the subordinates.

The evidence presented and the discussions above show how power influences the structure of social networks and is evidenced in the pattern of board appointments. At the same time, the board appointment pattern also provides evidence of how social networks are used as a channel to strengthen the power of corporate governance actors.

Cognition or perception of power affects corporate governance practices. The evidence found in the study shows that, if people perceived that the director has a close connection with people in power (politics), his status was accelerated accordingly and it affected how governance was practiced. As argued by Killduff and Brass (2010), people evaluate others based on their perceptions of connections in the network. In an organization, it is not about rational economic decisions, or about structures only; a lot has to do with culture or norms, symbols, beliefs and values, all of which give a cognitive dimension of legitimacy. Peoples' perception about actors' rights to power influences the effectiveness of those actors' authority in the organization by giving them legitimacy, which then affects the way employees respond to the management or board of directors. This evidence overlaps the discussion above concerning power and cognition. Evidence also suggests the importance of prestige, social status, and corporate power as being important criteria for social networking. This is consistent with institutional theory which suggests the tendency to attract homogeneous individuals into institutions (Tuttle & Dillard, 2007). The implication for corporate governance is that board members may come from similar backgrounds and thus would be less inclined to challenge either each other or management (Cohen, Krishnamoorthy, & Wright, 2008). While this provides an explanation of how cognitive frames shape the perception of the network structure, it also shows the ability of social networking to shape and diffuse cognitive frames.

Further evidence also suggests that the interactions that result in networks are often so casual that directors are not even consciously aware that they are part of the networks (Koenig & Gogel, 1981). This was observed in the case of a GLC director rationalizing the "failure" of another board of GLC, as he claimed that "they are known to" him. This example provides evidence that social networking among corporate directors or relevant actors in Malaysia do not necessarily lead to interlocking directorship but is sufficient to be in "the circle". This also explains the "unobservable" relationships between corporate elites and the people in power as documented by many, including Gomez (1999).

6.5 Conclusion

This chapter discusses the influence of *Bumiputera* and other social mechanisms on board appointment practices in Malaysian firms. The study shows that, in the context of Malaysia, the question of "who" is to be appointed to the board of directors, matters. The decision of "who" to appoint is influenced by social mechanisms of power, social networks, cognition and institutions, in particular, the *Bumiputera* institution. The evidence shows how board appointments are also influenced by the interrelatedness of these mechanisms. Also, while corporate governance is a secondary mechanism affected by the larger social mechanisms, including the *Bumiputera* institution, it is also in itself a mechanism through which those mechanisms affect and strengthen each other. This justifies the utilisation of Beckert's (2010) framework. It is also shown in the study how the significant roles played by persons in positions of power can influence both *Bumiputera* and corporate governance institutions. This justifies the integration of power to the framework.

From the agency theory perspective, corporate governance is a mechanism by which to tackle the issues of principal-agent. But the evidence shown in this context of Malaysia suggests that corporate governance is also a mechanism through which social structures reinforce each other and for firms to maintain legitimacy. Many studies on corporate governance convergence argue on the importance of the impact of local context. This study adds to this literature by providing evidence from a developing nation, which relies on affirmative policy in order to maintain its social stability. The analysis provides evidence of how the economic institution of corporate governance is also affected by social and non-economic factors. This sociological analysis rectifies the problems of agency theory-based research in the corporate governance and accounting fields, which focus on efficiency without paying regard to the sociological aspects of it.

The discussion in this chapter provides support for the discussion in the next chapter on change or persistence of both *Bumiputera* and corporate governance institutions in Malaysia. The discussion in Chapter 7 shows how corporate governance actors are pursuing new ideas in their efforts to modernize corporate governance practices in the country in preparing to move towards a more liberalized economy. However, given the improvement in the regulative arena, the inter-relatedness of the social mechanisms led to the persistence of historical institutions of corporate governance where the same practice of Malays' symbolic power would still be observed.

Chapter 7 - Institutional Change

7.1 Introduction

The aim of this thesis is to understand the way in which corporate governance is influenced by the larger institutional environment in which it is embedded. The role of *Bumiputera* as a dominant institution in Malaysia is analysed to provide a case for seeing corporate governance in its socio-political and institutional contexts. This thesis focuses on how the *Bumiputera* institution, together with other inter-connected social forces (i.e. power, social networks, and cognitive frameworks) shapes the corporate governance institution and practices in Malaysia. Chapter 5 presents the institutional analysis of *Bumiputera* and corporate governance from a historical institutionalism perspective, which focuses on the emergence of a commitment towards *Bumiputera* by the government, and the manner in which it has impacted on corporate ownership and board representation. Chapter 6 takes the analysis further by looking at how the *Bumiputera* institution affects corporate governance actors' behaviour or decision-making in relation to board appointments by utilising the theory of power, cognition, social network, and institutionalism from a sociological perspective. Chapter 2 provides a review of existing literature in corporate governance, with part of it focusing on corporate governance from an institutional perspective. The theoretical framework is presented in Chapter 3.

The discussions in Chapter 3 suggest that institutions are not always stable; they are subject to change as a result of changes in the embedding environment. Taking this into account, and to further the analysis done in Chapters 5 and 6, this chapter then analyses whether there have been changes in both corporate governance and *Bumiputera* institutions as the country moves towards a more liberalised economy; and if so, how and why such changes occur. While Chapter 6 shows how the *Bumiputera* institution is seen as a determinant of corporate governance actors' behaviour, this chapter shows that *Bumiputera* itself is a subject of strategic action (Hall, 2010). The study employs historical institutionalism as an approach in analysing institutional change. For corporate governance, the regulative pillar advanced by Richard Scott (2008) is used as a lens for analysis. As discussed in Chapter 4, institutional analysis has to focus on what actors themselves think is important, rather than only on what the researcher thinks. Hence, the discussion on corporate governance examines this from the perspective of a regulative pillar, as that is what emerged from the data. Data for this analysis comes from both secondary sources and from interviews.

The discussion in this chapter focuses on corporate governance and *Bumiputera* institutions post-Asian crisis 1997/98. This event is considered critical [44] here because, following the crisis, the corporate governance field has became one of the three most urgent reforms undertaken in the country besides the banking institution, and the currency, which plunged following the crisis. Secondly, the period following the crisis has seen further government liberalisation of the economy as the country nears the Vision 2020 deadline. This move affects both corporate governance and *Bumiputera*. Initially, *Bumiputera* was put on the backseat following the crisis as the country focused on the reforms mentioned. However, as pressures mounted from inside and outside the country, attention started to shift to *Bumiputera* and recently there have been some important and controversial developments in the country which directly affect it. The crisis and the liberalisation efforts have put additional pressures on the government regarding their policies, including the policy on *Bumiputera*. Changes in the *Bumiputera* institution are important as they could affect the corporate governance landscape in the country. Therefore, the aim is to see whether there have been institutional changes and, if yes, how such changes occur.

The analysis shows that there have been changes in both corporate governance and *Bumiputera* institutions, although the more observable change is in their regulative aspects and not in terms of their informal elements. Corporate governance institutions change through diffusion as the country adopts guidelines from more advanced economies. There appear to be mimetic and coercive pressures that motivate such diffusion, together with another pressure, namely economic competition (Campbell, 2010). This is consistent with the neo-liberal economic policy of the country. In relation to the *Bumiputera* institution, there have been changes but not in the form of punctuated equilibrium; rather, there are incremental changes to the policy. On the other hand, although there is an evolution in the

[44] Chapter 3 defines critical juncture.

institution, the state's credible commitment towards *Bumiputera* remains. The analysis of *Bumiputera* shows how actors mobilise their power and social networks to pursue their conflicting interests, and this then affects the persistence or change of the institutions.

This chapter is structured as follows: the following section presents a brief discussion on the 1997/98 Asian crisis and Malaysia's moves towards a more liberalised economy. This serves as a background for the analysis of institutional change. Following this is a section that discusses the regulative perspective of corporate governance. The discussion in this section starts with the laying out of some major efforts taken by regulators concerning corporate governance, followed by some views of the key corporate governance players interviewed. Then, the discussion switches to the *Bumiputera* institution, paying attention to the recent government's commitment and efforts to pursue *Bumiputera* interests, as well as views from both Malays and non-Malays regarding the commitment. The issue of whether or not there have been changes in corporate governance and *Bumiputera* institutions is discussed next. This chapter ends with a section on the conclusions reached.

7.2 The Financial Crisis and Further Liberalisation

7.2.1 The 1997/98 Asian Crisis: The Impact

When the 1997/98 Asian crisis broke it affected the region badly, causing concern among the international community due to its spill over effects (Bergsten, 1998; Sorin & Burton, 2001). The Malaysian economy was also badly affected. Various critiques have been levelled against the region for the downturn, including attacks on their political practices and economic structures. These include claims that the Asian crisis was caused by fundamental weaknesses; serious institutional weaknesses, policy inconsistencies, and lack of regulation and supervision during a process of financial liberalisation (Corsetti, 1998; Mishkin, 1999). Also, there was inadequacy of the regulatory/supervisory system, which caused excessive risk-taking (Mishkin, 1999); and over-investment by banks borrowing heavily in foreign currency, often short-term and un-hedged, with the presumption of possible government bailout if things went wrong (Corsetti, Pesenti, & Roubini, 1999). The crisis also brought to the fore the concern regarding corporate governance practices in the region (Calomiris, 1998; Nam & Nam, 2004; Partnoy, 1999). In the case of Malaysia, its corporate governance was argued to be better (at least on paper) than the other four worst-hit countries (Thailand, Philippines, Indonesia, and Korea), as the country initiated measures to strengthen and modernise its regulatory framework for the corporate sector and capital market well before the outbreak of the Asian crisis; although the only major problem involved poor compliance and enforcement (Capulong et al., 2000). However, it was alleged that there were some weaknesses in the political economy of the country, and Malaysian firms had taken too much credit risk (Pillay, 2000). The type of Malaysian corporate structures also contributed to the problem: Malaysia is characterised by concentrated shareholding, non-competitive product markets, complex cross holding, poor debt management, and weak legal protection (Khatri, Leruth, & Piesse, 2002; Thillainathan, 2001).

During this crisis period, *Bumiputera* policy was put on the backseat as the country was under pressure to revive its economy. One of the most important measures was to improve its corporate governance system. There was international scrutinisation demanding steps to improve the corporate governance system in the country[45], and the country was also becoming less competitive in attracting foreign investment[46], which is much needed to help in the expansion of its economy. In 2005, for example, the FDI to Southeast Asia increased by 45%, however, FDI to Malaysia decreased by 14% (UNCTAD website). A longer term outlook shows a similar trend (Malaysia 2007 investment climate). In 1995 UNCTAD ranked Malaysia as the sixth largest destination for FDI; but in 2005, Malaysia was ranked 62nd. FDI rebounded in the following year and increased by 52.8% but Malaysia maintained its rank at 62nd. However, in 2011 FDI to Malaysia increased by 12% compared to the year before, recording the highest ever FDI for Malaysia reflecting a continuing path of recovery

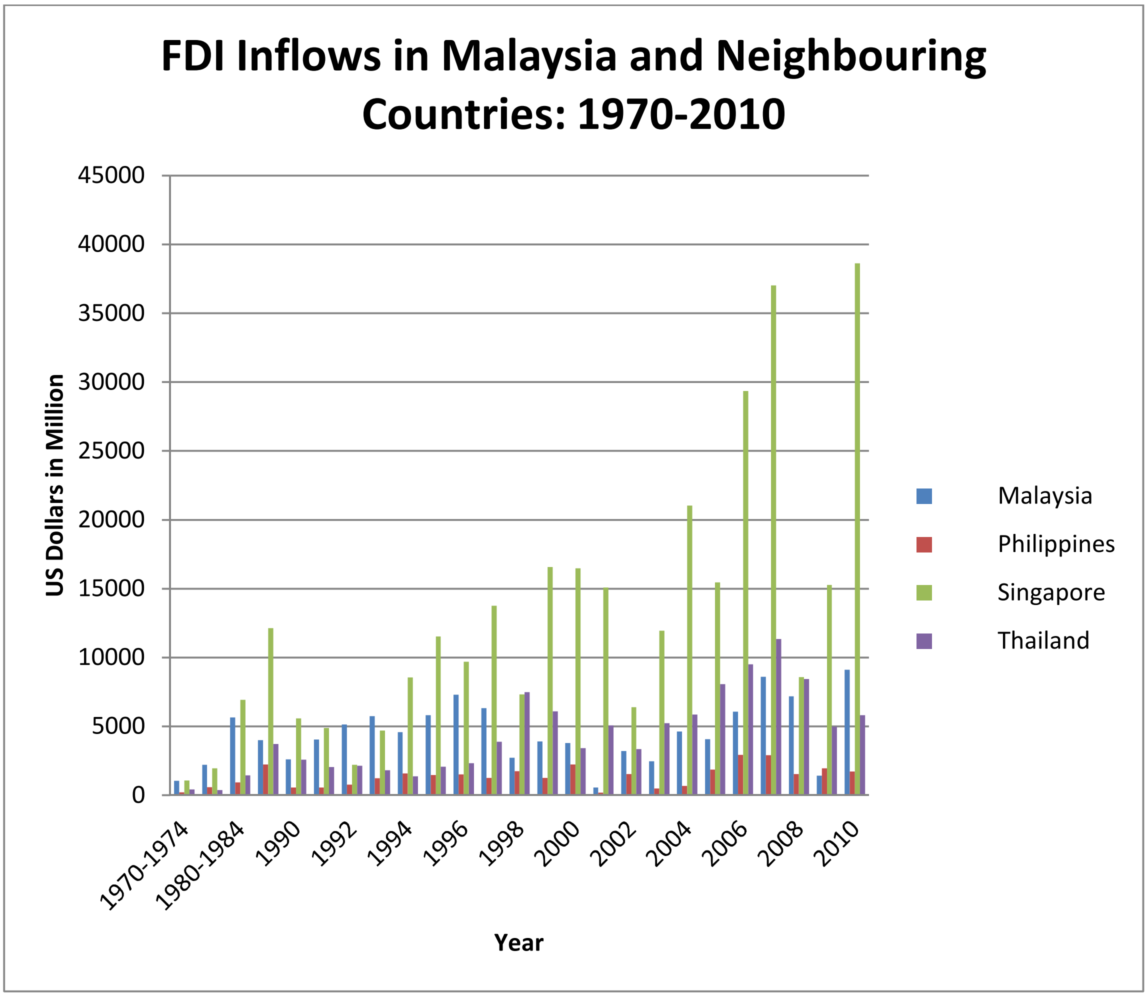
---

[45] Following the crisis, four of the worst hit East Asian countries, namely, Indonesia, Korea, Malaysia and Thailand, introduced an extensive set of reform measures, including fundamental changes to the laws and regulations governing corporations' collective decision making process (Calomiris, 1998; Capulong et al., 2000; Johnson, Boone, Breach, & Friedman, 2000; Mueller, 2006; Nam & Nam, 2004; Partnoy, 1999).

[46] Although Malaysia is ranked 4th in terms of protecting investors, (WB Doing Business) its ranking in Transparency International's Corruption Perception Index has worsened, dropping from year to year. In 1998, Malaysia was ranked 29th, dropped to number 37th in 2003, and in 2008 dropped further to rank 47th. In 2011, Malaysia is ranked 60th (Transparency International, 2011).

for both the national and global economy (Al-Zaquan, 2012; Damodaran, 2012). Malaysia's FDIs, relative to neighbouring countries, from 1970 to 2010 are shown in **Figure 7.1** below. The graph shows the worsening of Malaysia's position in terms of FDI inflows.

Figure 7.1: FDI Inflows in Malaysia and Its Neighbouring Countries



Source: UNCTD FRD Report (http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx)

The efforts on corporate governance reform then focus on the setting up of independent bodies, and establishing rules and guidelines to enhance corporate governance practices in the country. This is discussed further in a later section. As for *Bumiputera*, even though during this time period *Bumiputera* policy was put on the backseat, but as the country furthers its liberalisation policy, the issue of *Bumiputera* comes to the centre of attention. Liberalisation efforts are discussed next.

7.2.2 Further Liberalisation of the Economy

The discussion concerning the Asian crisis above indicates the slowing down of the Malaysian economic engine since the crisis. The country, which was once labelled as an ‘economic miracle’ with an annual rate of growth of 8% or 9% since the late 1980s (see for example, Okamoto, 1994), is now threatened with being caught in the “middle income trap” (Schuman, 2010). The argument for the formation of the income trap is that Malaysia is now an upper middle income country; hence, no longer able to compete with lower income countries in the region in terms of attracting FDI by providing cheap labour. At the same time, Malaysia has not made sufficient investments to compete with more developed economies. This, therefore, created the income trap (Malhotra, 2011). This stagnation could jeopardise Malaysia’s aim to become a high income country as contained in the Vision 2020, launched in 1990. Therefore, a radical economic reform is considered as a matter of urgency. Malaysia responded by opening up its economy through further liberalisation.

Liberalism is one of the three state traditions, besides corporatism and statism, associated with modern market economies (Weiss, 2010). The characteristics of liberalism or neo-liberalism includes strong private property rights, free markets, and free trade where the role of the state is to create and preserve an institutional framework appropriate to such practices (Harvey, 2005). In this economy, such as the US and the UK, the state intervenes only to correct market failure. Under corporatism, states coordinate and pursue more extensive social policies; while for statism, actors use the power of the state to achieve developmental goals of structural transformation and technological catch-up (Weiss, 2010). According to Harvey (2005), there has been an emphatic turn everywhere towards neo-liberalism in political-economic practices and thinking since the 1970s. As for Malaysia, it began to introduce economic liberalisation policies in the 1980s, and further accelerated trade liberalisation policies in the latter half of the 1980s by drastically easing restrictions in the capital ownership of foreign companies to attract FDI.

In 2009 the government announced some liberalisation efforts starting with the liberalisation of 27 services sub-sectors, where the government removed the 30%

Bumiputera equity requirement with immediate effect. This was in line with the ASEAN trade liberalisation, and was an effort to attract more foreign investment and bring more professionals and technology to strengthen competitiveness of the sector (Kok Leong Chan, 2009; F. Ng, 2009). This was followed by the liberalisation of the country's financial sector, which is consistent with the objectives committed to under the Financial Sector Master Plan (FSMP) issued in 2001 to develop a resilient, diversified, and efficient financial sector (Bank Negara Malaysia, 2009). This involves the liberalisation of foreign equity of up to 70% of companies in the financial sector, except for commercial banks. Later that year, the government announced a major reform whereby the 30% *Bumiputera* quota requirement, which had defined the country's political system for 37 years, was removed[47]. The FIC that contained the *Bumiputera* policy was also ended as it failed to achieve its objectives. Instead, the government realised the need to ensure high standards of ethical conduct and the practice of good corporate governance, and the need for effective enforcement against corporate crime and securities offences. Hence, the enforcement power of the SC on corporate governance transgressions is to be strengthened through the far reaching amendments of the Capital Market Services Act. In March 2010 the Prime Minister unveiled the first of two documents on the country's new economic model – named the New Economic Model (NEM), developed by the National Economic Advisory Council (NEAC) which aims to bring Malaysia out of the middle-income trap. Malaysia's approach towards liberalisation, however, is selective and sequenced to ensure maximum benefits to the country (Bank Negara Malaysia, 2009).

Economic liberalisation in Malaysia is more like 'translation' rather than 'diffusion' where the country selects "relevant neo-liberal concepts and conceptions from ideas available to them and use them in ways that displace the existing order of interpretation and action and trigger a shift in policy attention, preferred policy models, and opportunities for political action"; in contrast to diffusion, where an idea is transferred unchanged from one country to another (Kjaer & Pedersen, 2001, p. 219). The neo-liberalisation concepts, related to both corporate governance and

[47] The *Bumiputera* equity target is still being pursued using different mechanisms (i.e. at a more macro level) as explained in the country's New Economic Model and Malaysia 10th Economic Plan.

economic development, are conditions of institutional order of the country, in particular *Bumiputera* institutions. Hence, the analysis will show how, despite moving towards a more liberalised economy, the government still plays its role in promoting *Bumiputera*'s interests.

7.2.3 The New Economic Model

Prior to the establishment of the NEM, the course of Malaysia's development was encapsulated in three national policy frameworks, which are the New Economic Policy (NEP) 1971-1990, the National Development Policy (NDP) 1991-2000, and the National Vision Policy (NVP) 2001-2010. As the NVP finished its course in 2010, the Prime Minister formed the NEAC to formulate an economic transformation model for the country, as the government felt the need for more radical measures to respond to the issues faced by the country, as discussed above. The Council was made up of local and foreign economic experts, including a representative from the World Bank. The NEAC was entrusted with the responsibility of providing a fresh view on Malaysia's strategic position in the global economic arena, and recommending a transformational strategy for the country with the objective of transforming Malaysia from a middle income economy to a high income economy by 2020.

The NEM, which is to be achieved through an Economic Transformation Programme (ETP), is part of the four key thrusts or pillars of the country's agenda of national transformation to achieve Vision 2020. The other three pillars are the 1Malaysia concept, the Government Transformation Programme (GTP) and the 10th Malaysian Plan 2011-2015 (10MP). Part 1 of the documents, titled "Part 1 of NEM for Malaysia", concerns Strategic Policy Directions. One of the important goals of the NEM contained in Part 1 of the documents (which is also a key part of the model), is the concept of "inclusive growth" which enables all communities to contribute to and share in the wealth of the country. The principle of the new affirmative action policy, which will be part of inclusive growth under the NEM, is that it must be market-friendly or it must be an affirmative action policy that is market-based.

It is noted in the NEM document that the past practices of ethnic-based quotas, which have been imposed extensively throughout the economy, have given rise to unhealthy and pervasive rent-seeking and patronage activities over-shadowing and irreparably harming the meritorious performance of key affirmative action programmes. The growth of bribery and corruption is closely associated with the growth of rent-seeking in the economy. Shortages of qualified *Bumiputera* and capital have encouraged the setting up of spurious fronts. Excessive use of ethnic quotas has encouraged the use of less qualified recipients and bred inefficiency[48]. It is claimed that excessive focus on ethnicity-based distribution of resources has contributed to a growing separateness and dissension. The report claims that all stakeholders are demanding that these practices be revamped and changed to make them more effective, equitable and inclusive.

Part 2 of the NEM, titled "NEM for Malaysia: Concluding Part", was unveiled in December of the same year. It covers the Strategic Policy Measures, which set out in greater detail the policy measures embedded in the eight Strategic Reform Initiatives (SRIs) of the NEM designed to bring Malaysia towards the goal of becoming a high income economy by 2020. One of the policy measures to eliminate rent-seeking behaviour is to revise the public sector governance framework (p. 16). The government should ensure that the principles of sound public sector governance are adopted by all agencies and that sanctions are levied against bad practices, as any government that is ineffective in battling rent-seeking behaviour and corruption, damages the country's effectiveness in attracting investment (p.15).

As mentioned earlier, the discussion on the Asian crisis and liberalisation of the economy set the context for the analysis of corporate governance and *Bumiputera* institutional changes. The next section presents the analysis concerning corporate governance post Asian crisis.

[48] This statement made in NEM Report Part 1 is inconsistent with interview data. There are capable *Bumiputera* but the issue is on the choice (i.e. which *Bumiputera* were selected; on what basis). However, the point concerning shortage of capital is consistent with the statement by P2.

7.3 The Attention to Corporate Governance

7.3.1 The Reform Efforts

As discussed above, the Asian crisis uncovered various weaknesses in corporate governance conduct in Asian countries. Malaysia was very quick to take steps to address the issue; its efforts towards strengthening corporate governance includes establishing relevant bodies and organisations, establishing the Code of Best Practices, and working closely with international organisations such as the OECD, which is discussed in the next section. In March 1998 the government announced the establishment of the Malaysian Institute of Corporate Governance (MICG), and also the establishment of a High Level Finance Committee on Corporate Governance (HLFC). This was a coordinated effort between the government and the private sector to establish a framework for corporate governance and set best practices for the industry[49]. After consultation with selected bodies not represented on the HLFC, the Committee then published its report in March 1999 covering three broad areas, namely; the development of the Malaysian Code on Corporate Governance, reform of laws, regulations and rules, and training and education (Finance Committee on Corporate Governance, 1999). The milestone of the implementation of the Report is presented in **Table 7.1** below, under the heading “Post crisis”.

[49] The HLFC is chaired by the Secretary General of Treasury (Ministry of Finance) with members consisting of SC, FRF, MASB, CCM, the then Bursa Malaysia, MAICSA, BNM, Association of Banks Malaysia, Association of Stock-broking Companies Malaysia, and Federation of Public Listed Companies.

Table 7.1: Corporate Governance Milestones

PRE-CRISIS	POST-CRISIS		
	Rules and regulations	**Best practices**	**Institutional reforms**
<u>Statutory provisions</u> Companies Act 1965 Companies Regulation 1966 Companies (Winding Up) Rules 1972 Securities Industries Act 1983 Securities Commission Act 1993 <u>Rules, Regulations, Guidelines</u> Bank Negara requirements for banks and insurance companies to establish AC (1985) Listing Requirements to mandate all PLCs to have AC (1993) <u>Institutional establishment</u> Financial Reporting Foundation (1997) Malaysian Accounting Standard Board (1997)	Listing requirements strengthens rules on related party transactions *(July 1998)* New Malaysian Code on Takeovers and Mergers *(January 1999)* Listing Requirements mandate quarterly reporting *(August 1999)* Guidelines on Issue/Offer of Securities to facilitate equity participation by independent directors *(December 1999)* Amendments to securities and company law to harmonise the regulatory regime for prospectuses *(July 2000)* Major revamp of KLSE Listing Requirements – new chapter 15 on corporate governance *(January 2001)* SC introduces merit-demerit incentives in Guidelines on Issue/Offer of Securities *(April 2003)* Amendments to securities laws – whistle blowing *(January 2004)* SC issues guidelines to facilitate shift to post-vetting of prospectuses *(2005)* Bank Negara Malaysia issues Guidelines on Corporate Governance for Licensed institutions *(2005)* Companies (Amendment) Act 2007 *(August 2007)* Amendment to Listing Requirement in relation to Revised MCCG *(January 2008)*	Malaysian Code on Corporate Governance *(March 2000)* MAICSA best practice guidance of company secretaries *(November 2000)* Taskforce on Internal Controls issues a guidance for directors on statement of internal controls *(February 2001)* Institute of Internal Auditors issues guidelines on the internal audit function *(July 2002)* Taskforce on Corporate Disclosure Best practices launched 'Best Practices in Corporate Disclosure' *(August 2004)* Bursa Malaysia released Best Practices in Islamic Stock broking Services Undertaken by Participating Organizations *(September 2007)* Revised Malaysian Code on Corporate Governance *(October 2007)* MIA released Guidance related to financial statements for preparers, audit committees, auditors *(January 2009)*	Malaysian Institute of Corporate Governance established *(March 1998)* Minority Shareholder Watchdog Group formed *(August 2000)* Director's Mandatory Accreditation Programme commences *(April 2001)* SC licences Minority Shareholder Watchdog Group as an investment advisor and receives grant of RM250,000 *(March-April 2002)* Director's Continuing Education Programme commences *(July 2003)* High Level Committee on Corporate Governance Enforcement established *(May 2004)* Institutional Shareholders Pro-tern Committee formed led by MSWG *(2005)* Audit Oversight Board

Source: Extended from the Securities Commission website

Following the recommendation of the Report, the Minority Shareholder Watchdog Group (MSWG) was established in August 2000 to encourage independent and proactive shareholder participation. A working group called the Working Group on Best Practices in Corporate Governance (JPK1) was then set up to develop the Code, which was then approved by the HLFC and released by the SC in 2000. This was accompanied by the release of the Revamped KLSE (now Bursa Malaysia) Listing Requirements on 22 January 2001. This is a major milestone in Malaysia's efforts to promote better corporate governance among public listed companies, and to bring into effect recommendations of the HLFC which relate to the Listing Requirements. The principles underlying the Code focus on four areas, namely; board of directors, directors' remuneration, shareholders, and accountability and audit[50].

In 2001, the CCM introduced the Corporate Directors Training Programme which aims to enhance the country's corporate governance and educate directors, and would-be directors, on their roles, responsibilities, as well as rights and offences and penalties for which they may be liable. MAICSA also offers a similar programme for directors and corporate management – the Awareness Programme on Corporate Governance.

The second reform agenda undertaken by Malaysia was the release of the Capital Market Master Plan (CMP) in February 2001, which is in fact built up from the HLFC Report. It contains 152 recommendations dealing with the development of the institutional and regulatory framework for the capital market from 2001 to 2010; 10 recommendations focus on corporate governance. The implementation of the CMP was divided into three phases – Phase 1 (2001 – 2003), Phase 2 (2004 -2005), and Phase 3 (2006 – 2010) (Securities Commission, n.d.). By 2001, The Malaysian capital market shifted from a merit-based-system (MBS) to disclosure-based-regulation (DBR).

The third reform agenda was the establishment of a Corporate Law Reform Committee (CLRC) in August 2003 to undertake a comprehensive review of the Companies Act 1965 to reflect the current and future needs of the business

[50] Part 1 of the Code sets out the principles of corporate governance; Part 2 concerns best practices; Part 3 covers the principles and best practices for other corporate participants; while Part 4 provides explanatory notes.

environment. This led to the release of the Companies (Amendment) Act 2007, which introduced 24 new clauses into the Companies Act 1965. These include new provisions on duty and care, skill and diligence, related party transactions, statutory derivative actions, disclosure requirements and the prohibition of interested directors from voting, whistle blowing, and auditor's duties. As corporate governance initiatives in Malaysia were undertaken long before the crisis, the various initiatives taken after the crisis to strengthen corporate governance only re-affirm and complement the existing corporate governance structure.

The government's intention to further improve the Malaysian corporate governance framework was announced by the Prime Minister during the presentation of the 2008 Malaysian Budget Statement, which involved two more initiatives. The first was to revise the existing MCCG to include criteria for qualifications of directors and the strengthening of the Audit Committee, as well as the Internal Audit function of public listed companies (Soon, 2007). The related amendment to the Listing Requirements of Bursa Malaysia was then made on 28 January 2008. The second initiative was to establish a Public Companies Accounting Oversight Board (now known as Audit Oversight Board or AOB) under the auspices of the SC, which will be responsible for monitoring auditors of public companies to ensure that the quality and reliability of audited financial statements is enhanced. This aims to prevent corporate accounting scandals and improve investor confidence. Malaysia aims to position itself "on a level playing field in the global financial capital market which is demanding enhanced regulations and oversight in the wake of spectacular business failures spawned by the US sub-prime crisis and exacerbated by the global credit crunch" (Accountants Today, 2008).

7.3.2 Cooperation with International Organisations

In the aftermath of the Asian crisis, a number of co-operation initiatives were taken by various organisations to help improve the corporate governance systems among the Asian countries. These efforts have, to a large extent, affected the way reforms are initiated and carried out in Malaysia[51]. The various initiatives, studies, and

[51] These reports and studies are important in Malaysia and taken seriously by regulators as evidenced by statements and responses made in local newspapers subsequent to the release of those reports. Their comments are normally followed by further initiatives.

reports conducted and published by major international organisations that played a role in Malaysian reforms, are presented in ***Appendix 6***. These reports generally discuss the status of Malaysian corporate governance and recommend areas for improvement. Some reports make comparisons between countries in the region and some provide benchmarks. On the other hand, Malaysia has also been active in working with these organisations in promoting good corporate governance in the region. This includes its involvement in APEC corporate governance initiatives and the OECD Asian Roundtables on Corporate Governance. In 1998, for example, APEC Finance Ministers launched a collaborative initiative on corporate governance, and Malaysia was given the responsibility to coordinate the initiative. This led to the establishment of the APEC Core Group on Corporate Governance[52], led by Malaysia as the secretary, in collaboration with Australia, the US, the World Bank Group and the Asian Development Bank (ADB).

In response to the growing awareness of the importance of good governance for investor confidence and national economic performance, the OECD published 'the OECD Principles of Corporate Governance' in May 1999. The Principles are influential as it formed the basis for a number of reform initiatives, and became the international benchmark for corporate governance, including being the basis for the corporate governance component of the Report on the Observance of Standards and Codes (ROSC) of Corporate Governance, conducted by the World Bank Group. In 2002 the OECD Ministers called for an assessment of the Principles; after extensive and open consultation and public comment, the revised Principles were released in April 2004. The OECD Principles of Corporate Governance provide specific

[52] The Core Group published a report entitled "*Strengthening Corporate Governance in the APEC Region", endorsed in 1999.* The report sets out measures that can be adopted by economies wishing to strengthen their corporate governance systems, with particular emphasis on developing member economies. It identified leading issues in Asian corporate governance, highlighted during the crisis, which could guide the adoption of practical measures to strengthen corporate governance in the region and sought to aid the process of developing practical reforms to address these issues (APEC, 1999; The Securities Commission, n.d.). Another initiative by APEC was the publication of the "*APEC Corporate Governance Pathfinder Report*" by the Australian Government, proposed in 2002 and tabled in September 2004. The pathfinder is a peer review process with the objective to encourage greater participation in the IMF and World Bank Reports on the Observance of Standards and Codes (ROSC) process. It also reports on members' achievements and plans for corporate governance reform. The goal is to encourage all APEC economies to actively improve their corporate governance standards and to highlight APEC's progress in corporate governance reform (Australian Government, 2004).

guidance for policymakers, regulators and market participants in improving the legal, institutional and regulatory framework that underpins corporate governance, with a focus on public companies. They also provide practical suggestions for stock exchanges, investors, corporations and other parties that have a role in the process of developing good corporate governance.

The Corporate Governance ROSC assessment aims to identify weaknesses that may contribute to a country's economic and financial vulnerability. It reviews the legal and regulatory framework relative to an internationally accepted benchmark (The World Bank, 2005a). Malaysia has submitted for Corporate Governance ROSC assessment in 2001 and 2005. Given that the country's participation is voluntary, this shows Malaysia's seriousness regarding its move to enhance its governance system. Very recently, Malaysia submitted for the ROSC Accounting and Auditing 2012. The report acknowledges that Malaysia has made significant investments in developing efficient and well-regulated capital and financial markets and good progress has been achieved in improving the quality and consistency of corporate financial reporting and corporate governance for public interest entities over the last ten years (World Bank, 2012). Another quantitative indicator prepared by the World Bank is the "Doing Business" report that compares and ranks economies over time. One governance aspect presented in this report is investor protection. Malaysia has been ranked twice in this study, i.e. in 2007 (The World Bank, 2007) and 2008 (The World Bank, 2008).

7.3.3 The Key Actors' Views

From the discussion with the regulators, it is found that all are of the view that corporate governance practices in Malaysia have improved, especially in terms of compliance with rules and guidelines. Some reports were shown by some of the interviewees to support their statements. All interviewees suggest that awareness towards corporate governance increased following various efforts taken by regulators. Also, all interviewees are of the opinion that the Code of Best Practices in Malaysia, which is adapted from more developed countries, particularly drawn from the Anglo-Saxon system, is the best for the country as the country is moving towards being a more liberalised nation. This suggests that corporate governance initiatives, or pressures for reforms, are heightened by the neo-liberalism policy of the country.

However, although there is improvement in terms of compliance with the rules, there are still concerns about some board practices, especially related to competency and independence of the directors. These then lead to the problem of lack of accountability. An incompetent board affects their efficiency in discharging their duties. As explained by personnel from a regulatory body, the evidence of directors' lack of knowledge is obvious when they take actions against directors, and the same directors appear on the disciplinary committee. It could be seen that they are really lacking in terms of knowledge, including knowledge about their own company or business and other basic areas of knowledge. This is due to their over-reliance on auditors and management for advice whenever they make decisions.

Directors have fiduciary duties towards the company and, in order to discharge those responsibilities, directors should be able to make informed decisions. This requires them to ask relevant questions of the management. The directors' ability to challenge, question, probe, discuss, test, inform, debate, explore and encourage are important in achieving accountability, and directors' behaviour affects board effectiveness; whilst structure, composition and independence merely condition it (Roberts et al., 2005). However, due to incompetence, this accountability of the board is questionable. Lack of expertise and knowledge on the part of individual directors leads to lack of challenge at board meetings. The Chairman of the SC reveals this issue in her speech recently (Securities Commission, 2011):

> *"But sometimes the lack of challenge at board meetings may be due to the lack of knowledge of the business being discussed. I think it is critical that members of the board have adequate knowledge of the industry that the company is involved in, so that they can question and challenge recommendations being put forward for their consideration, as well as why potential alternatives have been rejected. Knowledge of the industry will give them an understanding of what can go wrong and what measures need to be put in place to prevent problems from arising. Indeed it can prevent a company from being destroyed by competition or by the mere effluxion of time."*

The issue concerning directors' independence receives much attention from academics, researchers, practitioners and regulators. The newly launched "EPF's

Corporate Governance Principles and Voting Guidelines" for example, cited independence to exercise objective judgement and a sufficiently strong effective board as being one of its four principles of corporate governance (EPF, 2010). Given that these issues have been addressed by the Corporate Governance Code, and various rules and guidelines, the question remains as to whether other non-regulative factors cause these issues. Regulators acknowledge these problems but do not accept other non-economic factors, such as the impact of *Bumiputera* policy. Not many appear to be concerned about social factors. For example, not many admit that *Bumiputera* contributes to some form of corporate governance practices. Most of them see *Bumiputera* as only a policy, which is 'separate' from the corporate governance field; in much the same way that they view the impact of ethnicity. It has been argued that ethnicity does not matter; since Malaysia is a multi-ethnic country, it makes sense that boards should have ethnic diversity. This means that ethnicity is not a factor to be considered in board appointments, although the MSWG Corporate Governance Report 2010, for example, put board diversity in terms of ethnicity as one of its recommendations, showing that at present it is not really a common practice. Below is a comment made by R2 relating to *Bumiputera* policy's impact, or rather non-impact, on corporate governance, which is shared by many others:

> *"I think the NEP issue should not be part of corporate governance. It's nothing to do with corporate governance. It's a policy matter above or outside corporate governance. It's a government issue to develop the country as a whole. It's nothing to do with corporate governance you know."*

As discussed above, the Asian crisis marks a shift in the nation's attention to the corporate governance system. During this time, *Bumiputera* has taken the backseat, while significant efforts have been directed to improve the corporate governance system in the country. However, as the country moves towards achieving its goal to become a high income country, as contained in Vision 2020, some of its liberalisation policies directly affect the *Bumiputera* institution. Therefore, the following section discusses the struggles within the *Bumiputera* institution.

7.4 *Bumiputera* Re-assessed? The Conflicts

Post-Asian crisis, the liberalisation of 27 service sub-sectors in 2009, and later the deregulation of FIC guidelines and the removal of the 30% equity requirement for listed Malaysian companies, mark the efforts which directly impact upon

Bumiputera. When this phase of liberalisation policy was announced, it did not cause great concern among the Malay community, although the partial opening up of Malaysia's service sector to unrestricted foreign investment and non-*Bumiputera* equity are expected to impact upon the *Bumiputera* business community, especially medium and larger *Bumiputera* companies (Lee, April 23, 2009). However, when the first part of the NEM was unveiled in March 2010, it created uproar among the Malay rights groups for its lack of regard to *Bumiputera* (The Star, 2010). The NEM, which aims to bring Malaysia to the level of a high income status country, only mentioned the term '*Bumiputera*' twice in its document, and those were only for criticising the previous policy of NEP. From this group's perspective, this new policy appears to be doing away with the NEP spirit. They responded to it, and held a Congress called the BEC for NEM. At the same time, non-Malays welcomed the move, with the Chinese holding the Chinese Economic Congress (CEC). The following sections discuss these two congresses and the conflicting views on the *Bumiputera* institution.

7.4.1 The *Bumiputera* Economic Congress

Before the release of the NEM document, in February 2010, a group of 76[53] Malay Non-Government Organisations (NGOs) came together and formed an umbrella body, the Malay Consultative Council or "MPM" to defend and protect the rights and interests of the Malays. One of the NGOs is the "*Pertubuhan Pribumi Perkasa Negara*" or PERKASA, established in September 2008 with the aim of defending the rights of *Bumiputera* from being eroded by certain quarters. It was claimed that the Council was set up because there have been many efforts, especially in recent years, to dismantle the Malays' special position. The Council's objective is to urge the government to safeguard the Malays' rights as contained in Article 153 of the Constitution. On 29 May 2010 the Congress was convened to respond to the release of the first part of the NEM document. The Congress' theme, "Strengthening the *Bumiputera* Economy", was aimed at generating input to ensure the NEM protects the *Bumiputera* economic agenda and warned that a failure to do so may lead to discord. The Congress passed 31 resolutions, which were then handed to the PM. Following the demand, the PM assured that (in his speech during the closing

[53] The number later increased following the holding of BEC in May 2010 where more Malay NGOs pledged their support and joined the Council.

ceremony of the Congress, which the author attended), firstly, the NEM document is the NEAC's document and was not the government's official document as at that time. Secondly, he stated that he will not do away with *Bumiputera* policy; instead he will use a different approach in pursuing their interests. Therefore, following the Congress, the 10MP was amended to explicitly include measures to continue to promote *Bumiputera*'s interest.

A discussion with one of the key figures of MPM (P1), following the Congress, later revealed his concern, which is to ensure that *Bumiputera* is not abandoned. He mentioned that:

> *"[…] what is more important than ensuring Malay interest, Bumiputera interest, been craved in the NEM and 10th MP, which is Bumiputera agenda. So, that is the most important now. So, if that could be produced by the Congress, it is the biggest achievement for now. […] That is why, according to my colleague at EPU, 10th MP was amended in chapter 4 because of Bumiputera (Congress), you know; to accommodate what we've voiced out. So, there is the success of the recent Congress."*

Therefore, he considered the Congress as being successful in making *Bumiputera* policy explicitly written in the country's economic policy:

> *"So, with this BEC, Bumiputera becomes alive again. And after it's been strengthened, it's been craved in the 10th Malaysian Economic Plan (10th MP), it becomes official again."*

It has been claimed that the Congress was able to put pressure on the government to re-consider the NEM's intention of doing away with the *Bumiputera* policy. On the other hand, a few articles appeared in local newspapers questioning the PM's position following the Congress. However, the response from the non-Malays, i.e. the Chinese, came later that year when they held the CEC, as discussed below.

7.4.2 The Chinese Economic Congress

In response to the NEM and the BEC, in August 2010, the MCA organised a similar congress, the CEC. While the BEC was organised by the NGOs, the CEC was supported by the MCA, which is part of the government. The CEC produced 13 resolutions. The first two resolutions pledged their support for the NEM initiatives, which seem to promote liberalisation of the economy and support for the following: the One Malaysia concept, the 10th Malaysian Plan and the Government

Transformation Program, which form the foundations for the New Economic Model. Resolutions 3 and 4 call for the abolishment of the *Bumiputera* special position and read as follows:

> ***Resolution 3:*** *In line with the promotion of good governance and greater transparency, the Congress urges the Government to practice an open tender system in government procurement to achieve a level playing field in the local business environment, and the gradual removal of 30% Bumiputera equity in all sectors of the economy.*
>
> ***Resolution 4:*** *The Congress urges the Government to practice inclusive policies by liberalizing the government-linked companies (GLCs) to include more multi-ethnic Boards of Directors and workforce within the GLC eco-system, and to award contracts to the best qualified local companies in their tender, regardless of their equity composition.* (Source: www.mca.org.my)

From the interview with P2, a former PM, the suggestion to scrap *Bumiputera* interest is improper since such policy is not a privilege; rather a protection for the Malays economically. Hence a clear statement or policy is needed to ensure that is protected, as mentioned by him below:

> *"But the NEP is not about being the privileged people. It's about the "tongkat", crutch for them to make progress. But the government is taking away […]. It's not like having non-privileged, it is protection. […] They (the non-Malays) talked (about) meritocracy because they see the Bumiputera as having certain protection in the forms of quotas and something like that. Take away all those quotas and give on the basis of merits, simply because the basis of merit, they will dominate, you see."*

In contradiction to this, a minister in the Prime Minister's Department (Malay) quite recently made a statement that privileges and benefits offered to *Bumiputera*, in terms of equity participation and quotas, should be extended to include other races as well (Barrock, 2011). These Chinese resolutions have in fact given pressure to the government, as evidenced in the PM's speech while addressing the Congress (the CEC). While earlier, during the BEC, he appeared to have listened to the Malays' request by re-inserting *Bumiputera* in the 10th Malaysian Plan, his speech during the CEC illustrates his commitment for reform as below:

> *"The liberalisation of the services sector announced early last year signalled my commitment to reform. This was done to create a conducive business environment to attract investments, technologies and higher value employment opportunities. The Government's removal of the Bumiputera ownership requirement involved dealing with an entrenched policy that had widespread Malay support. Nonetheless, this government lived up to its commitment to do away with the FIC."*

Based on the discussions with some non-Malay interviewees, it could be seen that they do not believe the government would drop the NEP completely. The following comment was made by R2 (non-Malay) regarding the government's "indecisiveness" of the NEM, as well as acknowledging the difficulty on the part of the government to take bold measures against *Bumiputera* in the face of pressures from the Malays:

> *"[…] it's been in NST (newspaper) this morning, you'll find it. […] and he (the PM) said NEP still stands…he said he didn't remove it…somewhere in there, you'll find it. But that's PM. He'll be under the political pressure, he can't remove that, you know. We all know that. But the question is he has to start seeding this idea of getting out of this negative connotation; but it's not easy to remove."*

A similar point was made by a director of one GLC (non-Malay), D3, regarding the dilemma faced by the government concerning *Bumiputera*:

> *"But getting it done (the NEM), you know, like PM to see this and that and it affects somebody, you know. They are, like PERKASA, anything PM says they will be saying something else. So it's a challenge because running the country is not the same like running a company. […] Running a political government, you have to know how to do mid ways, middle ways, meet everybody's expectations, so it's tough."*

However, despite liberalising the economy and dropping the 30% *Bumiputera* equity requirement, the government's commitment towards *Bumiputera* continues and more significant measures are taken. This is discussed in a later section. The next section discusses more conflicting views concerning *Bumiputera* policy.

7.4.3 *Bumiputera*: Tensions and More Conflicting Views

Given the arguments above, the MPM of course does not represent the position of the overall Malay community. There is a fraction of the Malay community who felt that the policy does not benefit the *Bumiputera* people as a whole, but only benefits a small fraction of those who are close to power, as well as benefitting the non-Malays who have connections to these people (people with power). One of the interviewees, D4 (Malay), argues that the *Bumiputera* is purely a political agenda and does not mean much to the community, either Malays or non-Malays. The policy is used to win over Malay voters. Some of the Malay interviewees argue that the *Bumiputera* policy itself has failed to achieve its objectives. Speaking about the government intention to create Malay entrepreneurs, D2, a Malay CEO from a GLC, argues point blank that the objective has failed. The mechanisms put forward have failed to produce Malay entrepreneurs, although all the help that they need is provided by the government.

However, a more blunt statement about *Bumiputera* policy was made by the PM's own brother, who is also the CEO of a GLC. At the CEC he claimed that *Bumiputera* has been "bastardised", which refers to the fact that it has been subjected to severe abuse by people in power. The statement highlights the unintended consequences of the *Bumiputera*. He called on the government to restructure the policy:

> *"I've a strong opinion on how the NEP has been bastardised over the years since 1971. […] At that time, no one knew what the outcome would be. It was a social engineering experiment that no one had ever done before in any other country. So they gave it 20 years and they felt that after 1969, they had to give it a try. But now, it (NEP) is so embedded in everything we do, in every part of government and businesses that it has become a problem. And every time I mention the NEP, I get blasted."* (New Strait Times, 2010).

It is also not unusual in the country to have non-Malays criticising the *Bumiputera* policy. For example, D3, a non-Malay director of a GLC, questioned the fact that CEO positions on GLCs are always reserved for the Malays. As discussed earlier, the establishment of GLCs are for the purpose of pursuing *Bumiputera* interests. However, there is no explicit requirement about who should occupy which position; except a general statement that boards of directors should share the same aspirations as the government, with regards to *Bumiputera*. Besides that, many criticise the policy as they consider it causes abuse of position or power. This abuse is in fact an unintended consequence of the policy. A statement made by R3 (non-Malay) gives the impression that, for her, the explicit policy itself is not important, but the abuse of "power" should be dealt with (in other words, to end the policy). She claims that:

> *"[…] and I don't think this thing [Bumiputera] is bad policy, honestly. If let's say you talk to me about Bumiputera policy also, I'm okay, you know. If you are the person who merit it, and able to, go ahead. If you feel you are lesser in certain things and want to move up also, it's okay with me because finally*

> *[we] go up together. Let's all go, you know. I am not negative about that, as long as also we are given certain aspects, let say the rest of us who are not Bumiputera. Then you wouldn't grudge much and we will do our best, work hard for all of us to go up because there's so much of wealth. Let's all share the wealth together. But if you are going to be, you know, selfish in wealth creation, you won't have a bigger pie; you will have a smaller pie all the time."*

Another CEO from a non-GLC company, D5 (Malay), also gives the same impression about *Bumiputera* institutions when he cynically questions the appointment procedures of one GLC to the board of directors, as well as his angry statement relating to another GLC, which shocked the country when they recently reported more than RM1.6 billion in losses:

> *"You know they should just remove all the directors of the xxx (a GLC) because it wasn't governed properly, correct or not?"*

However, despite the calls by Chinese politicians to abandon the policy, a prominent Malaysian historian of Chinese ethnicity, Professor Emeritus Tan Sri Dr Khoo Kay Sim, cites the history of Malaysia during the British colonial period to argue that the special rights of the Malays cannot be erased unless the Malays agree (Bernama, 2010). He explains that:

> *"When the British came to Malaya, they found that there were already Malay governments in several parts of the peninsular (Peninsular Malaysia), and the British recognised these governments. […] For the British, these people had their special rights. […] When the British planned the formation of the Malay Federation as a nation state, it was an extension of what already existed then, and by 1957, the Federal Constitution was formulated, incorporating the prevailing arrangement at that time. […] The special position of the Malays started since a long time ago and based on the system of government existed then. […] They (the people who questioned Malays' special position) don't understand (the Constitution) and are ignorant of what they can or cannot do."*

The discussion above shows that, as a policy that favours one ethnic group and 'disadvantages' others, *Bumiputera* is subject to contention from various parties not limited to the non-*Bumiputera*. Furthermore, as the country faces strong competition from other countries in attracting foreign investments, the voices against the policy become louder. In pursuing their interests, both Malays and Chinese mobilise their networks or organisations to respond to the government's new policy, when they believe such a policy may jeopardise their position. This was evidenced when the government introduced the NEM, which initially appeared to do away with the *Bumiputera* policy. The Malays formed an NGO, consisting of a number of existing NGOs, and held the BEC to inform the government that they would reject the policy unless the government brought back the clause that protected the *Bumiputera* interest. The Chinese also held their own Chinese Economic Congress and produced resolutions to request the government to abandon the policy, in order to improve the country's attractiveness to foreign investors.

From P2's (Malay) perspective, the Chinese Economic Congress is an effort on the part of the Chinese to further dominate the economy, given their advantage of having a track record in business for much longer than the Malays; even during the time of being a British colony. As he explains:

> *"It is obvious that it is a CEC. It is therefore in the interest of Chinese and it is in this interest of the Chinese that they should do away with the protection, the, and that's why. Soi Lek's [government Minister] statement that we should be based on merit, knowing very well if it is based on merit, the chances for the Bumiputera will get nothing. For example, now we have, for government contract. Bumiputera has a 5% advantage. Do take away that one and then of course the Bumiputera will find that they will not be able to compete, it will go to the Indian or Chinese."*

At the same time a political opposition party, the Pakatan Rakyat, called for the scrapping of the 30% *Bumiputera* equity target because it is claimed that it "had been hijacked by cronies and special interests to enrich themselves at the expense of general public", which saw the disparity between rich and poor widening significantly (Bernama, 2012). Professor Khoo (a prominent historian) believes that the recent change in *Bumiputera* policy is a political move rather than an economic one. As he claims:

> *"It is a political move because I think the PM is aware the relationship amongst the races is getting to be quite troublesome and it could in fact affect the ruling party because it has been shown especially in the last few by-elections the non-Malays are voting solidly for the opposition"*(C. Chua, 2009).

Further efforts on the government's part are discussed next.

7.4.4 Further Efforts

Following the establishment of the NEM, various new efforts were made, and existing efforts strengthened, to pursue the *Bumiputera* agenda. **Table 7.2** below summarises the key efforts by the government.

Recently, the government announced their plan to dispose of their interest in 33 GLCs, which caused another stir among the Malay community, as this will directly affect their interests (Aida Rizmaria, 2011). The PM referred to liberalisation in a speech and mentioned that "the world is changing quickly and we must be ready to change with it or risk being left behind. […] it is not time for sentiment or half measures but to renew our courage and pragmatism to take the necessary bold measures to advance the national interests for the long term benefit of all Malaysians" (The Associated Press, 2009). However, the commitment to pursue *Bumiputera*'s interest has seen the selling-off of GLCs – 10 GLCs will be made to *Bumiputera* companies through an open tender system (Utusan Malaysia, 2012).

Table 7.2: Mechanisms to Pursue *Bumiputera* Interest Following the NEM 2010

Date (Effort)	Notes
2007 (Skim Jejak Jaya *Bumiputera* (SJJB)	- Established by the Ministry of Entrepreneur and Cooperative Development (MECD) with an agenda to elevate *Bumiputera* entrepreneur capabilities in the economy, particularly in the area of equity ownership. - Aims to have at least 30% *Bumiputera* control of new equity in the market. - Identifying *Bumiputera* companies that possess the required capabilities, providing assistance to ensure they qualify for listing on Bursa Malaysia.
10 June 2010 (Set up the *Bumiputera* Agenda Action Council or MTAB)	- To set policies, strategic direction as well as review the progress and delivery of various programmes and initiatives pursuant to the *Bumiputera* Development Agenda. (www.teraju.gov.my)
2 February 2011 (Unit Peneraju Agenda *Bumiputera* or Teraju)	- A unit in the Prime Minister's Department reporting directly to the PM and MTAB. - Objective is to spearhead, coordinate and drive *Bumiputera* transformation and participation in the economy, to reduce the economic gaps between *Bumiputera* and other races.
27 August 2011 (Establishment of RM2 billion Facilitation Fund)	- Resulting from the joint efforts of TERAJU and the Public Private Partnership Unit to provide support for Private Funded Initiatives (PFI) of *Bumiputera*. - For eligible *Bumiputera* companies to carry out big projects with minimum qualifying value of RM20 million. (Bernama, 2011)
20 July 2011 (High Performance *Bumiputera* Companies or Teras)	- The goal is to have vibrant participation of *Bumiputera* SMEs in the NKEA sectors and for *Bumiputera* SMEs to make significant contribution to the national GDP. - Will get access to new business opportunities, financing, business consultations - Criteria includes *Bumiputera* equity of 60%-100%; CEO/MD must be *Bumiputera*; majority of management teams are *Bumiputera*; must not be a subsidiary of a GLC/MNC (www.teraju.gov.my) - Selected 30 companies; target to have 100 companies in 3 months. - Priority for bidding contracts. (Saifulnizam, 2011)
26 November 2011 (Launched *Bumiputera* Economic Transformation Roadmap)	- Encompass policies and strategies to correct the current imbalance in income and wealth distribution. - Three strategic areas of focus: reform of policy instruments and rationalization of delivery system; strengthening education and building capabilities and acquiring; creating or developing businesses with sufficient scale. - To enhance the value of *Bumiputera*-owned assets such as unit trusts, "zakat" funds and "waqaf" land via pooling them. - Management of the assets by government institutions. (E. Ng, 2011; Samy, 2011)

7.5 Discussion: Change or Persistence?

7.5.1 *Bumiputera* Institution

Previous studies on NEP show that, as a policy, NEP is dynamic; its mechanisms have been continually amended since the 1980s to take account of changing external conditions, as well as the mechanisms' own successes and failures (Geoffrey & Stafford, 1997, p. 559). The policy was also described as dynamic and allowed for liberalisation to respond to short-term problems, while being committed to a long term development strategy, hence making growth possible (Snodgrass, 1995). However, these changes were just changes in mechanisms in order to achieve the stated objective of reaching the equity target. The objective of the policy to help the Malays was still being pursued despite these changes. However, the Asian crisis in 1997/98 put different pressures on the country; economically and politically. The recent development of the NEM, which initially excluded any provisions concerning *Bumiputera*, was seen as quite radical, as discussed earlier. This study utilises historical institutionalism to explain whether *Bumiputera* institutions have changed, and if so, why and how.

The persistence or change of *Bumiputera* institutions is important in the context of this study due to its direct impact on corporate governance. The discussion about liberalisation earlier in the chapter, in fact, "connects" *Bumiputera* institutions and corporate governance institutions. While corporate governance is being prepared for liberalisation legislatively, *Bumiputera* is under pressure and caught in a conflict between two groups. These are, namely; those who are in support of the policy and see the *Bumiputera* institution being adversely affected by the liberalisation movement and the need for protection; and the second group who are against the policy and see *Bumiputera* as obstructing the economic progress of the country and the process of liberalisation, and call for it to be scrapped. A new idea was brought in to help with economic development. This brings the role of power into the area of facilitating struggles. The struggles and conflicts then led to change in the *Bumiputera* institution.

Bumiputera policy concerns the distribution of economic resources in the country. As the overall economic progress of the country was at stake, with political power being in the middle, change has been made explicitly to the *Bumiputera* policy. In this sense, the *Bumiputera* institution is not static; it changes. Consistent with more recent arguments in historical institutionalism, the change in the *Bumiputera* institution is not one of a ‘punctuated equilibrium’. Despite the Asian economic crisis, it appears here that the change in the mechanisms of *Bumiputera* is more “evolutionary” or “progressive”. However, in contradiction to Thelen’s (2002) argument, the change is not a “subtle shift beneath the surface”, rather the scrapping of the 30% *Bumiputera* equity requirement is an explicit change. Furthermore, the change is not related to changes in function and form, but rather a change in the regulative mechanism of *Bumiputera*. The function of *Bumiputera* as a vehicle in pursuing *Bumiputera*’s interests still holds.

Having said this, as mentioned earlier the recent movement by the government has caused some segments of the Malay community to come forward and show resistance. The question being asked here is, while the *Bumiputera* emerged due to the political power of the Malays, has the recent change occurred as a result of a weakening of their power? The empirical evidence suggests that *Bumiputera* change could be in response to both exogenous and endogenous factors. However, exogenous variables have no institutional logic in explaining change (Gorges, 2001). Further analysis shows that change is due to the weakening power of the actors in pursuing that policy, and that they are now unable to protect the policy further. In other words, change in *Bumiputera* could not be reduced to economic conditions. Rather, it reflects the relative power of the groups in the country; for some, their struggle is to protect, while for others, their aim to abolish the policy.

As Hindess (1982) argues when analysing social relations, ‘outcomes’ are the product of the practice of agents and struggles between them; hence, outcomes cannot be conceived of as being necessitated outside of the particular conditions in which they are produced. Therefore, the change that is occurring now cannot be said to be occurring ‘outside’ these people or actors; the economy is not the factor that causes the outcomes of *Bumiputera* now, e.g. the changes in equity requirement. It has something to do with the conditions in which they are produced; it has to do with the power of UMNO, the struggles of the Chinese, and society as a whole. The central explanation for the changes or abandonment of *Bumiputera* policy is not the economic condition of the country, but the struggles of the actors within it. The Malays are 'losing' or 'sliding' in terms of power and this allows non-Malays to be able to put more pressure on the Malay-dominated government, and reduce the privileges given to the *Bumiputera*.

However, for DiMaggio (1998) "variation within polities over time are seen as reflecting changes both in the relative power of interest groups and in the openness of political institutions to different forms of political actions". From this perspective, changes in *Bumiputera* are not solely due to the relative power of the actors, but because the government itself has begun to be more open to the idea of the liberalisation of the economy. This is consistent with Schmidt's (2008a, 2010) argument that institutional changes are becoming endogenous, and proposing that such changes in institutions are due to a change in ideas and are discursive. These are also consistent with Thelen (2002) who argues that "Institutions rest on a set of ideational and material foundation that, if shaken, open possibilities for change".

In the case of Malaysia, ideationally, *Bumiputera* rests on the foundation that addressing economic imbalance by reducing the income gap between Malays and non-Malays is needed to ensure social stability. The institution also rests on the power of Malay politics, i.e. UMNO as its material foundation. However, as *Bumiputera* brought unintended consequences, such as the policy benefiting only a particular section of society and the abuse of the share equity allocation, its foundation is shaken and this could explain the observed resistance. Also the election setback contributes to this movement on the part of the government (see Case, 2010). For example, the idea about "Malay sovereignty[54]" is changing as it has been constantly contested by the political opposition parties. This idea arose out of social, economic, and historical factors (Gorges, 2001). The new ideas for the need of a more liberalised economy are being pursued from within government, as well as being pushed from outside government. Resistance then came from Malay rights groups to protect their interests, and to protect the ideational foundation of *Bumiputera*. However, in the competition for dominant cognitive frames, actors

[54] Sometimes termed as "Malay supremacy" or "*Ketuanan Melayu*" is a political concept emphasizing Malays' special position in Malaysia.

might simply fail to gather enough support for their ideas to influence institutional rules in the field (Beckert, 2010). The voices of Malay rights groups are still being heard, but are not as loud as before due to less support being received from the Malays themselves. However, the government is still pursuing the policy for their own political reasons, while at the same time liberalising the economy.

It emerged from the interview data and other evidence from secondary sources that, because of unintended consequences, or abuse of *Bumiputera* policy, *Bumiputera* has been subject to contestation from various parties, both Malays and non-Malays. These contestations point to the dysfunctional institution of *Bumiputera*, which allows such abuse or manipulation to take place. These contestations weaken the political party of UMNO; hence, changes then have been made to the institutional mechanisms of *Bumiputera* in recent years. As mentioned earlier, it is believed that such changes are made for political reasons. Therefore, while it appears that these changes occur as a response to exogenous pressures, they are actually a result of endogenous conflicts and struggles of the actors, although not as a direct result of the unintended consequences.

The change in the *Bumiputera* institution appears to concur with the argument by Lindner and Rittberger (2003), that see 'unintended consequences' as an elusive concept that should not be used to account for dysfunctional institutions. They argue that "even if actors in the creation phase had possessed full information about the consequences of their institutional choice, they might not have embarked on a different course of action" (Lindner & Rittberger, 2003, p. 468). In the case of the *Bumiputera* institution, when the policy was formed, there were some interests and some objectives to be served and achieved so that they resorted to mobilization of bias. Hence, unintended consequences should also be expected. However, although the change is not driven by the unintended consequences, these unintended consequences nevertheless create resistance and conflicts, which has led to change in *Bumiputera* institutions.

7.5.2 Corporate Governance Institution

The importance of corporate governance to Malaysia, in the wake of the Asian crisis and the movement towards a more liberalised economy, is evident from the interest and emphasis the government has placed upon it. Not only has the government taken the initiative in the establishment of the Code, but subsequent development of corporate governance are contained in government documents such as the yearly budget statement and even the NEM. Efforts were put forward to strengthen corporate governance practices. Reports and assessments from international organisations put pressures on the country to improve its corporate governance system.

The analysis shows that, because of external pressures, adoption of the Code of Conduct from more advanced economies was made together with other reforms. This change could be a result of mimetic as well as coercive pressures from the international community. In addition, the fact that the country was losing its competitiveness in attracting FDI shows that pressure also comes from economic competition. Corporate governance is embedded in a strong network of international relationships and is subject to various influences from abroad, including various international organisations. The country was under pressure from these organisations to meet the expectations of the international community (see Liew, 2008, p. 459). However, efficiency and legitimacy could occur simultaneously.

However, this perspective does not give a holistic view of the corporate governance institution in Malaysia, as the regulative perspective is very thin and subject to manipulation as shown in Chapter 6. Further analysis of *Bumiputera* change suggests that the *Bumiputera* institution continues to be a dominant institution in Malaysia. Hence, from a sociological perspective, the informal element of corporate governance institution is unchanged. The board appointment practices, for example, could still be influenced by the *Bumiputera* institution. Therefore, although neo-liberalisation heightened the changes in corporate governance and economic policy, which impacted on *Bumiputera* post-Asian crisis, to some extent they are still constrained by the *Bumiputera* institution.

7.6 Conclusion

This chapter poses the following questions: have there been changes in corporate governance and *Bumiputera* institutions following the Asian crisis 1997/98? Has the recent move towards a more liberalised economy changed the two institutions? In order to answer these questions, this chapter poses two more questions: why do institutions change; and how? This is because “broad assertions about neo-liberalism and institutional change are easy to make but hard to sustain without knowledge of how specific changes occur, and why” (Carruthers et al., 2001, p. 95). Drawing from historical institutionalism, the study shows that institutions are not static and persist all the time; they change. However, not all dimensions of institutions change. The regulative elements of institutions are more susceptible to change compared to their informal elements, or the institutional arrangements. Also, institutions do not change in a revolutionary pattern, i.e. as argued by the punctuated equilibrium model. Changes in institutions occur in a more evolutionary pattern, which reflects the struggles and conflicts between the actors involved. The *Bumiputera* institution was promulgated by the nation independently. Hence, despite external pressures, this institution remains relatively stable as it is backed by political power. When this political power appears to be at stake, changes are then made to the institution.

Chapter 8 - Discussion and Conclusion

8.1 Introduction

This chapter presents a summary of the main findings and a recap of the thesis. The study aims to answer the question of how the economic institution of corporate governance is affected by the larger social environment in which it is embedded. It is argued that corporate governance is a social process and is embedded in a larger social context and that the behaviour of corporate governance actors is affected by their relations with other actors, politics, power, institutions, and cultural-cognition. It is also argued that corporate governance is socially constructed and how it is constructed depends on the individuals who have the power in the field as well as their networks. Thus, this study investigates the impact of the dominant institution of *Bumiputera* on corporate governance practices in Malaysia, in particular the ownership structure and corporate board representations. The study also asks the question of how the corporate governance institution reflects the underlying distribution of power between groups in society, as it recognizes that power is an important mechanism in shaping, not only corporate governance, but also the *Bumiputera* institution.

An institutional analysis is carried out, relying on the integrated theoretical perspectives of new institutionalisms. The findings are presented in three chapters; Chapter 5 presents an institutional analysis of the *emergence* of commitment towards *Bumiputera*. It focuses more on the problems, the solution for which needs institutions; and why this particular institution (i.e. *Bumiputera*) and not the other. The historical institutionalism approach from political science is employed to analyse the emergence of commitment towards *Bumiputera* and its impact on corporate equity ownership and board of directors' representations on public listed companies in the country. Chapter 6 presents the *operation* of the *Bumiputera* institution and focuses on how this institution achieves its effects. Other social mechanisms of power, social networks, and cognition are also taken into account in the analysis. The sociological institutionalism is utilized to analyse how *Bumiputera* affects the behaviour of corporate governance actors. This paradigm is integrated with the new economic sociology's perspective to take into account the impact of other social mechanisms on corporate governance. Chapter 7 presents the analysis of both *Bumiputera* and corporate governance institutional *change*. Again, historical institutionalism is utilized to guide the analysis of *Bumiputera* changes while the corporate governance changes are analyzed from the regulative perspective.

Corporate governance is a field of struggle. Prior literature suggests that the reform effort made after the 1997/98 Asian crisis was in response to the pressures given by international counterparts. This current study shows the internal factors influencing the practice of corporate governance in this country. The incorporation of conflicts before and after independence, together with the incorporation of power (mediated by networks) in the analysis shows the impact of social institutions on economic institutions of corporate governance and practices. Both *Bumiputera* and corporate governance frameworks represent a compromise between actors – not a search for the optimal solution to a coordination problem – with significant consequences for the distribution of power in the economy. The analysis shows that corporate governance as an institution is not in seeking the optimal solution for the agency problems faced by corporations; rather it represents compromise between actors, accommodating ethnic interest while pursuing economic objectives, as well as showing distribution of power among the actors; the economic power.

This study discusses corporate governance from the alternative perspective of economic sociology, which focuses on the importance of context and social relations to explain the current practices observed. Dominant perspectives of corporate governance, i.e. from an economic view, would argue that all the various efforts put in place have proven to be successful considering the improvements in terms of structure and compliance. However, there are still some concerns raised by corporate governance regulators, as well as directors themselves, which could not be explained by the economic perspective. The analysis in this study then shows that corporate governance in Malaysia is about power - a conflict of and struggle for power. It is the element of domination in power that determines the practice. It is greatly influenced by the *Bumiputera* institution.

The study shows how political and institutional forces set the very framework for the establishment of economic actions, i.e. corporate governance practices (Powell, 1991). Institutionalization provides the rules and norms governing competition and the cultural templates providing the repertories of strategic action (Clemens, 1997). Although the regulative elements appear dominant in the corporate governance institution, a closer look will show that they are less consequential than normative or cognitive (or at least the two elements normative/cognitive are equally dominant in the corporate governance institution). So, in terms of how institution affects behaviour, it is to be observed from normative and cultural-cognitive elements.

The institutional arrangements of corporate governance reflect the outcome of political, social, and economic struggles in a historically and contextually specific setting of the Malaysian economy (Goyer, 2010). The evidence shows that for an institution to persist, it does not have to be efficient or ideal; it depends on the actors who have the power to defend them (Ingram & Clay, 2000). For the *Bumiputera* to persist, as explained earlier, it is backed by strong political power. And UMNO continues to use *Bumiputera* as a justification to gain popular support to maintain their power in politics, and hence economics. In other words, it was political power that created *Bumiputera;* it is that political power that is wished to be maintained and *Bumiputera* is now being used as a justification.

This chapter is organised as follows; the following section recognises some limitations of the study. This is followed by a section that presents a discussion on the embeddedness of the corporate governance institution in its environment, as well as how both corporate governance and *Bumiputera* institutions are socially constructed. This forms a basis of the arguments that economic theories are insufficient to explain corporate governance practices. The three stages of *Bumiputera* - emergence, operation, and change or persistence - are then discussed as each creates impact on corporate governance institutions. This is followed by a section on the contributions of the study, and ends with a concluding section.

8.2 Limitations of the Study

The main limitation of the study comes from the approach taken, which then relates to the data obtained for the analysis. The approach used was to conduct interviews with various groups of corporate governance actors and was complemented by documentary evidence. An observation is limited to the attendance at the BEC in 2010. Two concerns arise from this fact, namely: first, the number of interviews conducted is not many due to the reluctance of corporate directors to participate and the constraints in terms of time which does not makes it possible to put more effort in to obtaining access to respondents. Secondly, requests to attend some corporate board meetings were not granted, hence the researcher was unable to make observations of how *Bumiputera* directors contribute in deliberating issues during the meetings. For the purposes of understanding the impact of appointment, this observation would have been desirable. To understand more about the influence of *Bumiputera* and other social mechanisms, a case study is a better alternative, as this would enable a participant-observation method as well as the ability to interview more people at different levels of employment.

8.3 Embeddedness and Social Construction of Institutions

Corporate governance reforms and practices in Malaysia are investigated using an economic sociology perspective because, on the one hand, corporate governance is very much an economic mechanism. It is a tool in achieving economic efficiency. The reforms to strengthen corporate governance are also made for the purposes of economic agenda and economic development under the neo-liberalized economy. Efforts by various organizations, professional bodies, and the establishment of codes and guidelines are all for economic purposes; made to promote accountability, attract investors' confidence and attract foreign investors. On the other hand, corporate governance is greatly influenced by the larger social environment. The embeddedness of corporate governance in a larger social context means that it is affected by social mechanisms such as power, politics, social networks and various social institutions. To view corporate governance as isolated from these mechanisms will give an inaccurate picture about the whole process and practice. In Malaysia the existence of the *Bumiputera* policy cannot be neglected as it affects so many aspects of life in the country – social, economic and political. And the *Bumiputera* institution is shaped by, and at the same time shaping, politics, power and social networks, which are the social mechanisms. Therefore, economic analysis is not sufficient to explain the corporate governance institution in Malaysia. Although the New Institutional Economics acknowledge the importance of context and the ability to analyse context, it does not capture the importance of social networks, which is at the centre of corporate governance practices in Malaysia.

Under an economic view, the regulative nature of the corporate governance institution aims for efficiency. In contradiction of this view, the finding suggests that actors are using the regulative mechanisms to pursue their own interests, such as establishing social networks through board appointments. And the position of Independent Director allows for such an appointment without the need for the sharing of management power. Hence, the efficacy of externally imposed formal rules, such as the Code of Corporate Governance, together with other rules and guidelines, are questionable. This is because, although regulations could be seen as forms of coercive power, imposing conformity on affected actors, such requirements are subject to interpretation, manipulation, revision and elaboration by corporate governance actors. This implies the "transmutation over time of regulative into normative and cultural-cognitive elements" (Scott, 2008).

Both *Bumiputera* and corporate governance are socially constructed; and the way they are constructed is for people to believe that this is the only way that it should be. The *Bumiputera* institution is constructed with the rationalization that social stability can only be achieved if the economic gaps between ethnic groups are reduced. The construction of an institution is made by individuals in power, in this case, the UMNO political party. Should there be other parties involved in the setting up of the policy, it could be constructed differently. It is socially constructed that way, but there were probably other ways in which it could have been constructed too. Part of the process of construction is to make it look as if it couldn't be any other way, since society becomes more stable when people have that impression. It is when people realize that things are socially constructed that these constructions fall apart. The abuses of the policy made people question and challenge the policy openly, especially the opposition political parties.

The same could be said about the corporate governance institution. The codes, rules and practices are constructed by powerful governance actors. Social construction of corporate governance means that it is the product of historical events, social forces and ideology (Hacking, 1999), as much as *Bumiputera* itself. Hence, knowing the history of *Bumiputera* is important in understanding how the corporate governance institution in Malaysia emerged and how it has been practiced, since corporate governance is very much affected by *Bumiputera*. Although major efforts to strengthen corporate governance began following the 1997/98 Asian crisis, as Malaysia responded to international criticisms, the fact is that corporate governance has been shaped even prior to the Asian crisis. And this study looks at how institutions reflect "*the underlying distribution of power between groups and a set of functional requirements associated with the operation of capitalist economies*" (Goyer, 2010).

The discussion concerning social networks in Chapter 6 suggests the misconception of previous studies on the fact that field participants hold similar beliefs regarding goals, norms and social logics. In the case of corporate governance in Malaysia, it appears that directors might not hold the same social logics as compared with the regulators. This is in the sense that they recognize the corporate governance field as a site of conflict among contending factions, namely; Malays and Chinese, GLCs and non-GLCs, with and without political connections. Hence, the way to behave in such an environment might be to deviate from the logics of the regulative perspective. The evidence shows that directors resort to social networks with political elites or people who are close to political power, either via board appointments or otherwise, in the pursuit of their economic interests. The practice of networking later changed the environment in which they operate and changed the way governance is practiced. The discussion illustrates how social mechanisms affect economic interest and how institutions are socially constructed. Organizations are affected not only by local but by distant actors and forces; and they are involved in both horizontal (cooperative-competitive) and vertical (power and authority) connections. Social networks built the corporate governance field; social networks also built industry[55]. Corporate governance is a field of struggle; and social networks are used to gain domination and pursue actors' economic interests.

8.4 The Historical Impact on Corporate Governance

The historical analysis conducted in Chapter 5 shows the emergence of the social institution of *Bumiputera* and how the state's credible commitment towards such an institution was developed as a result of conflicts and struggles. It also shows how it has been influenced by history, politics, power, and various contending actors pursuing their own interests and ideas. *Bumiputera* policy owed its immediate existence to a political event (Milne, 1976); not only are its origins political, but it also has political implications. In fact, its formulation, implementation and the ways in which it is perceived by various racial groups all express themselves in political forms. The fact that corporate governance is implicated by the *Bumiputera* institution means that corporate governance is about politics, power, and ethnicity as *Bumiputera* is strongly associated with ethnic relations. Hence, understanding the history of this connection between the corporate governance institution and the *Bumiputera* institution would enable the practices of corporate governance to be better understood.

As *Bumiputera* emerged from political struggle, historical institutionalism from political science is used to draw out the emergence and show how it later implicates corporate governance practices, namely the structure of share ownership and corporate board representations. The analysis shows how state interventions in the economic operation occur following a major social crisis or political event in the country. The intervention, which is in the form of an affirmative policy, facilitates the emergence of social compromise between ethnic groups and promotes the economic interests of the disadvantaged group. This is an eclectic view on state interventions, taking in between two extreme representations. These are, on the one hand, the view that governments possess the power to intervene in economic activity; and the other view on the other hand, realizes that the government cannot unilaterally impose just any economic pattern or constraints or rules on private corporations and corporate actors (Boyer & Hollingsworth, 1997).

[55] Involve industries such as Independent Power Providers (IPP), sugar industry monopoly, casino licences.

The political incident then gives the reason for such intervention and this leads to the establishment of policy which places constraints on the behaviour of corporate governance actors and their performance through both formal and informal mechanisms of the *Bumiputera* institution. The policy represents the state's commitment towards one particular group, i.e. *Bumiputera*, based on mobilization of bias, which advantaged *Bumiputera* and disadvantaged others. The intervention was also possible since the UMNO political party has the political power to draw up such a policy as *Bumiputera,* whose special position is protected in the country's Constitution. Hence, the dominant element of power was exercised here when a term has been set up under which other groups (the non-*Bumiputera*) must operate (Domhoff, 1983). UMNO has a coercive and persuasive power compared to MCA and MIC because of the agreement with the British, which is then sealed in the Constitution, hence backed also by legal power. Power is analysed by studying concrete decision makings; in this case decision-making concerning *Bumiputera* policy as a result of ethnic clashes and the mechanisms put in place subsequent to the establishment of the policy. The analysis shows how Malay interests prevail (Dahl, 1958).

As shown by previous studies, operating under the constraints of the *Bumiputera* policy, the Chinese responded by 'protecting' themselves, first, via political power and then via economic power. The Chinese had first used their political power to delay the implementation of the *Bumiputera* policy; hence, not much had been done since the passing of the policy in 1970 until the year 1974 (Heng, 1997; Searle, 1999; Gomez and Jomo, 1999). The *Bumiputera* policy started to kick off strongly in 1975 with the passing of the Industrial Co-Ordination Act 1975 when Tun Tan Siew Sin resigned from his post due to health reasons. The Chinese then utilized their economic power to protect their interests and to 'fight' against the Malays' new capital made available through various mechanisms put in place by the policy. The Chinese set up a company - Multi Purpose Holdings Bhd (MPHB) to pool Chinese capital which managed to attract about 80,000 families, mostly small and medium-sized manufacturing companies. However, the MPHB did not receive full support from the big Chinese tycoons, because the new MCA President, who was the

Chairman of MPHB, actually came from a lower class background. The effort failed partly due to lack of support by important networks.

On the other hand, those Chinese tycoons and some other Chinese used different ways of securing their economic interests, i.e. by forging ties with influential UMNO elites and the institutional investors set up by the government to provide capital for the Malays. The ties between Chinese and UMNO elites, as well as the institutional investors, proved to be successful for the Chinese. And until today, this is the method used by almost all Chinese companies and is 'accepted' as a way of doing business, i.e. by forging ties with the Malays. This is then being practiced through the appointment of board of directors. By having connections with influential Malays, Chinese are able to gain advantages which are not available, or available only in a limited capacity, to them should they operate on their own. This shows the power of social networks in affecting corporate governance and the interrelatedness of power, politics, social networks, social institutions and economic institutions. This then leads to abuses to such an extent that the *Bumiputera* policy does not really matter anymore; being a Malay or *Bumiputera* does not guarantee that you would enjoy that many privileges, rather, the 'power' rests with those that are connected with people in politics. Because of this fact, *Bumiputera* itself is contested by not only non-Malays, but also some factions of the Malays themselves.

When social networks are formed between Chinese and Malays, or when Chinese appoint Malays on their board, despite a well-known fact that Chinese always prefer to practice "quanxi", the question arises whether it is based on trust. The findings show a contradiction to what has been argued by economic sociologists, namely, that trust is the basis for the practice of social networks. The historical analysis of *Bumiputera* social institutions suggest that such networks are formed because the Chinese do not have better alternatives while operating under the dominance of the *Bumiputera* policy. The Chinese had tried to mobilize political and economic power to protect their interests, but failed; and forging ties with Malays appeared to be the most successful option for them. This finding contradicts views from both economic sociologists, who hold the view that social relations create trust between people who have dealt honestly with each other in the past, although the finding does show that actors seem to have “obligations and standards of behaviour such as norms of reciprocity” in their actions; as well as from an economic view of opportunistic behaviour. The finding shows that, with the presence of an institution that constrains behaviour, actors resort to social networks because that is the best alternative available for them to pursue their economic interests. In other words, networks are formed (at least initially) because of the power dominance of UMNO elites and not because of trust (Sayer, 2000). The findings show how power creates an institution, and in turn the institution gives more power to the actors.

Concerning the impact of *Bumiputera* on corporate governance, in particular equity ownership, the analysis specifies *Bumiputera* as a central explanatory variable, but the analysis also acknowledges that *Bumiputera* is not the sole “cause” of variations or changes observed in corporate governance (Lieberman, 2001, Thelen & Steinmo, 1995). There are other non-institutional variables which could be impacting the outcomes of corporate governance practices. Even without the policy, for example, Malays’ equity ownership could have increased considering the fast-rise of Malaysian economic development during the period.

8.5 The Social Mechanisms Impact on Corporate Governance

The analysis in Chapter 6 focuses on the operation of the *Bumiputera* institution; i.e. how the developed institution influences corporate governance practices. Focusing on the board appointment process, the analysis then integrates the *Bumiputera* institution with other social mechanisms of power, social network, and cognition. It then investigates how these mechanisms, and their interrelatedness, influence such practices. Although *Bumiputera* is a dominant institution, it is, however, not the sole factor affecting the economic field. Besides, the interrelatedness of these mechanisms also influence and strengthen each other. The institutionalization of *Bumiputera* in corporate governance practices is evident from the board appointment process. It leads to isomorphic practices of board appointment practices, where, in the search for legitimacy, almost all companies would appoint at least one Malay director to the board and invariably almost all companies would have a Malay chairman.

The institutionalization of *Bumiputera* is evident and made possible because it is backed by the dominant political power of UMNO. As a continuance from Chapter 5, the analysis shows how power has established formal mechanisms to strengthen the *Bumiputera* institution and affect corporate governance practices. One major effort is the establishment of GLCs, which not only increase the *Bumiputera*'s involvement in the corporate world, but also leads to a distinctive practice of corporate governance. Here, both *Bumiputera* and corporate governance institutions are political and the legitimacy of both is secured through the state's power, specifically power to shape the others' thoughts and beliefs, or what Lukes (1974, 2005) defines as the third face of power.

The study finds that board appointment practices in the country are based on social networks. Social networks provide a channel for the strengthening of power; for example, a Chinese network with influential Malays is formed for the purpose of strengthening their economic power. An appointment based on social networks is argued to affect the independence of the directors. The finding supports the argument made by Barton, Coombes, and Wong (2004) that the requirement for majority IDs appears to be unrealistic for Asian corporations, due to the following: a scarcity of qualified independent directors; reluctance of the management to share inside information, as the information could be used by an outside director against them; and the dominant nature of major shareholders. The evidence presented in this thesis is consistent with this argument and the discussion on social mechanisms provide justification why such is the case. Sharpe (2011) argues that this cosmetic independence is not enough; rather tools are needed, which are time, information, and knowledge. Various recent efforts are made by corporate governance regulators in Malaysia to address similar issues. This is discussed in Chapter 7, which relates to changes or persistence of both corporate governance and *Bumiputera* institutions.

Another negative consequence is when a board appointment is made based on social networks without having regard to competency, which could lead to what is termed as the "management control model". This model argues that essential business decisions are almost always made by a management team which uses the board only for advice, criticism, prestige, and to a minor extent, for business contacts. However, the model also argues that independent directors are passive, lacking in expertise, generally a rubber stamp for management, as well as having poor attendance and inadequate preparation for board meetings (Koenig, Gogel, & Sonquist, 1979). This study also shows that in Malaysia, social status is also related to directors' selection process which is consistent with previous studies (Koenig et al., 1979; R. E. Ratcliff, 1980; Soref, 1976; Useem, 1978, 1980). It was argued that social status is one of the two possible criteria that defines the prestige value of a firm; the other being corporate power (Galaskiewicz, Wasserman, Rauschenbach, Bielefeld, & Mullaney, 1985).

Overall, the evidence shows that, because of the influence of local social mechanisms, the adoption of rules and guidelines from more advanced economies has its limitations in terms of practice. As Aoki (2001) argues that "e*ven if good formal rules are borrowed from without, tension may be created since indigenous, informal rules are inert and difficult to change. As a result a borrowed institution may be neither enforceable nor functional"*.

8.6 The Change or Persistence of Institutions

The analysis in Chapter 7 focuses on the changes to or persistence of both *Bumiputera* and corporate governance institutions following the Asian crisis of 1997/98. They were also heightened by the liberalisation efforts, which put both institutions in the limelight. While changes, or rather improvements, have been observed related to the corporate governance institution, the case involving the *Bumiputera* institution has not been easy. The chapter discusses how conflicts and struggles continue in the issue of *Bumiputera*. Since *Bumiputera* is crucial in the maintenance of the state's political power, how it is dealt with is of significant importance. The analysis shows that, despite some bold changes being made, including the abandonment of the *Bumiputera* equity target of 30%, the state's commitment towards it remains.

8.7 Contributions of the Study

The contributions of this study are threefold, namely; empirical, theoretical and methodological. Empirically, this study contributes to corporate governance literature by providing evidence on how the corporate governance institution is influenced by the larger institutional environment and other social mechanisms. While the dominant literature under agency theory perspective sees the corporate ownership structure and board of directors as important mechanisms by which to address agency problems, this study instead shows how these mechanisms are being shaped in the first place. How these governance mechanisms are shaped influences how effective they are in ensuring efficiency. The evidence shows, firstly, that corporate governance is a response to particular historical incidents and political conflicts. It is impacted upon by social conflicts, power struggles, conflict of interests, clashes of ideas and state intervention. Secondly, evidence shows how institutions, power, social networks and cognition, as well as their interrelatedness, influence board appointment processes. It is shown also that not only corporate governance is influenced by these social mechanisms, but corporate governance itself is a channel through which actors strengthen their positions and resources in those social structures. Finally, changes to and persistence of the corporate governance institution is greatly dependent upon the dominant institutions which affect it. Such empirical findings require analysis outside the dominant economic theories, as they are unable to provide such explanations. This leads to the next contribution, i.e. contribution to theory.

This study provides some contributions to institutional theories by showing, firstly, how historical institutionalism, as commonly utilised by political scientists, is useful in analysing the economic institution of corporate governance. By utilising historical institutionalism, this study is able to bring history to the centre of economic analysis and show evidence of how history matters. Secondly, while sharing the new economic sociology's perspective that economic phenomena could be analysed using social mechanisms of social networks, this study adds to the theory by integrating new institutional sociology, theory of power, social networks and cognition. It also shows how the integration of these theories is able to provide a better explanation on why isomorphic practices of corporate governance are observed. This study also contributes to the emerging perspective that critiques institutional theory, especially historical institutionalism, for its inability to explain change. Recent readings in historical institutionalism show there is a growing critique of the historical institutionalism's model of path dependence. It is argued that the notion of 'path dependency' in historical institutionalism produces some neglect of the forces for change (Peters, Pierre, & King, 2005). Historical institutionalists tend to adopt the concept of 'punctuated equilibrium' in their analysis of change, which suggests that institutions either persist or break down as a result of exogenous shock or environmental shift (Krasner, 1988). This focus on dramatic shift in institutions neglects a more subtle change in institutions (Peters et al., 2005). This study illustrates that institutional changes are not in the form of punctuated equilibrium, but occur in a piecemeal pattern. Also, contrary to Thelen's (2002) argument, the changes in corporate governance and *Bumiputera* institutions are explicit and not related to their functions and forms. The study also adds to the theory of power by showing how the concept of the three faces of power, as advanced by Lukes (1974, 2005), is useful in explaining corporate governance in all three stages of institution; i.e. development, operation, and change. This study thus contributes to agency-theory-dominated corporate governance literature by providing an insight into alternative perspectives of historical institutionalisms and the new economic sociology.

Methodologically, this study provides a deeper insight concerning practices, as the study sought the views of the actors themselves through in-depth interviews with some key players of corporate governance in the country. This allows the researcher to understand the phenomena better rather than just relying on secondary information. Besides these general contributions, this study also adds to the body of knowledge in corporate governance in Malaysia by providing an insight as to how *Bumiputera* shapes practices. It also provides empirical findings on how institutions matter when explaining corporate governance in emerging economies.

8.8 Conclusion

This thesis has discussed how corporate governance is shaped by history, politics, institutions, and other social factors in an attempt to understand why context matters. The main analysis of this thesis shows how corporate governance institution is an outcome of historical and political contingencies in a country and does not arise due to efficiency reasons. The historical analysis, coupled with the analysis of the impact of other social mechanisms on corporate governance practices, gives evidence that such is the case. This study shows that, firstly, historical institutional works in showing that corporate governance practices are not just intended for resolving a particular agency problem. They are, rather, a mode of response to a particular historical incident in a country; hence, justifying an argument that history should be at the centre of analysis of corporate governance.

Secondly, corporate governance is influenced by the *Bumiputera* institution, power, social networks, and cognitive framework, which led to an isomorphic practice of board appointment process. In this context, 'who' got appointed matters. As an addition to this discussion, an analysis is carried out showing the consequences of the board appointment process on the practice of corporate governance at a more micro level. The analysis suggests that various issues in practices are rooted in the board appointment process.

Finally, the study shows how persistence, or changes to an institution, is very much dependent on other dominant institutions. A change in corporate governance, hence, is only observed from its regulative elements. The analysis has been enriched by the emphasis on power. The utilization of the theory of power has helped in showing that the persistence of such an institutional structure of corporate governance in Malaysia is dependent on the maintenance of political power of the Malays, in particular the UMNO political party. The maintenance of this political power has to be balanced with their commitment towards *Bumiputera*. However, the endogenous pressures faced by the state (Case, 2010) has changed their approach to the *Bumiputera* institution while continuing to maintain their credible commitment towards such an institution. While power played a significant role in the emergence of the *Bumiputera* institution, the institution later, in turn, plays a role in the maintenance of that political power.

Based on the evidence presented, it is argued that understanding corporate governance requires putting it in its context; being embedded in various social structures means that corporate governance is a social just as much as an economic institution. Corporate governance, therefore, is not just an economic mechanism arising automatically as a response to agency conflicts; rather it is socially constructed, and it is constructed by actors based on their interests and power.

References

Abdul Rahman, R., & Mohamed Ali, F. H. (2006). Board, audit committee, culture and earnings management: Malaysian evidence. *Managerial Auditing Journal, 21*(7), 783-804.

Abdullah, S. N. (2004). Board composition, CEO duality and performance among Malaysian listed companies. *Corporate governance, 4*(4), 47.

Abe, K., & Wilson, J. S. (2008). Governance, corruption, and trade in the Asia Pacific region. *The World Bank Policy Research Working Paper, WPS4731*.

Abernethy, M. A., & Chua, W. F. (1996). A Field Study of Control System “Redesign”: The Impact of Institutional Processes on Strategic Choice*. *Contemporary Accounting Research, 13*(2), 569-606. doi: 10.1111/j.1911-3846.1996.tb00515.x

Accountants Today. (2008, December). Enhancing audit quality: Impact of the Audit Oversight Board. *Accountants Today,* 8-10.

Agrawal, A., & Knoeber, C. R. (1998). Outside directors, politics, and firm performance. *Available at SSRN: http://ssrn.com/abstract=85310 or http://dx.doi.org/10.2139/ssrn.85310*.

Aguilera, R. V., & Cuervo-Cazurra, A. (2004). Codes of good governance worldwide: What is the trigger? *Organization Studies 25*(3), 415-443.

Aguilera, R. V., Filatotchev, I., Gospel, H., & Jackson, G. (2008). An Organizational Approach to Comparative Corporate Governance: Costs, Contingencies, and Complementarities. *Organization Science, 19*(3), 475-492. doi: 10.1287/orsc.1070.0322

Aguilera, R. V., & Jackson, G. (2003). The cross-national diversity of corporate governance: Dimensions and determinants *Academy of Management Review, 28*(3), 447-465.

Ahrens, T., & Chapman, C. S. (2006). Doing qualitative field research in management accounting: Positioning data to contribute to theory. *Accounting, Organizations and Society, 31*(8), 819-841.

Aida Rizmaria, K. (2011, July 7, 2011). Lupuskan pegangan: Idris Jala diminta senaraikan 33 GLC terlibat (Divestment: Idris Jala asked to list down the 33 GLCs affected), *Utusan Malaysia*.

Al-Zaquan, S. (2012, 23 February 2012). FDI to slow down in 2012, *The Edge Malaysia*. Retrieved from http://www.theedgemalaysia.com/highlights/209285-fdi-to-slow-down-in-2012.html

Alawattage, C., & Wickramasinghe, D. (2009). Institutionalisation of control and accounting for bonded labour in colonial plantations: A historical analysis. *Critical Perspectives on Accounting, 20*(6), 701-715.

Alfan, E. (2009). *Public accountability: The case of Malaysian tolled highways*. PhD Thesis. Manchester Business School. University of Manchester. Manchester.

Alston, J. P. (1989). Wa, Guanxi, and Inhwa: Managerial principles in Japan, China, and Korea. *Business Horizons, 32*(2), 26-31. doi: 10.1016/s0007-6813(89)80007-2

Anderson, R. C., Mansi, S. A., & Reeb, D. M. (2004). Board characteristics, accounting report integrity, and the cost of debt. *Journal of Accounting and Economics, 37*(3), 315-342.

Aoki, M. (2000). *What are institutions? How should we approach them?* Paper presented at the Villa Borsig Workshop Series 2000.

Aoki, M. (2001). *Toward a comparative institutional analysis*. Cambridge: MIT Press.

APEC. (1999). Sixth APEC Finance Ministers Meeting. 15-16 May, Langkawi, Malaysia: Asia Pacific Economic Cooperation.

Arnold, D. J., & Quelch, J. A. (1998). New Strategies in Emerging Markets. *Sloan Management Review, 40*(1), 7-20.

Arnold, P. J. (2009). Institutional perspectives on the internationalization of accounting. In C. S. Chapman, D. J. Cooper & P. B. Miller (Eds.), *Accounting, organizations & institutions: Essays in honour of Anthony Hopwood* (pp. 47-64). New York: Oxford University Press.

Asian Development Bank. (1999). Rising to the challenge in Asia: A study of financial markets, Volume 8: Malaysia *Asian Development Bank, Volume 8: Malaysia*. Manila, Phillipines: Asian Development Bank.

Australian Government. (2004). APEC Corporate Governance Pathfinder Report. Canberra, Australia: Asia-Pacific Economic Cooperation.

Bachrach, P., & Baratz, M., S. . (1962). Two Faces of Power. *The American Political Science Review, 56*(4), 947-952.

Bachrach, P., & Baratz, M., S. . (1963). Decisions and Nondecisions: An Analytical Framework. *The American Political Science Review, 57*(3), 632-642.

Bachrach, P., & Baratz, M., S. . (1970). *Power and poverty: Theory and practice*. New York: Oxford University Press.

Baig, T., & Goldfajn, I. (1998). Financial market contagion in the Asian crisis. *The IMF Working paper, WP/98/155*.

Bank Negara Malaysia (Producer). (2009, 17 July 2012). Press Release. Retrieved from http://www.bnm.gov.my/index.php?ch=8&pg=14&ac=1817

Banks, E. (2004). *Corporate governance: Financial responsibility, controls and ethics*. London: Palgrave Macmillan.

Bany-Ariffin, A. N., Mat Nor, F., & McGowan Jr, C. B. (2010). Pyramidal structure, firm capital structure exploitation and ultimate owners' dominance. *International Review of Financial Analysis, 19*(3), 151-164. doi: 10.1016/j.irfa.2010.03.002

Barrock, J. (2011, 31 October 2011). Nazri: Time for quotas for all, *The Edge Malaysia*. Retrieved from http://www.theedgemalaysia.com/highlights/195418-nazri-time-for-quotas-for-all.html

Barton, D., Coombes, P., & Wong, S. C.-Y. (2004). Asia's governance challenge. *McKinsey Quarterly*(2), 54-61.

Baysinger, B. D., Kosnik, R. D., & Turk, T. A. (1991). Effects of Board and Ownership Structure on Corporate R&D Strategy. *The Academy of Management Journal, 34*(1), 205-214.

BBC News. (2004, 10 February 2004). Malaysia steel boss in fraud case. Retrieved from http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/1/hi/business/3475703.stm

Becht, M., Bolton, P., & Roell, A. (2005). Corporate governance and control. *ECGI Working Paper Series in Finance No. 2/2002*.

Beckert, J. (1996). What is sociological about economic sociology? Uncertainty and the embeddedness of economic action. *Theory and Society, 25*(6), 803-840. doi: 10.1007/bf00159817

Beckert, J. (2010). How Do Fields Change? The Interrelations of Institutions, Networks, and Cognition in the Dynamics of Markets. *Organization Studies, 31*(5), 605-627. doi: 10.1177/0170840610372184

Béland, D. (2005). Ideas and Social Policy: An Institutionalist Perspective. *Social Policy & Administration, 39*(1), 1-18. doi: 10.1111/j.1467-9515.2005.00421.x

Benson, B. W., & Davidson, W. N. I. (2009). Reexamining the managerial ownership effect on firm value. *Journal of Corporate Finance, 15*(5), 573-586.

Berger, P., & Luckmann, T. (1966). *The social construction of reality: A Treatise in the sociology of knowledge*. New York: Doubleday.

Berglof, E., Rey, P., & Roell, A. A. (1997). Reforming Corporate Governance: Redirecting the European Agenda. *Economic Policy, 12*(24), 93-123.

Berglof, E., & Thadden, E.-L. v. (1999). *The changing corporate governance paradigm: Implications for transititon and developing countries*. Unpublished working paper number 263. Stockholme Institute of Transitions Economics. Stockholme, Sweeden.

Bergsten, C. F. (1998). United States Trade with Asia, APEC, and the Financial Crisis: Testimony before the Subcommittee on Trade Committee on Ways and Means United States House of Representatives. *The Peterson Institute for International Economics* Retrieved 23 February 2009, 2009, from http://www.iie.com/publications/papers/paper.cfm?ResearchID=308

Berle, A. A., & Means, G. C. (1932). *The modern corporation and private property [electronic resource]*. New York: Macmillan.

Bernama. (2006). PAC finds ECM Libra-Avenue merger in accordance with procedures, *Bernama News*. Retrieved from
http://www.bernama.com/bernama/v3/news_business.php?id=213216

Bernama. (2010, 6 September 2010). Special rights can't be erased unless the Malays agree to it, says Khoo Kay Kim, *Malaysia Today (online news)*. Retrieved from http://www.malaysia-today.net/mtcolumns/newscommentaries/34347-special-rights-cant-be-erased-unless-the-malays-agree-to-it-says-khoo-kay-kim

Bernama. (2011, 27 August 2011). Facilitation fund a way to assist Bumiputera companies to be independent: Ahmad Husni, *Bernama.Com*. Retrieved from http://www.bernama.com/bernama/v5/newsbusiness.php?id=610787

Bernama. (2012). PR proposes scrapping 30 pct Bumi equity target, *Malaysian Mirror*. Retrieved from http://www.malaysianmirror.com/media-buzz-detail/6-nation/57857-pr-proposes-scrapping-30-pct-bumi-equity-target

Biggart, N. W., & Beamish, T. D. (2003). The Economic Sociology of Conventions: Habit, Custom, Practice, and Routine in Market Order. *Annual Review of Sociology, 29*(ArticleType: research-article / Full publication date: 2003 / Copyright © 2003 Annual Reviews), 443-464.

Black, B. (2001). The corporate governance behavior and market value of Russian firms. *Emerging Markets Review, 2*(2), 89-108.

Blair, M. M. (1995). *Ownership and control: Rethinking corporate governance for the twenti-first century*. Washington, D.C.: The Brookings Institution Press.

Blyth, M. M. (1997). Review: "Any More Bright Ideas?" The Ideational Turn of Comparative Political Economy. *Comparative Politics, 29*(2), 229-250.

Boghossian, P. A. (2001). What is social construction? *Times Literary Supplement, 23 February 2001*, 6-8.

Boo, S.-L. (2011, 8 February 2011). Ban politicians from top corporate world, says NEAC member, *The Malaysian Insider*. Retrieved from www.themalaysianinsider.com

Boone, A. L., Casares Field, L., Karpoff, J. M., & Raheja, C. G. (2007). The determinants of corporate board size and composition: An empirical analysis. *Journal of Financial Economics*, *85*(1), 66-101.

Boubakri, N., Cosset, J.-C., & Guedhami, O. (2005). Postprivatization corporate governance: The role of ownership structure and investor protection. *Journal of Financial Economics, 76*(2), 369-399. doi: 10.1016/j.jfineco.2004.05.003

Boyer, R., & Hollingsworth, J. R. (1997). From national embeddedness to spatial and national nestedness. In J. R. Hollingsworth & R. Boyer (Eds.), *Contemporary capitalism: The embeddedness of institutions* (pp. 433-484): Cambridge University Press.

Bradley, M., Schipani, C. A., Sundaram, A. K., & Walsh, J. P. (1999). The Purposes and Accountability of the Corporation in Contemporary Society: Corporate Governance at a Crossroads. *Law and Contemporary Problems, 62*(3), 9-86.

Braendle, U. C., Gasser, T., & Noll, J. (2005). Corporate Governance in China—Is Economic Growth Potential Hindered by Guanxi? *Business and Society Review, 110*(4), 389-405. doi: 10.1111/j.0045-3609.2005.00022.x

Brass, D. J., Butterfield, K. D., & Skaggs, B. C. (1998). Relationships and Unethical Behavior: A Social Network Perspective. *The Academy of Management Review, 23*(1), 14-31.

Brick, I. E., & Chidambaran, N. K. (2010). Board meetings, committee structure, and firm value. *Journal of Corporate Finance, 16*(4), 533-553. doi: 10.1016/j.jcorpfin.2010.06.003

Bronson, S. N., Carcello, J. V., Hollingsworth, C. W., & Neal, T. L. (2009). Are fully independent audit committees really necessary? *Journal of Accounting and Public Policy, 28*(4), 265-280. doi: 10.1016/j.jaccpubpol.2009.06.001

Brudney, V. (1985). Corporate Governance, Agency Costs, and the Rhetoric of Contract. *Columbia Law Review, 85*(7), 1403-1444.

Brunello, G., Graziano, C., & Parigi, B. (2001). Executive compensation and firm performance in Italy. *International Journal of Industrial Organization, 19*(1â€“2), 133-161.

Bryman, A., & Bell, E. (2003). *Business research methods*. Oxford: Oxford University Press.

Burawoy, M. (1991). *Ethnography Unbound: Power and Resistance in the Modern Metropolis*. Berkeley, CA: University of California Press.

Burrell, G., & Morgan, G. (1979). *Sociological paradigms and organisational analysis*. Hants, Vermont: Ashgate Publishing Limited.

Bursa Malaysia. (2009). Corporate governance guide: Towards boardroom excellence. In B. Malaysia (Ed.). Kuala Lumpur: Bursa Malaysia.

Cadbury Committee Report. (1992). Report of the Committee on the financial aspects of Corporate Governance. London.

Calomiris, C. W. (1998). Blueprints for a new global financial architecture. Retrieved from http://www.house.gov/jec/imf/blueprnt.htm

Campbell, J. L. (1997). Recent trends in institutional political economy. *The International Journal of Sociology and Social Policy, 17*(7/8), 15-56.

Campbell, J. L. (1998). Institutional analysis and the role of ideas in political economy. *Theory and Society, 27*(3), 377-409. doi: 10.1023/a:1006871114987

Campbell, J. L. (2004). *Institutional change and globalization*. New Jersey, Oxfordshire: Princeton University Press.
Campbell, J. L. (2006). Institutional Analysis and the Paradox of Corporate Social Responsibility. *American Behavioral Scientist, 49*(7), 925-938. doi: 10.1177/0002764205285172
Campbell, J. L. (2010). Institutional reproduction and change. In G. Morgan, J. L. Campbell, C. Crouch & O. K. Pedersen (Eds.), *The Oxford handbook of comparative institutional analysis* (pp. 87-116). Oxford: Oxford University Press.
Campbell, J. L., & Pedersen, O. K. (2001a). Introduction: The rise of neoliberalisation and institutional analysis. In J. L. Campbell & O. K. Pedersen (Eds.), *The rise of neoliberalisation and institutional analysis* (pp. 1-24). New Jersey, Oxfordshire: Princeton University Press.
Campbell, J. L., & Pedersen, O. K. (2001b). The second movement in institutional analysis. In J. L. Campbell & O. K. Pedersen (Eds.), *The rise of neoliberalisation and institutional analysis* (pp. 249-281). New Jersey, Oxfordshire: Princeton University Press.
Capulong, M. V., Edwards, D., Webb, D., & Zhuang, J. (2000). Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand: Volume One (A Consolidated Report): Asian Development Bank.
Capulong, M. V., Edwards, D., & Zhuang, J. (2001). Corporate governance and finance in East Asia: A study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand: Volume two (Country studies). Manila, Phillipines: Asian Development Bank.
Caramanis, C. V. (2002). The interplay between professional groups, the state and supranational agents: Pax Americana in the age of â€˜globalisation'. *Accounting, Organizations and Society, 27*(4â€“5), 379-408.
Carleton, W. T., Nelson, J. M., & Weisbach, M. S. (1998). The Influence of Institutions on Corporate Governance through Private Negotiations: Evidence from TIAA-CREF. *The Journal of Finance, 53*(4), 1335-1362. doi: 10.1111/0022-1082.00055
Carruthers, B. G. (2004). From city of capital: Politics and markets in the English financial revolution. In F. Dobbin (Ed.), *The new economic sociology* (pp. 457-484). Princeton and Oxford: Princeton University Press.
Carruthers, B. G., Babb, S. L., & Halliday, T. C. (2001). Institutionalizing markets, or the market for institutions? Central Banks, Bankruptcy Law, and the globalization of financial markets. In J. L. Campbell & O. K. Pedersen (Eds.), *The rise of neoliberalisation and institutional analysis* (pp. 94-126). New Jersey, Oxfordshire: Princeton University Press.
Case, W. (2010). Political Legitimacy in Malaysia: Historical Roots and Contemporary Deficits. *Politics & Policy, 38*(3), 497-522. doi: 10.1111/j.1747-1346.2010.00245.x
Chan, G. K. L. (2004). Social organization of the business elite and big business growth: Malaysia during the 1990s economic boom. *Akademika, 65*, 69-90.
Chan, K. L. (2009, 22 April 2009). PM: 30% Bumi quota for 27 sub-sectors scrapped, *The Edge Malaysia*. Retrieved from http://www.theedgemalaysia.com/business-news/4930-pm-30-bumi-quota-for-27-sub-sectors-scrapped.html

Chan, K. L. (2012). Social networks and the organisation of big business groups in post New Economic Policy (NEP) era in the 1990s in Malaysia. *Asian Ethnicity, 13*(1), 1-28.

Chen, C. R., Guo, W., & Mande, V. (2003). Managerial ownership and firm valuation: Evidence from Japanese firms. *Pacific-Basin Finance Journal, 11*(3), 267-283.

Chen, M.-H., Hou, C.-L., & Lee, S. (2012). The impact of insider managerial ownership on corporate performance of Taiwanese tourist hotels. *International Journal of Hospitality Management, 31*(2), 338-349.

Chen, M.-Y. (2013). Adjustments in managerial ownership and changes in firm value. *International Review of Economics & Finance, 25*(0), 1-12.

Chieh, Y. H. (2010). SP Setia chief claims Chinese thrived under NEP, *The Malaysian Insider*. Retrieved from http://www.themalaysianinsider.com/malaysia/article/sp-setia-chief-claims-chinese-thrived-under-nep/

Chizema, A. (2009). Early and late adoption of American-style executive pay in Germany: Governance and institutions. *Journal of World Business, In Press, Corrected Proof*.

Chizema, A., & Buck, T. (2006). Neo-institutional theory and institutional change: Towards empirical tests on the "Americanization" of German executive pay. *International Business Review, 15*(5), 488-504.

Christiansen, T., & Vanhoonacker, S. (2008). At a critical juncture? Change and continuity in the institutional development of the council secretariat. *West European Politics, 31*(4), 751-770. doi: 10.1080/01402380801906015

Chua, W. F. (1986). Radical Developments in Accounting Thought. *The Accounting Review, 61*(4), 601-632.

Claessens, S., Djankov, S., Fan, J. P. H., & Lang, L. P. H. (1999). Expropriation of minority shareholders in East Asia. *http://papers.ssrn.com/sol3/papers.cfm?abstract_id=202390*.

Claessens, S., Djankov, S., & Klapper, L. (1999). Resolution of corporate distress: Evidence from East Asia's financial crisis. *The World Bank Policy Research Working Paper, 2133*.

Claessens, S., Djankov, S., & Lang, L. P. H. (1999). Who controls East Asian corporations - and the implications for legal reform. *World Bank Public Policy for the Private Sector Note, 195*.

Claessens, S., & Fan, J. P. H. (2002). Corporate Governance in Asia: A Survey. *International Review of Finance, 3*(2), 71-103. doi: 10.1111/1468-2443.00034

Clegg, S. R. (1989). Radical Revisions: Power, Discipline and Organizations. *Organization Studies, 10*(1), 97-115. doi: 10.1177/017084068901000106

Cohen, J. R., Krishnamoorthy, G., & Wright, A. M. (2004). The corporate governance mosaic and financial reporting quality. *Journal of Accounting Literature*, 87-152.

Cohen, J. R., Krishnamoorthy, G., & Wright, A. M. (2008). Form versus Substance: The Implications for Auditing Practice and Research of Alternative Perspectives on Corporate Governance. *Auditing, 27*(2), 181-198.

Coles, J. L., Daniel, N. D., & Naveen, L. (2008). Boards: Does one size fit all? *Journal of Financial Economics, 87*(2), 329-356.

Collier, P., & Zaman, M. (2005). Convergence in European Corporate Governance: the audit committee concept. *Corporate Governance: An International Review, 13*(6), 753-768.

Collier, R. B., & Collier, D. (1991). Framework: Critical junctures and historical legacies *Shaping the political arena: Critical junctures, the labor movement, and regime dynamics in Latin America* (pp. 27-39). Princeton NJ: Princeton University Press.

Conti, J. A., & Neil, M. (2007). Studying power: qualitative methods and the global elite. *Qualitative Research, 7*(1), 63-82. doi: 10.1177/1468794107071421

Corsetti, G. (1998). Interpreting the Asian financial crisis: Open issues in theory and policy. *Asian Development Review, 16*(2), 1-45.

Corsetti, G., Pesenti, P., & Roubini, N. (1999). Paper tigers? A model of the Asian crisis. *European Economic Review, 43*, 1211-1236.

Courpasson, D. (2000). Managerial Strategies of Domination. Power in Soft Bureaucracies. *Organization Studies, 21*(1), 141-161. doi: 10.1177/0170840600211001

Courpasson, D., & Clegg, S. (2006). Dissolving the Iron Cages? Tocqueville, Michels, Bureaucracy and the Perpetuation of Elite Power. *Organization, 13*(3), 319-343. doi: 10.1177/1350508406063481

Covaleski, M. A., Dirsmith, M. W., & Michelman, J. E. (1993). An institutional theory perspective on the DRG framework, case-mix accounting systems and health-care organizations. *Accounting, Organizations and Society, 18*(1), 65-80.

D'Aveni, R. A., & Kesner, I. F. (1993). Top Managerial Prestige, Power and Tender Offer Response: A Study of Elite Social Networks and Target Firm Cooperation during Takeovers. *Organization Science, 4*(2), 123-151.

Dacin, M. T., Ventresca, M. J., & Beal, B. D. (1999). The Embeddedness of Organizations: Dialogue & Directions. *Journal of Management, 25*(3), 317-356. doi: 10.1177/014920639902500304

Dahl, R. A. (1957). The concept of power. *Behavioral Science, 2*(3), 201-215. doi: 10.1002/bs.3830020303

Dahl, R. A. (1958). A Critique of the Ruling Elite Model. *The American Political Science Review, 52*(2), 463-469.

Daily, C. M., Dalton, D. R., & Jr, A. A. C. (2003). Corporate Governance: Decades of Dialogue and Data. *The Academy of Management Review, 28*(3), 371-382.

Damodaran, R. (2012, 22 February 2012). Highest ever FDI for Malaysia, *New Straits Times*. Retrieved from http://www.nst.com.my/top-news/highest-ever-fdi-for-malaysia-1.50269#

Davis, G. F. (1996). The Significance of Board Interlocks for Corporate Governance. *Corporate Governance: An International Review, 4*(3), 154-159. doi: 10.1111/j.1467-8683.1996.tb00144.x

Davis, G. F., & Greve, H. R. (1997). Corporate Elite Networks and Governance Changes in the 1980s. *The American Journal of Sociology, 103*(1), 1-37.

Davis, G. F., & Thompson, T. A. (1994). A Social Movement Perspective on Corporate Control. *Administrative Science Quarterly, 39*(1), 141-173.

Davis, G. F., Yoo, M., & Baker, W. E. (2003). The Small World of the American Corporate Elite, 1982-2001. *Strategic Organization, 1*(3), 301-326. doi: 10.1177/14761270030013002

Deakin, S., & Konzelmann, S. J. (2004). Learning from Enron. *Corporate Governance, 12*(2), 134-142.

Deeg, R., & Perez, S. (2000). International Capital Mobility and Domestic Institutions: Corporate Finance and Governance in. *Governance, 13*(2), 119.
Demsetz, H. (1983). The structure of ownership and the theory of the firm. *Journal of Law & Economics, 26*(2), 375-390.
Demsetz, H., & Lehn, K. (1985). The Structure of Corporate Ownership: Causes and Consequences. *Journal of Political Economy, 93*(6), 1155-1177.
Demsetz, H., & Villalonga, B. n. (2001). Ownership structure and corporate performance. *Journal of Corporate Finance, 7*(3), 209-233.
Denis, D. K., & McConnell, J. J. (2003). International Corporate Governance. *The Journal of Financial and Quantitative Analysis, 38*(1), 1-36.
Denzin, N., & Lincoln, Y. S. (2005). Introduction: The Discipline and practice of qualitative research. In N. Denzin & Y. S. Lincoln (Eds.), *The Sage Handbook of Qualitative Research* (3rd ed., pp. 1-32). Thousand Oaks, London, New Delhi: Sage Publications.
Department of Foreign Affairs on Trade. (2005). *Malaysia: An economy transformed*. Monash International Retrieved from www.dfat.gov.au/.../malaysia_an_economy_transformed/index.html.
Dequech, D. (2003). Cognitive and Cultural Embeddedness: Combining Institutional Economics and Economic Sociology. *Journal of Economic Issues, 37*(2), 461-470.
Devos, E., Prevost, A., & Puthenpurackal, J. (2009). Are Interlocked Directors Effective Monitors? *Financial Management, 38*(4), 861-887. doi: 10.1111/j.1755-053X.2009.01059.x
Dharwadkar, R., George, G., & Brandes, P. (2000). Privatization in Emerging Economies: An Agency Theory Perspective. *The Academy of Management Review, 25*(3), 650-669.
Dillard, J., Rigsby, J., & Goodman, C. (2004). The making and remaking of organization context: duality and the institutionalization process. *Accounting, Auditing & Accountability Journal, 17*(4), 506-542.
DiMaggio, P. J. (1988). Interest and agency in institutional theory. In L. Zucker (Ed.), *Institutional patterns in organizations, culture and environment* (pp. 3-21). Ballinger, Cambridge: MA.
DiMaggio, P. J. (1998). The new institutionalisms: Avenues of collaboration. *Journal of Institutional and Theoretical Economics, 154*(4), 696-705.
DiMaggio, P. J., & Powell, W. W. (1983). The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review, 48*(2), 147-160.
DiMaggio, P. J., & Powell, W. W. (Eds.). (1991). *The new institutionalism in organizational analysis*. Chicago: University of Chicago Press.
Dobbin, F. (2004). The sociological view of the economy. In F. Dobbin (Ed.), *The new economic sociology: A reader* (pp. 1-48). Princeton and Oxford: Princeton University Press.
Dowding, K. (2006). Three-Dimensional Power: A Discussion of Steven Lukes' Power: A Radical View. *Political Studies Review, 4*(2), 136-145. doi: 10.1111/j.1478-9299.2006.000100.x
Eisenhardt, K. M. (1989). Agency Theory: An Assessment and Review. *The Academy of Management Review, 14*(1), 57-74.
EPF. (2010). EPF's corporate governance principles and voting guidelines. Kuala Lumpur: Employees Provident Fund Malaysia.

Evans, P. (1995). *Embedded autonomy: Satets and industrial transformation*. Princeton: Princeton University Press.

Faaland, J., Parkinson, J. R., & Saniman, R. (1990). *Growth and inequality: Malaysia's New Economic Policy*: C Hurst & Co Publishers Ltd.

Faccio, M., & Lang, L. H. P. (2002). The ultimate ownership of Western European corporations. *Journal of Financial Economics*, *65*(3), 365-395.

Falleti, T. G., & Lynch, J. F. (2009). Context and Causal Mechanisms in Political Analysis. *Comparative Political Studies, 42*(9), 1143-1166. doi: 10.1177/0010414009331724

Fama, E. F. (1980). Agency Problems and the Theory of the Firm. *Journal of Political Economy, 88*(2), 288. doi: doi:10.1086/260866

Fama, E. F., & Jensen, M. C. (1983). Separation of Ownership and Control. *The Journal of Law and Economics, 26*(2), 301. doi: doi:10.1086/467037

Fan, J. P. H., Wei, K. C. J., & Xu, X. (2011). Corporate finance and governance in emerging markets: A selective review and an agenda for future research. *Journal of Corporate Finance, 17*(2), 207-214. doi: 10.1016/j.jcorpfin.2010.12.001

Fan, J. P. H., & Wong, T. J. (2005). Do External Auditors Perform a Corporate Governance Role in Emerging Markets? Evidence from East Asia. *Journal of Accounting Research, 43*(1), 35-72.

Fan, J. P. H., Wong, T. J., & Zhang, T. (2007). Politically connected CEOs, corporate governance, and Post-IPO performance of China's newly partially privatized firms. *Journal of Financial Economics, 84*(2), 330-357. doi: 10.1016/j.jfineco.2006.03.008

Ferris, S. P., Jagannathan, M., & Pritchard, A. C. (2003). Too Busy to Mind the Business? Monitoring by Directors with Multiple Board Appointments. *The Journal of Finance, 58*(3), 1087-1111.

Fich, E. M., & Shivdasani, A. (2006). Are Busy Boards Effective Monitors? *The Journal of Finance, 61*(2), 689-724. doi: 10.1111/j.1540-6261.2006.00852.x

Fich, E. M., & White, L. J. (2005). Why do CEOs reciprocally sit on each other's boards? *Journal of Corporate Finance, 11*(1–2), 175-195. doi: 10.1016/j.jcorpfin.2003.06.002

Filatotchev, I., Lien, Y.-C., & Piesse, J. (2005). Corporate Governance and Performance in Publicly Listed, Family-Controlled Firms: Evidence from Taiwan. *Asia Pacific Journal of Management, 22*(3), 257-283. doi: 10.1007/s10490-005-3569-2

Finance Committee on Corporate Governance. (1999). Report on Corporate Governance February 1999. Kuala Lumpur, Malaysia: High Level Finance Committee on Corporate Governance.

Fiss, P. C. (2008). Institutions and corporate governance. In R. Greenwood, C. Oliver, R. Suddaby & K. Sahlin-Andersson (Eds.), *The SAGE handbook of organizational institutionalism* (pp. 389-410). London: Sage Publications Limited.

Fligstein, N. (1996). The Economic Sociology of the Transitions from Socialism. *American Journal of Sociology, 101*(4), 1074-1081.

Fligstein, N. (1997). Social Skill and Institutional Theory. *American Behavioral Scientist, 40*(4), 397-405. doi: 10.1177/0002764297040004003

Fligstein, N. (1999). Fields, Power and Social Skill: A Critical Analysis of the New Institutionalisms.

Fligstein, N. (2001). Social Skill and the Theory of Fields. *Sociological Theory, 19*(2), 105-125. doi: 10.1111/0735-2751.00132

Fligstein, N., & Choo, J. (2005). Law and corporate governance. *Annual Review of Law and Social Science, 1*(1), 61-84. doi: doi:10.1146/annurev.lawsocsci.1.041604.115944

Florackis, C., Kostakis, A., & Ozkan, A. (2009). Managerial ownership and performance. *Journal of Business Research, 62*(12), 1350-1357.

Fontana, A., & Frey, J. H. (2005). The interview: From neutral stance to political involvement. In N. K. Denzin & Y. S. Lincoln (Eds.), *The Sage handbook of qualitative research* (Third ed., pp. 695-727). Thousand Oaks, London, New Delhi: SAGE Publications.

Foreign Investment Committee. (2008). Guideline on the acquisition of interests, mergers and take-overs by local and foreign interests. Kuala Lumpur: Economic Planning Unit, Prime Minister's Department.

Fracassi, C., & Tate, G. A. (2011). External Networking and Internal Firm Governance. *Journal of Finance, Forthcoming*.

Franks, J., & Mayer, C. (2001). Ownership and Control of German Corporations. *Review of Financial Studies, 14*(4), 943-977. doi: 10.1093/rfs/14.4.943

Friemel, T. N. (2008). Why Context Matters. In T. N. Friemel (Ed.), (pp. 9-13): VS Verlag für Sozialwissenschaften.

Fukunaga, Y. (2010). Najib embarks on Bumiputra policy reform: Is real power possible in post-Mahathir Malaysia? *Economic Review, 5*.

Galaskiewicz, J. (2007). Has a Network Theory of Organizational Behaviour Lived Up to its Promises?[1]. *Management and Organization Review, 3*(1), 1-18. doi: 10.1111/j.1740-8784.2007.00057.x

Galaskiewicz, J., Wasserman, S., Rauschenbach, B., Bielefeld, W., & Mullaney, P. (1985). The Influence of Corporate Power, Social Status, and Market Position on Corporate Interlocks in a Regional Network. *Social Forces, 64*(2), 403-431.

Geoffrey, D., & Stafford, S. D. (1997). Malaysia's new economic policy and the global economy: The evolution of ethnic accommodation. *The Pacific Review, 10*(4), 556 - 580.

Gibson, M. S. (2003). Is Corporate Governance Ineffective in Emerging Markets? *The Journal of Financial and Quantitative Analysis, 38*(1), 231-250.

Gillan, S. L. (2006). Recent Developments in Corporate Governance: An Overview. *Journal of Corporate Finance, 12*(3), 381-402.

Gillan, S. L., & Starks, L. T. (2000). Corporate governance proposals and shareholder activism: the role of institutional investors. *Journal of Financial Economics, 57*(2), 275-305.

Gomez, E. T. (2003). Capital development in Malaysia. In J. Yahya, T. N. Peng & Y. K. Kheng (Eds.), *Sustaining growth, enhancing distribution: The NEP and NDP revisited*. Kuala Lumpur: Centre for Economic Development and Ethnic Relations (CEDER), University of Malaya.

Gordon, R. A. Y., Kornberger, M., & Clegg, S. R. (2009). Power, rationality and legitimacy in public organizations *Public Administration, 87*(1), 15-34. doi: 10.1111/j.1467-9299.2008.01743.x

Gordon, W., Kogut, B., & Shan, W. (1997). Social Capital, Structural Holes and the Formation of an Industry Network. *Organization Science, 8*(2), 109-125.

Gorges, M. J. (2001). New Institutionalist Explanations for Institutional Change: A Note of Caution. *Politics, 21*(2), 137-145. doi: 10.1111/1467-9256.00145

Gourevitch, P. A. (2003). The Politics of Corporate Governance Regulation. *The Yale Law Journal, 112*(7), 1829-1880.
Gourevitch, P. A., & Shinn, J. (2005). *Political power and corporate control: The new global politics of corporate governance*. Princeton and Oxford: Princeton University Press.
Goyer, M. (2010). Corporate governance. In G. Morgan, J. L. Campbell, C. Crouch & O. K. Pedersen (Eds.), *The Oxford handbook of comparative institutional analysis* (pp. 423-451). Oxford: Oxford University Press.
Grais, W., & Pellegrini, M. (2006). Corporate governance and Shariah Compliance in institutions offering Islamic financial services. *The World Bank Policy Research Working Paper, WPS4054*.
Granovetter, M. (1973). The Strength of Weak Ties. *American Journal of Sociology, 78*(6), 1360-1380.
Granovetter, M. (1985). Economic Action and Social Structure: The Problem of Embeddedness. *The American Journal of Sociology, 91*(3), 481-510.
Gregory, H. J. (Producer). (2001). The globalization of corporate governance. *Director's Monthly, August*.
Gregory, H. J., & Simms, M. E. (1999, 9-15 October). *Corporate governance: What it is and why it matters.* Paper presented at the 9th International Anti-Corruption Conference (IACC), Durban, South Africa.
Gregory, J. (2010). Actors and institutions. In G. Morgan, J. L. Campbell, C. Crouch & O. K. Pedersen (Eds.), *The Oxford handbook of comparative institutional analysis* (pp. 63-86). Oxford: Oxford University Press.
Guan, L. H. (2000). Ethnic relations in Peninsular Malaysia: The cultural and economic dimensions. *Social and Cultural Issues*, *1*.
Guba, E. G., & Lincoln, Y. S. (2005). Paradigmatic controversies, contradictions and emerging confluences. In N. Denzin & Y. S. Lincoln (Eds.), *The Sage Handbook of Qualitative Research* (3rd ed., pp. 191-216). Thousand Oaks, London, New Delhi: Sage Publications.
Gugler, K., Mueller, D. C., & Burcin Yurtoglu, B. (2003). The Impact of Corporate Governance on Investment Returns in Developed and Developing Countries*. *The Economic Journal, 113*(491), F511-F539. doi: 10.1046/j.0013-0133.2003.00167.x
Gugler, K., Mueller, D. C., & Yurtoglu, B. B. (2004). Corporate Governance and Globalization. *Oxford Review of Economic Policy, 20*(1), 129-156. doi: 10.1093/oxrep/grh008
Hacking, I. (1999). *The social construction of what?* Cambridge, MA: Harvard University Press.
Haggard, S., & Low, L. (2000). The political economy of Malaysian capital controls Retrieved from http://wwwirps.ucsd.edu/faculty/shaggard/Malaysia.13a.doc.html

Hall, P. A. (1986). *Governing the economy: The politics of state intervention in Britain and France*. New York: Oxford University Press.
Hall, P. A. (1992). The movement from Keynesianism to monetarism: Institutional analysis and British economic policy in the 1970s. In S. Steinmo, K. Thelen & F. Longstreth (Eds.), *Structuring politics: Historical institutionalism in comparative analysis* (pp. 90-113). Cambridge, Melbourne: Cambridge University Press.
Hall, P. A. (1997). The role of interests, institutions, and ideas in the comparative political economy of the industrialized nations. In M. I. Lichbach & A. S.

Zuckerman (Eds.), *Comparative politics: Rationality, culture, and structure* (pp. 174-207). Cambridge, New York, Melbourne: Cambridge University Press.

Hall, P. A. (2010). Historical institutionalism in rationalist and sociological perspective. In J. Mahoney & K. Thelen (Eds.), *Explaining institutional change: Ambiguity, agency, and power* (pp. 204-223). Cambridge, UK: Cambridge University Press.

Hall, P. A., & Soskice, D. (2001). An introduction to varieties of capitalism. In P. A. Hall & D. Soskice (Eds.), *Varieties of capitalism: The institutional foundations of comparative advantage* (pp. 1-70). Oxford, New York: Oxford University Press.

Hall, P. A., & Taylor, R. C. R. (1996). Political Science and the Three New Institutionalisms*. *Political Studies, 44*(5), 936-957. doi: 10.1111/j.1467-9248.1996.tb00343.x

Hall, P. A., & Taylor, R. C. R. (1998). The Potential of Historical Institutionalism: a Response to Hay and Wincott. *Political Studies, 46*(5), 958-962. doi: 10.1111/1467-9248.00178

Hambrick, D. C., Werder, A. v., & Zajac, E. J. (2008). New Directions in Corporate Governance Research. *Organization Science, 19*(3), 381-385. doi: 10.1287/orsc.1080.0361

Haniffa, R., & Cooke, T. E. (2002). Culture, Corporate Governance and Disclosure in Malaysian Corporations. *Abacus, 38*(3), 317-349. doi: 10.1111/1467-6281.00112

Haniffa, R., & Hudaib, M. (2006). Corporate Governance Structure and Performance of Malaysian Listed Companies. *Journal of Business Finance & Accounting, 33*(7-8), 1034-1062. doi: 10.1111/j.1468-5957.2006.00594.x

Hart, O. (1995). Corporate Governance: Some Theory and Implications. *The Economic Journal*, *105*(430), 678-689.

Harvey, D. (2005). *A Brief history of neoliberalism*. Oxford: Oxford University Press.

Hashim, H. A., & Selvaraj, S. D. (2008). Board independence, CEO duality and accrual management: Malaysian evidence. *Asian Journal of Business and Accounting, 1*(1), 27-46.

Heng, P. K. (1997). The New Economic Policy and the Chinese community in Peninsular Malaysia. *The Developing Economies, xxxv*(3), 262-292.

Hermalin, B. E., & Weisbach, M. S. (1998). Endogenously Chosen Boards of Directors and Their Monitoring of the CEO. *The American Economic Review, 88*(1), 96-118.

Hermalin, B. E., & Weisbach, M. S. (2000). Boards of directors as an endogeneously determined institution: A Survey of the economic literature. *Working paper, Berkeley and University of Illinois*.

Hillman, A. J., Nicholson, G., & Shropshire, C. (2008). Directors' Multiple Identities, Identification, and Board Monitoring and Resource Provision. *Organization Science, 19*(3), 441-456. doi: 10.1287/orsc.1080.0355

Himmelberg, C. P., Hubbard, R. G., & Palia, D. (1999). Understanding the determinants of managerial ownership and the link between ownership and performance. *Journal of Financial Economics, 53*(3), 353-384.

Hindess, B. (1982). Power, Interests and the Outcomes of Struggles. *Sociology, 16*(4), 498-511. doi: 10.1177/0038038582016004002

Hodgson, G. M. (1998). The Approach of Institutional Economics. *Journal of Economic Literature, 36*(1), 166-192.

Holderness, C. G. (2003). A Survey of blockholders and corporate control. *Economic Policy Review 9*(1), 51.

Holderness, C. G., & Sheehan, D. P. (1988). The role of majority shareholders in publicly held corporations: An exploratory analysis. *Journal of Financial Economics, 20*(0), 317-346.

Hollstein, B. (2011a). Qualitative approaches. In J. Scott & P. J. Carrington (Eds.), *The SAGE Handbook of social network analysis* (pp. 404-416). Los Angeles, London, New Delhi, Singapore, Washington DC: SAGE Publications.

Hollstein, B. (2011b). Qualitative approaches. In J. Scott & P. J. Carrington (Eds.), *Sage Handbook of Social Network Analysis*. London, New Delhi: Sage Publication.

Hopper, T., & Major, M. (2007). Extending Institutional Analysis through Theoretical Triangulation: Regulation and Activity-Based Costing in Portuguese Telecommunications. *European Accounting Review, 16*(1), 59-97. doi: 10.1080/09638180701265879

Horii, K. (1991). Disintegration of the colonial economic legacies and social restructuring in Malaysia. *The Developing Economies, XXIX*(4), 281-313.

Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). Strategy in Emerging Economies. *The Academy of Management Journal, 43*(3), 249-267.

Humphrey, C. (2008). Auditing research: A review across the disciplinary divide. *Accounting, Auditing & Accountability Journal, 21*(2), 170-203.

Huse, M. (2005). Accountability and Creating Accountability: a Framework for Exploring Behavioural Perspectives of Corporate Governance. *British Journal of Management, 16*, S65-S79. doi: 10.1111/j.1467-8551.2005.00448.x

Hussain, M. M., & Hoque, Z. (2002). Understanding non-financial performance measurement practices in Japanese banks: A new institutional sociology perspective. *Accounting, Auditing & Accountability Journal, 15*(2), 162.

Hwang, B.-H., & Kim, S. (2009). It pays to have friends. *Journal of Financial Economics, 93*(1), 138-158. doi: 10.1016/j.jfineco.2008.07.005

Immergut, E. M. (1998). The Theoretical Core of the New Institutionalism. *Politics & Society, 26*(1), 5-34. doi: 10.1177/0032329298026001002

Immergut, E. M., & Anderson, K. M. (2008). Historical Institutionalism and West European Politics. *West European Politics, 31*(1-2), 345-369. doi: 10.1080/01402380701835165

Ingram, P., & Clay, K. (2000). The Choice-within-Constraints New Institutionalism and Implications for Sociology. *Annual Review of Sociology, 26*, 525-546.

International Federation of Accountants (IFAC). (2001). Governance in the public sector: A governing body perspective - International public sector study *Study 13* (pp. 1-93).

Izatun, S. (2006, 11 August 2006). Bad calls led to Martrade mess, *The Star*. Retrieved from http://thestar.com.my/news/story.asp?file=/2006/8/11/nation/15113955&sec=nation

Jensen, M. C. (1983). Organization Theory and Methodology. *The Accounting Review, 58*(2), 319-339.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305-360.

Jesudason, J. V. (1989). *Ethnicity and the economy: The state, Chinese Business, and multinationals in Malaysia*: Oxford University Press.

Joh, S. W. (2003). Corporate governance and firm profitability: evidence from Korea before the economic crisis. *Journal of Financial Economics, 68*(2), 287-322. doi: 10.1016/s0304-405x(03)00068-0

Johnson, J. L., Daily, C. M., & Ellstrand, A. E. (1996). Boards of directors: A review and research agenda. *Journal of Management, 22*(3), 409-438. doi: 10.1016/s0149-2063(96)90031-8

Jomo, K. S., Khoo, B. T., & Chang, Y. T. (1995). Vision, policy and governance in Malaysia. *The World Bank PSD Occasional Paper No. 10*.

Jones, C. T., & Dugdale, D. (2002). The ABC bandwagon and the juggernaut of modernity. *Accounting, Organizations and Society, 27*(1–2), 121-163. doi: 10.1016/s0361-3682(01)00035-6

Judge, W. Q., Douglas, T. J., & Kutan, A. M. (2008). Institutional Antecedents of Corporate Governance Legitimacy. *Journal of Management*, *34*(4), 765-785. doi: 10.1177/0149206308318615

Kar, D., & Curcio, K. (2011). Illicit financial flows from developing countries: 2000-2009 *Illicit Financial Flows Report*. Washington: Global Financial Integrity.

Katznelson, I. (2003). Periodization and preferences: Reflections on purposive action in comparative historical social science. In J. Mahoney & D. Rueschemeyer (Eds.), *Comparative historical analysis in the social sciences* (pp. 270-304). Cambridge: Cambridge University Press.

Kay, J., & Silberstone, A. (1995). Corporate governance. *National Institute Economic Review, 153*(1), 84-107.

Kearney, C. (2012). Emerging markets research: Trends, issues and future directions. *Emerging Markets Review, 13*(2), 159-183. doi: 10.1016/j.ememar.2012.01.003

Kenrick, J., & Lewis, J. (2004). Indigenous peoples' rights and the politics of the term 'indigenous'. *Anthropology Today, 20*(2), 4-9.

Kesner, I. F. (1988). Directors' Characteristics and Committee Membership: An Investigation of Type, Occupation, Tenure, and Gender. *The Academy of Management Journal, 31*(1), 66-84.

Keys, P. Y., & Li, J. (2005). Evidence on the market for professional directors. *Journal of Financial Research, 28*(4), 575-589. doi: 10.1111/j.1475-6803.2005.00140.x

Khadaroo, I., & Shaikh, J. M. (2007). Corporate governance reforms in Malaysia: Insights from institutional theory. *World Review of Entrepreneurship, Management and Sust. Development, 3*(1), 37-49.

Khatri, Y., Leruth, L., & Piesse, J. (2002). Corporate performance and governance in Malaysia. *Working Paper of the International Monetary Fund, WP/02/152*.

Khoo, S. M. (1987). Documenting papers on Bumiputra participation in the Malaysian economy. *Library Review, Summer*, 110-121.

Kilduff, M., & Brass, D. J. (2010). Organizational Social Network Research: Core Ideas and Key Debates. *The Academy of Management Annals, 4*(1), 317 - 357.

Kilduff, M., & Krackhardt, D. (1994). Bringing the Individual Back in: A Structural Analysis of the Internal Market for Reputation in Organizations. *The Academy of Management Journal, 37*(1), 87-108.

Kjaer, P., & Pedersen, O. K. (2001). Translating liberalization: Neoliberalism in the Danish negotiated economy. In J. L. Campbell & O. K. Pedersen (Eds.), *The* *rise of neoliberalisation and institutional analysis* (pp. 219-248). New Jersey, Oxfordshire: Princeton University Press.

Klapper, L. F., & Love, I. (2004). Corporate governance, investor protection, and performance in emerging markets. *Journal of Corporate Finance, 10*(5), 703-728.

Knight, J. (1992). *Institutions and social conflict*. Cambridge, New York, Oakleigh: Cambridge University Press.

Koelble, T. A. (1995). Review: The New Institutionalism in Political Science and Sociology. *Comparative Politics, 27*(2), 231-243.

Koenig, T., & Gogel, R. (1981). Interlocking Corporate Directorships as a Social Network. *American Journal of Economics and Sociology, 40*(1), 37-50.

Koenig, T., Gogel, R., & Sonquist, J. (1979). Models of the Significance of Interlocking Corporate Directorates. *American Journal of Economics and Sociology, 38*(2), 173-186. doi: 10.1111/j.1536-7150.1979.tb02877.x

Kogut, B., & Ragin, C. (2006). Exploring complexity when diversity is limited: institutional complementarity in theories of rule of law and national systems revisited. *European Management Review, 3*(1), 44-59. doi: 10.1057/palgrave.emr.1500048

Kosnik, R. D. (1987). Greenmail: A Study of Board Performance in Corporate Governance. *Administrative Science Quarterly, 32*(2), 163-185.

Krasner, S. D. (1988). Sovereignty: An Institutional perspective. *Comparative Political Studies, 21*(1), 66-94. doi: 10.1177/0010414088021001004

Krippner, G. R. (2001). The elusive market: Embeddedness and the paradigm of economic sociology. *Theory and Society, 30*(6), 775-810. doi: 10.1023/a:1013330324198

Kuang, Y. F., & Qin, B. (2009). Performance-vested stock options and interest alignment. *The British Accounting Review, 41*(1), 46-61.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy, 106*(6), 1113.

Lee, S. H., & Yoo, T. (2008). Competing rationales for corporate governance in France: Institutional complementarities between financial markets and innovation systems. *Corporate Governance-an International Review, 16*(2), 63-76. doi: 10.1111/j.1467-8683.2008.00669.x

Lehn, K. M., Patro, S., & Zhao, M. (2009). Determinants of the Size and Composition of US Corporate Boards: 1935-2000. *Financial Management, 38*(4), 747-780. doi: 10.1111/j.1755-053X.2009.01055.x

Lemmon, M. L., & Lins, K. V. (2003). Ownership Structure, Corporate Governance, and Firm Value: Evidence from the East Asian Financial Crisis. *The Journal of Finance, 58*(4), 1445-1468. doi: 10.1111/1540-6261.00573

Letza, S., Sun, X., & Kirkbride, J. (2004). Shareholding versus stakeholding: A critical review of corporate governance. *Corporate Governance*, *12*(3), 242-262.

Lieberman, E. S. (2001). Causal Inference in Historical Institutional Analysis. *Comparative Political Studies, 34*(9), 1011-1035. doi: 10.1177/001041400103400903

Liew, P. K. (2007). Corporate Governance Reforms in Malaysia: the key leading players' perspectives. *Corporate Governance: An International Review, 15*(5), 724-740.

Lim, M. H. (1981). *Ownership and control of the one hundred largest corporations in Malaysia*. Kuala Lumpur, Oxford, New York, Melbourne: Oxford University Press.
Lim, M. H. (1985). Affirmative action, ethnicity and integration: The case of Malaysia. *Ethnic and Racial Studies, 8*(2), 250-276.
Lim, M. H., & Porpora, V. (1987). Stock ownership and interlocking directorates among Malaysia's top corporations. *Critical Sociology, 14*, 77-101.
Linck, J. S., Netter, J. M., & Yang, T. (2008). The determinants of board structure. *Journal of Financial Economics*, *87*(2), 308-328.
Lindenberg, S. (1998). The cognitive turn in institutional analysis: Beyond NIE and NIS? *Journal of Institutional and Theoretical Economics, 154*(4), 716-727.
Lindner, J., & Rittberger, B. (2003). The Creation, Interpretation and Contestation of Institutions — Revisiting Historical Institutionalism. *JCMS: Journal of Common Market Studies, 41*(3), 445-473. doi: 10.1111/1468-5965.00430
Lins, K. V. (2003). Equity Ownership and Firm Value in Emerging Markets. *The Journal of Financial and Quantitative Analysis*, *38*(1), 159-184.
Lopez-de-Silanes, F., La Porta, R., & Schleifer, A. (1999). Corporate ownership around the world. *The Journal of Finance, LIV*(2), 471-517.
Love, I., Preve, L. A., & Sarria-Allende, V. (2005). Trade credit and bank credit: Evidence from recent financial crises. *The World Bank Policy Research Working Paper, WPS3716*.
Lubatkin, M. H., Lane, P. J., Collin, S.-O., & Very, P. (2005). Origins of Corporate Governance in the USA, Sweden and France. *Organization Studies, 26*(6), 867-888. doi: 10.1177/0170840605054602
Lukes, S. (1974, 2005). *Power: A radical view* (First ed.). London Palgrave Macmillan.
Lukes, S. (2005). *Power: A radical view* (Second ed.). London: Palgrave Macmillan.
Maclean, M., Harvey, C., & Chia, R. (2010). Dominant Corporate Agents and the Power Elite in France and Britain. *Organization Studies, 31*(3), 327-348. doi: 10.1177/0170840609357377
Major, M., & Hopper, T. (2004, 4-6 July). *Extending new institutional theory: Regulation and activity-based costing in Portugese telecommunications.* Paper presented at the The Fourth Asia Pacific Interdisciplinary Research in Accounting Conference, Singapore.
Malaysia. (1971). *Second Malaysia Plan, 1971-1975*. Retrieved from http://www.epu.gov.my/second.
Malaysia. (1976). *Third Malaysia Plan, 1976-1980*. Retrieved from http://www.epu.gov.my.
Malaysia. (1981). *Fourth Malaysian Plan, 1981-1985*. Retrieved from http://www.epu.gov.my.
Malaysia. (1990). *Sixth Malaysian Plan, 1990-1995*. Retrieved from http://www.epu.gov.my.
Malaysia. (2001). *Third Outline Perspective Plan, 2001-2010*. Prime Minister's Department Retrieved from www.epu.gov.my.
Malaysia. (2006). Ninth Malaysian Plan
Malaysia. (2011). *Tenth Malaysia Plan, 2011-2015*. Retrieved from http://www.epu.gov.my.
Malhotra, K. (2011). *Opening Remarks* Paper presented at the Manufacturing Sector - A Key foundation for a vibrant Economy, Kuala Lumpur, Malaysia.

Malinowski, B. (1932). *Argonauts of the Western Pacific*. London: George Routledge & Sons, Ltd.
March, J. G., & Olsen, J. P. (1989). *Rediscovering institutions*. New York: Free Press.
Marnet, O. (2007). History repeats itself: The failure of rational choice models in corporate governance. *Critical Perspectives on Accounting, 18*(2), 191-210.
Mason, A. C., & Westphal, J. D. (2001). The Strategic Context of External Network Ties: Examining the Impact of Director Appointments on Board Involvement in Strategic Decision Making. *The Academy of Management Journal, 44*(4), 639-660.
McConnell, J. J., & Servaes, H. (1990). Additional evidence on equity ownership and corporate value. *Journal of Financial Economics, 27*(2), 595-612.
Mehran, H. (1995). Executive compensation structure, ownership, and firm performance. *Journal of Financial Economics, 38*(2), 163-184.
Meyer, J. W., & Rowan, B. (1977). Institutionalized Organizations: Formal Structure as Myth and Ceremony. *American Journal of Sociology, 83*(2), 340-363.
Milhaupt, C. J., & Pistor, K. (2008). *Law & Capitalism: What corporate crises reveal about legal systems and economic development around the world*. Chicago: The University of Chicago Press.
Millar, C., Eldomiaty, T., Choi, C., & Hilton, B. (2005). Corporate Governance and Institutional Transparency in Emerging Markets. *Journal of Business Ethics, 59*(1), 163-174. doi: 10.1007/s10551-005-3412-1
Milne, R. S. (1976). The Politics of Malaysia's New Economic Policy. *Pacific Affairs, 49*(2), 235-262.
Mishkin, F. S. (1999). Lessons from the Asian crisis. *Journal of International Money and Finance*, *18*, 709-723.
Mitchell, J. C. (1956). Case and situation analysis. *Sociological Review, 31*(3), 187-211.
Mitton, T. (2002). A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis. *Journal of Financial Economics, 64*(2), 215-241.
Mohamad, M. (2008). Malay/Malaysian/Islamic: four genres of political writings and the postcoloniality of autochthonous texts. *Postcolonial Studies, 11*(3), 293 - 313.
Mohr, J., & Friedland, R. (2008). Theorizing the institution: foundations, duality, and data. *Theory and Society, 37*(5), 421-426. doi: 10.1007/s11186-008-9071-3
Morck, R. K. (Ed.). (2005). *A history of corporate governance around the world: Family business groups to professional managers*: The University of Chicago Press.
Morck, R. K., Shleifer, A., & Vishny, R. W. (1988). Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics, 20*(0), 293-315.
Morck, R. K., & Steier, L. (2005). The global history of corporate governance: An introduction. In R. Morck (Ed.), *A history of corporate governance around the world: Family business groups to professional managers* (pp. 1-64). Chicago: University of Chicago Press.
Nam, S.-W., & Nam, I. C. (2004). Corporate governance in Asia: Recent evidence from Indonesia, Republic of Korea, Malaysia and Thailand. *Asian Development Bank Institute*.
Nazli, A. M. G. (2007). Ownership structure and corporate social responsibility disclosure: some Malaysian evidence. *Corporate Governance, 7*(3), 251.

Nee, V. (1998). Sources of the new institutionalism. In M. C. Brinton & V. Nee (Eds.), *The new institutionalism in sociology* (pp. 1-16). Stanford, California: Stanford University Press.
Nee, V., & Ingram, P. (1998). Embeddedness and beyond: Institutions, exchange, and social structure. In M. C. Brinton & V. Nee (Eds.), *The new institutionalism in sociology* (pp. 19-45). Stanford, California: Stanford University Press.
New Strait Times. (2010, August 15, 2010). NEP bastardised, says CIMB's Nazir, *The New Strait Times*. Retrieved from http://www.nst.com.my/nst/articles/NEPbastardised_saysCIMB__8217_sNazir/Article/
Ng, E. (2011, 27 November 2011). Roadmap to boost Bumiputera economic participation, *New Strait Times*. Retrieved from http://www.nst.com.my/local/politics/roadmap-to-boost-bumiputera-economic-participation-1.11037
Ng, F. (2009, 24 April, 2009). 30% Bumiputra equity removal is spark for more liberalization, *The Star*. Retrieved from http://biz.thestar.com.my/news/story.asp?file=/2009/4/24/business/3759119&sec=business
Nichols, P. M. (1998). Forgotten linkages: Historical institutionalism and sociological institutionalism and analysis of the World Trade Organization. *University of Pennsylvania Journal of International Economic Law, 19*(2), 461-512.
Nielsen, K. (2001). Institutionalist Approaches in the Social Sciences: Typology, Dialogue, and Future Challenges. *Journal of Economic Issues, 35*(2), 505-516.
North, D. C. (1990). *Institutions, institutional change and economic performance*. New York, Oakleigh: Cambridge University Press.
O'Connell, B., Webb, L. J., & Schwarzbach, H. R. (n.d.). *Corporate governance and disclosure reforms in the post-Enron world: An institutional theory perspective*. http://www.une.edu.au/business/conference/CorpGov/Papers/OConnellfinalr.pdf. Retrieved from http://www.une.edu.au/business/conference/CorpGov/Papers/OConnellfinalr.pdf
O'Sullivan, M. (2000). *Contests for corporate control: Corporate governance and economic performance in the United States and Germany*. Oxford: Oxford University Press.
Ocasio, W. (1999). Institutionalized Action and Corporate Governance: The Reliance on Rules of CEO Succession. *Administrative Science Quarterly, 44*(2), 384-416.
Office of National Statistics UK. (2006). Share ownership 2006, from www.statistics.gov.uk
Okamoto, Y. (1994). Impact of trade and FDI liberalization policies on the Malaysian economy. *The Developing Economies, 32*(4), 460-478.
Oman, C., Fries, S., & Buiter, W. (2004). Corporate Governance in Developing, Transition and Emerging-Market Economies. *OECD Development Centre Policy Briefs*. Retrieved from http://www.oecd-ilibrary.org/development/corporate-governance-in-developing-transition-and-emerging-market-economies_604227826337 website:

Ooi, J. (2006, November 1). Equity: Bumi hit 33.7% a decade ago!, *Asian Correspondent*. Retrieved from http://asiancorrespondent.com/6731/equity-bumi-hit-33-7-a-decade-ago/

Ostrom, E. (1995). New horizons in institutional analysis. [Review]. *American Political Science Review, 89*(1), 174-178.

Palmer, D., & Biggart, N. W. (2002). Organizational institutions. In J. A. C. Baum (Ed.), *Companion to organizations*. Oxford: Blackwell.

Partnoy, F. (1999). Why Markets Crash and What Law Can Do about It. Retrieved from http://ssrn.com/paper=183473 doi:10.2139/ssrn.183473

PCG. (2005). *Catalysing GLC Transformation to advance Malaysia's development*. Kuala Lumpur.

PCG. (2006). *Progress review of the GLC Transformation Programme*.

Pedersen, T., & Thomsen, S. (1997). European Patterns of Corporate Ownership: A Twelve-Country Study. *Journal of International Business Studies, 28*(4), 759-778.

Pelican, M. (2009). Complexities of indigeneity and autochthony: An African example. *American Ethnologist, 36*(1), 52-65.

Perrow, C. (1985). Overboard with Myth and Symbols. *American Journal of Sociology, 91*(1), 151-155.

Perusek, G. (2002). Shifting Terrain: Styles of Liberalism, Periodization, and Levels of Analysis. *International Journal of Politics, Culture, and Society, 15*(3), 405-426. doi: 10.1023/a:1014041625946

Peters, B. G. (1999). The legacy of the past: Historical institutionalism. In B. G. Peters (Ed.), *Institutional theory in Political Science: The new institutionalism* (pp. 63-77). London

New York: Pinter.

Peters, B. G., Pierre, J., & King, D. S. (2005). The Politics of Path Dependency: Political Conflict in Historical Institutionalism. *Journal of Politics, 67*(4), 1275-1300. doi: 10.1111/j.1468-2508.2005.00360.x

Petrovic, J. (2008). Unlocking the role of a board director: A review of the literature. *Management Decision, 46*(9), 1373-1392.

Pierre, v. d. E. (2006). Book Review: A History of corporate governance around the world: Family business groups to professional managers, by Morck, Randall K. (ed.). http://aib.msu.edu/jibs/BookReviews/pdf/2006-2007.pdf.

Pillay, S. S. (2000). The Malaysian Model: Governance, economic management and the future of the development state. In F.-J. Richter (Ed.), *The East Asian development model: Economic growth, institutional failure and the aftermath of the crisis* (pp. 203-227). London, New York: Macmillan Press Ltd, St. Martin's Press.

Pollner, M., & Emerson, R. M. (2001). Ethnomethodology and Ethnography. In P. Atkinson, A. Coffey, S. Delamont, J. Lofland & L. Lofland (Eds.), *Handbook of Ethnography*. London: Sage Publications.

Powell, W. W., & DiMaggio, P. J. (1991). *The new institutionalism in organizational analysis* Chicago, London: University of Chicago Press.

Ratcliff, D. (n.d). 15 Methods of data analysis in qualitative research. Retrieved from http://qualitativeresearch.ratcliffs.net/15methods.pdf

Ratcliff, R. E. (1980). Banks and Corporate Lending: An Analysis of the Impact of the Internal Structure of the Capitalist Class on The Lending Behavior of Banks. *American Sociological Review, 45*(4), 553-570.

Reid, A. (1969). The Kuala Lumpur riots and the Malaysian political system. *Australian Journal of International Affairs*, *23*(3), 258-278.

Rhodes, M., & Apeldoorn, B. V. (1998). Capital unbound? The transformation of European corporate governance. *Journal of European Public Policy, 5*(3), 406-427.

Richardson, A. J. (1987). Accounting as a legitimating institution. *Accounting, Organizations and Society, 12*(4), 341-355.

Ritchie, B. K. (2005). Coalitional politics, economic reform, and technological upgrading in Malaysia. *World Development*, *33*(5), 745-761.

Roberts, J. (2001). Trust and control in Anglo-American systems of corporate governance: The individualizing and socializing effects of processes of accountability. *Human Relations, 54*(12), 1547-1572.

Roberts, J., McNulty, T., & Stiles, P. (2005). Beyond Agency Conceptions of the Work of the Non-Executive Director: Creating Accountability in the Boardroom. *British Journal of Management, 16*, S5-S26. doi: 10.1111/j.1467-8551.2005.00444.x

Roe, M. J. (1991). A Political Theory of American Corporate Finance. *Columbia Law Review, 91*(1), 10-67.

Roe, M. J. (2003). *Political Determinants of Corporate Governance: Political Context, Corporate impact*. Oxford, New York.

Rose, C. (2005). Managerial Ownership and Firm Performance in Listed Danish Firms:: In Search of the Missing Link. *European Management Journal, 23*(5), 542-553.

Ross, S. A. (1973). The Economic Theory of Agency: The Principal's Problem. *The American Economic Review*, *63*(2), 134-139.

Ryan, B., Scapens, R. W., & Theobold, M. (2002). *Research Method and methodology in finance and accounting* (Second ed.). Australia: Thomson.

Saifulnizam, M. (2011, 26 November 2011). 30 syarikat teras Bumiputera dipilih, *Utusan Malaysia*. Retrieved from http://www.utusan.com.my/utusan/info.asp?y=2011&dt=1127&pub=Utusan_Malaysia&sec=Muka_Hadapan&pg=mh_02.htm

Salim, M. R. (2009). Company Law reform in Malaysia: The role and duties of directors. *International Company and Commercial Law Review 142*. Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1462650

Samy, F. A. (2011, 26 November 2011). PM launches Bumiputra Economic Transformation Roadmap, *The Star* Retrieved from http://thestaronline.com/news/story.asp?file=/2011/11/26/nation/20111126114745&sec=nation

Sarkar, J., & Sarkar, S. (2000). Large Shareholder Activism in Corporate Governance in Developing Countries: Evidence from India. *International Review of Finance*, *1*(3), 161-194.

Sayer, A. (2000). *Markets, embeddedness and trust: Problems of polysemy and idealism*. Paper presented at the published by the Department of Sociology, Lancaster University, Lancaster LA1 4YN, UK,. http://www.comp.lancs.ac.uk/sociology/papers/Sayer-Markets-Embeddedness-and-Trust.pdf

Schattschneider, E. E. (1957). Intensity, Visibility, Direction and Scope. *The American Political Science Review, 51*(4), 933-942.

Schleifer, A., & Vishny, R. W. (1986). Large Shareholders and Corporate Control. *Journal of Political Economy, 94*(3), 461-488.

Schmidt, V. A. (2008a). Discursive Institutionalism: The Explanatory Power of Ideas and Discourse. *Annual Review of Political Science, 11*(1), 303-326. doi: doi:10.1146/annurev.polisci.11.060606.135342
Schmidt, V. A. (2008b). Discursive institutionalism: The explanatory power of ideas and discourse. *Annual Review of Political Science, 11*, 303-326.
Schmidt, V. A. (2010). Taking ideas and discourse seriously: explaining change through discursive institutionalism as the fourth 'new institutionalism'. *European Political Science Review, 2*(01), 1-25. doi: doi:10.1017/S175577390999021X
Schuman, M. (2010, 10 August 2010). Escaping the middle-income trap, *Time Business*. Retrieved from http://business.time.com/2010/08/10/escaping-the-middle-income-trap/
Scott, J. (1991). Networks of Corporate Power: A Comparative Assessment. *Annual Review of Sociology, 17*, 181-203.
Scott, J. (2001). *Power: Key concepts*. Cambridge, UK; Malden, US: Polity Press.
Scott, W. R. (1995). *Institutions and organizations*. Thousand Oaks, London, New Delhi: SAGE Publications.
Scott, W. R. (2001). *Institutions and organizations* (Second ed.). Thousand Oaks: Sage Publications.
Scott, W. R. (2001). *Institutions and organizations* (Second ed.). Thousand Oaks, London, New Delhi: Sage Publications.
Scott, W. R. (2008). *Institutions and organizations: Ideas and interests* (Third ed.). Thousands Oak, New Delhi, London, Singapore: Sage Publications.
Securities Commission. (2011). Keynote address by Tan Sri Zarinah Anwar, Chairman, Securities Commission Malaysia, 3 May 2011 at Corporate Directors Conference 2011, Malaysian Alliance of Corporate Directors Retrieved 20 April 2011, from http://sc.com.my/main.asp?pageid=375&linkid=2858&yearno=2011&mod=paper
Securities Commission. (n.d.). Update on the implementation of the Capital Market Masterplan (CMP) as at 31st December 2007 Retrieved 25 January 2009, 2009, from http://www.sc.com.my
Shamsul Nahar, A. (2006). Board structure and ownership in Malaysia: the case of distressed listed companies. *Corporate Governance, 6*(5), 582-594.
Sharpe, N. F. (2011). The cosmetic independence of corporate boards. *Seattle University Law Review, 34*, 1435-1456.
Shleifer, A., & Vishny, R. W. (1997). A Survey of Corporate Governance. *Journal of Finance, 52*(2), 737-783.
Siddique, S., & Suryadinata, L. (1981). Bumiputra and pribumi: Economic nationalism (indiginism) in Malaysia and Indonesia. *Pacific Affairs, 54*(4), 662-687.
Simon, A., & Alagesh, T. (2011, 10 February 2011). No reason to exclude politicians as GLCs heads, says Najib, *New Strait Times*. Retrieved from http://www.nst.com.my/nst/articles/NoreasontoexcludepoliticiansasGLCheads_saysNajib/Article/
Singh, A. (2003). Competition, corporate governance and selection in emerging markets*. *The Economic Journal, 113*(491), F443-F464. doi: 10.1046/j.0013-0133.2003.00164.x
Singh, A., Glen, J., Zammit, A., De-Hoyos, R., Singh, A., & Weisse, B. (2005). Shareholder Value Maximisation, Stock Market and New Technology:

Should the US Corporate Model be the Universal Standard? 1. *International Review of Applied Economics, 19*(4), 419-437.
Smelser, N. J., & Swedberg, R. (2005). Introducing economic sociology. In N. J. Smelser & R. Swedberg (Eds.), *The handbook of economic sociology* (2nd ed., pp. 3-25). Princeton, Oxford, New York: Princeton University Press, Russell SAGE Foundation.
Smerdon, R. (2007). *A practical guide to corporate governance* (Third ed.). London: Sweet & Maxwell Ltd.
Smith, A. (1776). An inquiry into the nature and causes of the wealth of nations (pp. 786).
Smith, R. M. (1992). If Politics Matters: Implications for a "New Institutionalism". *Studies in American Political Development, 6*(01), 1-36. doi: doi:10.1017/S0898588X00000730
Snodgrass, D. R. (1995). Successful Economic Development in a multi-ethnic society: The Malaysian case. *Development discussion paper: Harvard Institute for International Development - Institute of Strategic and International Studies* Retrieved from
Solomon, J., & Solomon, A. (2004). *Corporate governance and accountability*. West Sussex: John Wiley & Sons Ltd.
Soon, t. (2007, 7 September). The 2008 Budget speech highlights by Prime Minister and Finance Minister Datuk Seri Abdullah Ahmad Badawi - 'Together Building The Nation and Sharing prosperity' *The Edge Daily*. Retrieved from http://www.theedgedaily.com/cms/content.jsp?id=com.tms.cms.article.Article_df7ebaf9-cb73c03a-1022de40-21ad4cab
Soref, M. (1976). Social Class and a Division of Labor within the Corporate Elite: a Note on Class, Interlocking, and Executive Committee Membership of Directors of U. S. Industrial Firms*. *Sociological Quarterly, 17*(3), 360-368. doi: 10.1111/j.1533-8525.1976.tb00989.x
Sorensen, R. (1974). The Separation of Ownership and Control and Firm Performance: An Empirical Analysis. *Southern Economic Journal, 41*(1), 145-148.
Sorin, A. T., & Burton, Z. (2001). The Effects of the Asian Crisis on Global Equity Markets. *Financial Review, 36*(1), 125-142.
Streeck, W., & Thelen, K. (Eds.). (2005). *Beyond continuity: Institutional change in advanced political economies*. Oxford, UK: Oxford University Press.
Suchman, M. C. (1995). Managing Legitimacy: Strategic and Institutional Approaches. *The Academy of Management Review, 20*(3), 571-610.
Sutton, J. R., & Dobbin, F. (1996). The Two Faces of Governance: Responses to Legal Uncertainty in U.S. Firms, 1955 to 1985. *American Sociological Review, 61*(5), 794-811.
Swedberg, R. (1990). *Economics and Sociology: Redefining their boundaries: Conversations with economists and sociologists*. Princeton, N.J: Princeton University Press.
Swedberg, R. (2003). *Principles of economic sociology*. Princeton, Oxford: Princeton University Press.
Teoh, S. (2011, 10 February 2011). GLCs formed to help Bumis, says Utusan, *The Malaysian Insider*. Retrieved from www.themalaysianinsider.com
The Associated Press. (2009, 30 June 2009). Malaysia relaxes foreign investment rules, *The Jakarta Post*. Retrieved from

http://www.thejakartapost.com/news/2009/06/30/malaysia-relaxes-foreign-investment-rules.html
The Institute of International Finance. (2006). Corporate governance in Malaysia - An investor perspective: The Institute of International Finance, Inc.
The OECD. (1999). OECD Principles of Corporate Governance. Paris, France: Organisation for Economic Co-operation and Development.
The OECD. (2003). White Paper on Corporate Governance in Asia. Paris, France: CCNM, Organisation for Economic Co-operation and Development.
The OECD. (2004). OECD Principles of Corporate Governance. Paris, France: Organisation for Economic Co-operation and Development.
The OECD. (2006). Implementing the White Paper on Corporate Governance in Asia: Stock-take of progress on priorities and recommendations for reform *Asian Roundtable on Corporate Governance*. Paris, France: CCNM, Organisation for Economic Co-operation and Development.
The OECD. (2007). Asia: Overview of corporate governance frameworks in 2007. Paris, France: Organisation for Economic Co-operation and Development.
The Securities Commission. (n.d.). Corporate governance - Multilateral cooperative involvement Retrieved 23 February 2009, from http://www.sc.com.my/ENG/html/cg/multilateral.html
The Star. (2010, 2 April, 2010). Perkasa: NEM lacks Malay agenda, *The Star*. Retrieved from http://thestar.com.my/news/story.asp?file=/2010/4/2/nation/5984817&sec=nation
The World Bank. (2001). Corporate governance country assessment: Malaysia. Report on the Observance of Standards and Codes (ROSC) Corporate Governance. Washington DC: The World Bank.
The World Bank. (2005a). Corporate governance country assessment: Malaysia, Report on the Observance of Standards and Codes (ROSC) Corporate Governance. Washington DC: The World Bank.
The World Bank. (2005b). Malaysia: Firm competitiveness, investment climate, and growth. *Poverty Reduction, Economic Management, and Financial Sector Unit (PREM), East Asia and Pacific Region, Report No. 26841-MA.*
The World Bank. (2007). Doing business 2008: A Project benchmarking the regulatory cost of doing business in 178 economies *Doing Business Project World Bank Group*. Washington DC: The World Bank, the International Finance Institution.
The World Bank. (2008). Doing business 2009: Comparing regulation in 181 economies. Washington: The World Bank, the International Finance Institution, Palgrave Macmillan.
The World Bank. (2012). Report on the Observance of Standards and Codes (ROSC) Accounting and Auditing.
Thelen, K. (1999). Historical institutionalism in comparative politics *Annual Review of Political Science, 2*(1), 369-404. doi: doi:10.1146/annurev.polisci.2.1.369
Thelen, K. (2000). Timing and Temporality in the Analysis of Institutional Evolution and Change. *Studies in American Political Development, 14*(01), 101-108. doi: doi:null
Thelen, K. (2003). How institutions evolve: Insights from comparative historical analysis. In J. Mahoney & D. Rueschemeyer (Eds.), *Comparative historical analysis in the social sciences* (pp. 208-240). Cambridge: Cambridge University Press.

Thelen, K. (Ed.). (2002). *The explanatory power of historical institutionalism*. Frankfurt am Main: Campus.
Thelen, K., & Steinmo, S. (1992). Historical institutionalism in comparative politics. In S. Steinmo, K. Thelen & F. Longstreth (Eds.), *Structuring politics: Historical institutionalism in comparative analysis* (pp. 1-32). Cambridge, Melbourne: Cambridge University Press.
Thillainathan, R. (2001). Corporate governance and restructuring in Malaysia: A review of markets, mechanisms, agents and the legal infrastructure *Corporate governance in Asia: A comparative perspective* (pp. 275-331). France: OECD.
Tilly, C. (1991). Domination, resistance, compliance ... discourse. *Sociological Forum, 6*(3), 593-602. doi: 10.1007/bf01114480
Transparency International. (2011). Corruption Perceptions Index 2011 Retrieved 13 October 2012, from http://cpi.transparency.org/cpi2011/
Turley, S., & Zaman, M. (2007). Audit committee effectiveness: informal processes and behavioural effects. *Accounting, Auditing & Accountability Journal, 20*(5), 765-788.
Tuttle, B., & Dillard, J. (2007). Beyond Competition: Institutional Isomorphism in U.S. Accounting Research. *Accounting Horizons, 21*(4), 387-409.
Uddin, S., & Choudhury, J. (2008). Rationality, traditionalism and the state of corporate governance mechanisms: Illustrations from a less-developed country. *Accounting, Auditing & Accountability Journal, 21*(7), 1026-1051.
Useem, M. (1978). The Inner Group of the American Capitalist Class. *Social Problems, 25*(3), 225-240.
Useem, M. (1980). Corporations and the Corporate Elite. *Annual Review of Sociology, 6*, 41-77.
Utusan Malaysia. (2012, 24 April 2012). 10 syarikat dilupus - Najib *Utusan Malaysia*.
Valenti, A. (2008). The Sarbanes-Oxley Act of 2002: Has it brought about changes in the boards of large U. S. corporations? *Journal of Business Ethics, 81*(2), 401-412.
Van Essen, M. (2011). *An institution-based view of ownership.* PhD, Erasmus University Rotterdam, Rotterdam.
Weingast, B. R. (1995). The economic role of political institutions: Market-preserving federalism and economic development. *The Journal of Law, Economics, & Organization, 11*(1), 1-31.
Weiss, L. (2010). The state in the economy: Neoliberal or neoactivist? In G. Morgan, J. L. Campbell, C. Crouch & O. K. Pedersen (Eds.), *The Oxford handbook of comparative institutional analysis* (pp. 183-210). Oxford: Oxford University Press.
Westphal, J. D. (1999). Collaboration in the Boardroom: Behavioral and Performance Consequences of CEO-Board Social Ties. *The Academy of Management Journal, 42*(1), 7-24.
Westphal, J. D., & Milton, L. P. (2000). How Experience and Network Ties Affect the Influence of Demographic Minorities on Corporate Boards. *Administrative Science Quarterly, 45*(2), 366-398.
Williamson, O. (1985). *The economic institutions of capitalism*. New York: Free Press.
Williamson, O. E. (1988). Corporate Finance and Corporate Governance. *The Journal of Finance, 43*(3), 567-591.

Williamson, O. E. (1998). The Institutions of Governance. *The American Economic Review, 88*(2), 75-79.

Williamson, O. E. (2000). The New Institutional Economics: Taking Stock, Looking Ahead. *Journal of Economic Literature, 38*(3), 595-613.

Wong, R. (2007, June 27, 2007). Eric Chia acquitted of CBT, *The Star*. Retrieved from http://thestar.com.my/news/story.asp?file=/2007/6/27/nation/18140970&sec=nation

World Bank. (1993). *The East Asian Miracle*. New York: Oxford University Press.

World Bank. (2012). Malaysia - Report on the Observance of Standards and Codes (ROSC): accounting and auditing (Vol. 1). Washington D.C.: World Bank.

Wright, M., Filatotchev, I., Hoskisson, R. E., & Peng, M. W. (2005). Strategy Research in Emerging Economies: Challenging the Conventional Wisdom*. *Journal of Management Studies, 42*(1), 1-33. doi: 10.1111/j.1467-6486.2005.00487.x

Wuthnow, R. (1987). *Meaning and moral order*. Berkeley, CA: University of California Press.

Xu, X., & Wang, Y. (1999). Ownership structure and corporate governance in Chinese stock companies. *China Economic Review, 10*(1), 75-98. doi: 10.1016/s1043-951x(99)00006-1

Yoshikawa, T., Tsui-Auch, L. S., & McGuire, J. (2007). Corporate Governance Reform as Institutional Innovation: The Case of Japan. *Organization Science, 18*(6), 973-988. doi: 10.1287/orsc.1070.0290

Young, M. N., Peng, M. W., Ahlstrom, D., Bruton, G. D., & Jiang, Y. (2008). Corporate governance in emerging economies: A review of the Principal-Principal perspective. *Journal of Management Studies, 15*(1), 196-220.

Yusoff, W. F. W. (2010). *Characteristics of board effectiveness: a study of Malaysian public listed companies.* Doctor of Philosophy PhD, Victoria University, Melbourne.

Zahra, S. A., & Pearce II, J. A. (1989). Boards of Directors and Corporate Financial Performance: A Review and Integrative Model. *Journal of Management, 15*(2), 291.

Zahra, S. A., & Pearce, J. A. (1989). Boards of Directors and Corporate Financial Performance: A Review and Integrative Model. *Journal of Management, 15*(2), 291-334. doi: 10.1177/014920638901500208

Zelechowski, D. D., & Bilimoria, D. (2004). Characteristics of Women and Men Corporate Inside Directors in the US. *Corporate Governance: An International Review, 12*(3), 337-342. doi: 10.1111/j.1467-8683.2004.00374.x

Zucker, L. G. (1977). The Role of Institutionalization in Cultural Persistence. *American Sociological Review, 42*(5), 726-743.

Zucker, L. G. (1987). Institutional Theories of Organization. *Annual Review of Sociology, 13*(ArticleType: research-article / Full publication date: 1987 / Copyright © 1987 Annual Reviews), 443-464.

Zukin, S., & DiMaggio, P. (1990). *Structures of capital: The social organization of the economy*. New York: Cambridge University Press.

Appendices

Appendix 1

Summary of interviewees profiles

Interviewee	**Profile (Regulatory bodies/professional organization/advisory body)**
R1 (Regulatory body)	R1 is the Director of a division of a regulatory body regulating corporate practices. I actually requested for the Chief Executive Officer of the organization however I was informed that for the nature of information that I might need, this personal is the better person to speak to. I did not know much about him before the interview, but later found some newspaper reports that interviewed him concerning corporate governance in Malaysia. He is Malay; has vast experience including in corporate law reform, international networking, risk management, project management, as well as strategic planning. In his previous position, he advised on various corporate restructuring, joint ventures, and investments. He also had experience as Senior Prosecuting Officer in another regulatory body. He is also one of the contributors from Malaysia for “Doing Business” of World Bank.
R2 (Accounting professional body)	R2 is the Vice President of an accounting professional organization. I knew him from my previous employment even though that was not known to him prior to the interview. He is an Indian. The meeting was also attended by three of his staffs; the Managing Director and two other staffs, all of whom are Chinese. One of the staffs was directly involved in preparing document as input for the Malaysian Code on Corporate Governance when it was first introduced in the year 2000. R2 is a member of various other accounting professional organizations, local and international. He has a vast experience in accounting and auditing services with clients based locally and internationally. He also hold important position in other accounting professional body and has been a regular speaker and panellist at various seminars organized by the local and foreign professional and regulatory bodies.
R3 (Advisory body)	R3 is a Chairman of an advisory body. R3 is an Indian; has a long term service history with a government department which is also one of the key institutional investors in the country and hence representing the organization in various boards of public listed companies. Her position in previous organization also allowed her to involve in securing private investment deals from the structuring, due diligence process, documentation and to monitoring the deals. R3 is also active in international organization. As a preparation for the interview, I read few newspaper reports that covered her speeches on matters related to corporate governance.

Interviewee	Profile (Regulatory bodies/professional organization/advisory body)
R4 (Institutional investor)	As a representation of investors, I chose to interview one of the most important institutional investors in the country. The organization was represented by their Manager of Corporate Finance Department and two more Assistant Managers from the same department. All three interviewees are Malay.
R5 (Regulatory body)	R5 is the Head of Corporate Governance Division in this regulatory body. She is Indian and the interview was conducted with her assistant present, a Chinese gentleman.
R6 (Professional body)	R6 is the President of a professional organization who also holds a high management position in a GLC. He received his education from overseas and had a long experience in a multi-national company, holding various management positions, prior to joining the GLC. He is also actively involved in various program and efforts in enhancing good practices of corporate governance in Malaysia. R6 is Malay.
R7 (Banking institution)	R7 is the Vice President of a banking institution as well as the CEO of one of the leading banks in Malaysia. Prior to the appointment as the CEO, he has held several senior positions within the banking group and has worked in various international offices for more than ten years. R7 is Malay.
R8 (Accounting professional body)	R8 is a very prominent figure in the accounting profession as well as in corporate regulations and practices. He is a *Datuk*, Malay, holding a membership with various accounting professional bodies and an Adjunct Professor in a top university in the country. He played a very important role in improving corporate governance practices following the 1997/98 Asian crisis and led the committee to establish the Malaysian code on Corporate Governance 2000. He was a member in various international organizations as well as holding few important positions in those organizations. He was Executive Chairman of a big Four accounting firm for more than 20 years and then became the firm's Senior Advisor. He was also a former President of MICPA and co-chair of the Company Law Forum. Currently, he also sits on few public listed and non-public listed companies in Malaysia.

Interviewee	Profile (Corporate directors)
D1	D1 is a corporate director of an investment holding company listed on the Main Market of Bursa Malaysia. Through its

Interviewee	Profile (Corporate directors)
	subsidiaries, the company – a Chinese-dominated company, provides a diverse range of property development, building construction, and trading and management services. D1 is Malay; in his thirties and has been on the board of directors of that company for four years. He is an Independent Non-Executive Director and a member of Remuneration committee. He is my colleague whom I know for about ten years now. So my interview with him was very informal; it was like ordinary conversation that we used to have. The conversation lasted more than two hours which was followed by lunch with another friend of ours, but I only captured about one hour on tape. Some of the information he gave me, he insisted, should be off record. He got appointed dues to personal relationship with the company's previous Managing Director of this company. Therefore when he first joined the company he was practically ignored by the board every time he voiced out his views on certain matters during board meetings due to his lack of experience. As time goes, he managed to portray good image and showed efforts to contribute to the board, and as he mentioned it, he is now accepted by the board. One of the things he raised to the board had actually led to a departure of another director who they later found out, had a conflicting interest with the company.
D2	D2 is the CEO of a GLC; recently appointed to the position and recently conferred with the title *Dato'*. He received his education from the UK and the US. He began his career in banking sector before becoming Director Corporate Finance in one important company in Malaysia. He left the company shortly after that to go back to banking industry. D2 is Malay.
D3	D3 is a Senior Independent Non-Executive Director in a GLC. D3 is Indian. He received his education from Malaysia as well as from the US. He worked with the government (department, corporation and Ministry) until his retirement and then joined corporate sector and holds directorship in both public listed and non-public listed companies.
D4	D4 is an Independent Non-Executive Director of two public listed companies. He is *Bumiputera*, received his education from local educational institutions. He has amassed nearly 20 years of experience in the field of accountancy including external and internal auditing, mergers and acquisitions, receiverships and liquidations, initial public offerings and tax consultancy. He is a member of the Malaysian Institute of Accountants and is the founder and Managing Partner of a chartered accountants firm. I knew him from my previous employment too.

Interviewee	Profile (Corporate directors)
D5	D5 is the Chief Executive Officer / Executive Director and the founder of a company listed on the ACE Market of Bursa Malaysia. D5 is Malay. He received his education from the US. He has more than 20 years experience primarily in Information Technology. He began his career as a Sales Representative in a company in the banking and financial sector. On leaving the company, he set up the representative office for providing banking software on the IBM AS/400 platform. Subsequently, he served as the Business Development Manager for another company before returning to re-join his previous company to assume the position of the Sales Director of the Financial Services Division. He played a key role in the setting up of company's joint venture in Malaysia, and eventually bought over the local shareholding of the JV and was appointed as the company's Chief Executive Officer.
D6	D6, a Chinese, is a General Manager of an advisory body with more than 30 years experience in corporate governance and finance. He is also active in international organizations related to corporate governance. Prior to joining this organization, he holds an important position in another body related to corporate governance advisory body. He is also an accountant and has various experiences in public listed companies. He was a director in few public listed companies including GLCs. [Updated: a second interview was conducted with him, of which time he has already retired from his position in the advisory body. He spoke on his capacity as an ex-director].

Interviewee	Profile (Politicians)
P1 (Politician)	V1is a respectable senator – a *Datuk*, whom I met during *Bumiputera* Economic Congress (BEC) on the New Economic Model that I attended about two weeks before that. He was one of the panelists in the Congress. After the BEC, I was communicating with him through email and I read his blog. He is very active in his effort promoting *Bumiputera* interest. This could obviously be seen from his writings as well. He is a highly educated person, having received his education from inside the country as well as overseas. He represented the country in various conferences and consultations including in the fields of economics, agriculture, human development, as well as international trade. He is active in NGOs at various levels. Now he is a member of MPM. He is also a long time UMNO member. The interview with him was informal and we spent one and half hours talking about *Bumiputera* issues.

Interviewee	Profile (Politicians)
P2 (Politician)	V2 is a former Prime Minister of Malaysia; Malay; titled Tun.
Interviewee	**Profile (Others)**
V1 (Audit Manager)	V1 is an Audit Manager in a local accounting firm. He is Malay, in late 30s.
V2 (Senior General Manager)	V2 is a Senior General Manager is a government department.
V3 (Chief Operating Officer)	V3 is the Chief Operating Officer of a company listed on the ACE Market of Bursa Malaysia. He is Malay in his fifties. He received his education from the US and has long experience in various companies as Finance Director and Chief Financial Officer. His responsibility in the current company is in directing and operating activities. He also sits on the board of several subsidiary companies in the group.

Appendix 2

Some of the questions asked:

- What is your view about corporate governance regulations in Malaysia? Do we have enough regulations/guidelines? Do we have the RIGHT regulations/guidelines that fit our context/address our specific issues? Is implementation still the issue?

- Are there any specific issues about corporate governance regulations and practices in Malaysia that became major concern of (organization)? Why?

- There have been significant efforts by regulators and related bodies including (organization) to address corporate governance concerns in Malaysia. Do you think that these efforts could/have improve(d) others' perception (international as well as local investors) about corporate governance practices in Malaysia?

- What is your view concerning current corporate governance practices (board practices, board structure, board composition, ownership structure) in Malaysia? What are the factors that contribute to such practices? Did you observe significant changes in the practices after various efforts/initiatives were put in place by various parties?

- Does Malaysian's economic policies affecting corporate governance practices? If so, how? [How historical/cultural/legal factors affecting corporate governance practices?]

- In your opinion what should be the role of government and private sector organizations in regulating corporate governance?

- Do you think the Anglo-Saxon model of corporate governance is suitable for the Malaysian context?

Appendix 3

Table 5a: Market Capitalization and Shareholding Levels of Listed GLCs in 2005

	Company	Market Cap (RM millions)	Total Government shareholding (%)
1	Malayan Banking Bhd	44,708	63.5
2	Telekom Malaysia Bhd	34,871	63.8
3	Tenaga Nasional Bhd	32,966	73.7
4	Malaysia International Shipping Corp (MISC)	29,387	72.1
5	Sime Darby Bhd	14,214	57.3
6	Petronas Gas Bhd	14,148	89.8
7	PLUS Expressways Bhd	13,350	77.0
8	Commerce Asset Holdings Bhd	12,495	47.9
9	Golden Hope Plantations Bhd	5,466	78.8
10	Malaysian Airline System Bhd	4,838	80.8
11	Proton Holdings Bhd	4,586	68.8
12	Petronas Dagangan Bhd	3,954	78.0
13	Island & Peninsular Bhd	3,781	56.3
14	UMW Holdings Bhd	2,523	58.6
15	Kumpulan Guthrie Bhd	2,224	82.5
16	Affin Holdings Bhd	2,112	54.3
17	Malaysia Airports Holdings Bhd	1,639	77.3
18	Bintulu Port Holdings Bhd	1,568	71.3
19	POS Malaysia & Services Holdings Bhd	1,471	35.4
20	NCB Holdings Bhd	1,298	60.2
21	UEM World Bhd	1,291	50.8
22	Malaysian Industrial Development Finance Bhd (MIDF)	1,259	40.1
23	Boustead Holdings	1,004	71.3
24	BIMB Holdings Bhd	963	67.6
25	Chemical Co. of Malaysia Bhd	881	69.4
26	Malaysian Nasional Reinsurance Bhd	714	69.3
27	MNI Holdings Bhd	707	84.6
28	UDA Holdings Bhd	692	56.7

29	Malaysian Resources Corp Bhd	542	30.6
30	Pelangi Bhd	429	43.2
31	Time Engineering Bhd	336	51.9
32	Malaysia Building Society Bhd	252	79.1
33	Faber Group Bhd	127	41.4
34	Formosa Prosonic Industries Bhd	111	28.5
35	Central Industries Corp	66	38.6
36	YA Horng Electronic Malaysia Bhd	51	29.6
37	Hunza Consolidated Bhd	47	19.1
38	D’Nonce Technology Bhd	41	24.4
39	Johan Ceramics Bhd	31	73.4

Table 5b: Market Capitalization of Subsidiaries of GLCs in March 2005

	Company	Holding Company	Market Cap (RM millions)
40	CIMB Bhd	Commerce Asset Holdings Bhd	4,371
41	Highlands & Lowlands Bhd	Kumpulan Guthrie	2,176
42	Sime UEP Properties Bhd	Sime Darby	1,739
43	UEM Builders Bhd	UEM World	1,002
44	Time dotcom Bhd	Time Engineering Berhad	974
45	Boustead Properties Bhd	Boustead Holdings	939
46	Tractors (M) Holdings Bhd	Sime Darby	785
47	Pharmaniaga Bhd	UEM World	551
48	Guthrie Ropel Bhd	Kumpulan Guthrie	467
49	Sime Engineering Services Bhd	Sime Darby	441
50	UAC Bhd	Boustead Holdings	366
51	Negara Properties (M) Bhd	Golden Hope	280
52	CIMA	UEM World	231
53	Syarikat Takaful Malaysia Bhd	BIMB Holdings	172
54	VADs Bhd	Telekom Malaysia	163
55	Acoustech Bhd	Formosa Prosonic Industries Bhd	131
56	Mentakab Rubber Company (M) Bhd	Golden Hope	129
57	Opus	UEM World	128

Source: www.pcg.gov.my

Appendix 4

Table 5c: Listed GLCs in 2009

No	Company	No	Company
1	Malaysia Building Society Bhd	18	Boustead Holdings Bhd
2	Malaysian Resources Corp Bhd	19	UAC Bhd
3	Bumiputra Commerce Holdings Bhd	20	BIMB Holdings Bhd
4	Malaysia Airports Holdings Bhd	21	Lityan Holdings Bhd
5	Malaysian Airline System Bhd	22	Syarikat Takaful Malaysia Bhd
6	POS Malaysia Bhd	23	TH Plantations Bhd
7	Proton Holdings Bhd	24	Chemical Company of Malaysia Bhd
8	Telekom Malaysia Bhd	25	CCM Duopharma Biotech Bhd
9	Axiata Group Bhd	26	Malayan Banking Bhd
10	Tenaga Nasional Bhd	27	MNRB Holdings Bhd
11	Time dotcom Bhd	28	NCB Holdings Bhd
12	Time Engineering Bhd	29	Sime Darby Bhd
13	PLUS Expressways Bhd	30	UMW Holdings Bhd
14	Pharmaniaga Bhd	31	Petronas Dagangan Bhd
15	UEM Land Bhd	32	Petronas Gas Bhd
16	Faber Group Bhd	33	Malaysia International Shipping Corp Bhd
17	Affin Holdings Bhd		

Appendix 5

100 KLCI Index 2009

No.	**Company Name**	**Board size**	**Malays**	**Chinese**	**Indian**	**Foreign**
1	AFFIN HOLDINGS BHD **	10	7	3	0	0
2	AIRASIA BHD	9	5	2	1	1
3	ALLIANCE FINANCIAL GROUP	7	1	4	0	2
4	AMMB HOLDINGS BHD	13	6	3	0	4
5	ANN JOO RESOURCES	8	3	5	0	0
6	ASTRO ALL ASIA NETWORKS PLC	5	2	1	1	1
7	AXIATA GROUP BHD **	8	5	1	0	2
8	BANDAR RAYA DEVELOPMENTS BHD	5	3	0	2	0
9	BERJAYA SPORTS TOTO BHD	9	1	8	0	0
10	BOUSTEAD HOLDINGS **	6	6	0	0	0
11	BRITISH AMERICAN TOBACCO (M) BHD	7	2	3	0	2
12	BUMIPUTRA-COMMERCE HOLDINGS BHD **	10	7	1	0	2
13	BURSA MALAYSIA BHD	13	9	3	1	0
14	CARLSBERG BREWERY MALAYSIA BHD	6	0	2	1	3
15	DIALOG GROUP BHD	8	4	4	0	0
16	DIGI.COM BHD	7	1	2	0	4
17	DRB-HICOM BHD	8	6	2	0	0
18	EON CAPITAL	13	6	5	0	2
19	GAMUDA BHD	13	7	6	0	0
20	GENTING BHD	7	3	3	1	0
21	GUOCOLAND (MALAYSIA) BHD	8	1	7	0	0
22	HAP SENG CONSOLIDATED	9	2	6	0	1
23	HONG LEONG BANK BHD	10	2	8	0	0
24	IGB CORPORATION BHD	5	1	4	0	0
25	IJM CORPORATION BHD	10	4	5	0	1
26	IOI CORPORATION BHD	8	1	7	0	0
27	KENCANA PETROLEUM	9	6	3	0	0
28	KFC HOLDINGS	8	7	1	0	0
29	KINSTEEL	15	5	9	0	1
30	KLCC PROPERTY HOLDINGS BHD	9	5	1	3	0
31	KNM GROUP BHD	7	1	5	1	0
32	KUALA LUMPUR KEPONG BHD	7	2	5	0	1
33	KULIM (M) BHD	10	8	2	0	0
34	KUMPULAN PERANGSANG SELANGOR	5	4	1	0	0
35	KURNIA ASIA BHD	6	2	4	0	0
36	LAFARGE MALAYAN CEMENT BHD	12	3	3	0	6
37	LANDMARKS	6	2	2	1	1
38	LINGKARAN TRANS KOTA	8	4	4	0	0

	HOLDINGS BHD					
39	LINGUI DEVELOPMENT BHD	7	1	6	0	0
40	LION DIVERSIFIED HOLDINGS BHD	6	2	3	0	1
41	LION INDUSTRIES CORPORATION BHD	7	3	2	0	2
42	MAH SING GROUP	7	2	5	0	0
43	MALAYAN BANKING BHD **	11	7	2	1	1
44	MALAYSIA AIRPORT HOLDINGS BHD **	11	10	1	0	0
45	MALAYSIAN AIRLINE SYSTEM BHD **	11	8	1	1	1
46	MALAYSIAN BULK CARRIERS	8	3	3	0	2
47	MALAYSIAN PACIFIC INDUSTRIES BHD	5	2	1	0	2
48	MALAYSIAN RESOURCES CORP **	8	7	1	0	0
49	MEDIA Chinese INTERNATIONAL LT	10	1	7	0	2
50	MEDIA PRIMA BHD	10	9	1	0	0
51	MISC BHD **	8	7	0	1	0
52	MK LAND HOLDINGS BHD	7	4	2	1	0
53	MMC CORPORATION BHD	7	6	1	0	0
54	MUHIBBAH ENGINEERING	9	5	4	0	0
55	MULPHA INTERNATIONAL BHD	7	0	7	0	0
56	MULTI-PURPOSE HOLDINGS	7	2	3	1	1
57	ORIENTAL HOLDINGS BHD	12	3	7	1	1
58	OSK HOLDINGS BHD	6	2	4	0	0
59	PADIBERAS NASIONAL BHD	8	7	1	0	0
60	PARKSON HOLDINGS	6	2	4	0	0
61	PETRA PERDANA	8	5	2	1	0
62	PETRONAS DAGANGAN BHD **	7	5	1	1	0
63	PETRONAS GAS BHD **	8	6	1	1	0
64	PLUS EXPRESSWAYS BHD **	9	7	1	1	0
65	POS MALAYSIA & SERVICES HOLDINGS BHD **	9	7	1	1	0
66	PPB GROUP BHD	7	2	5	0	0
67	PROTON HOLDINGS BHD **	7	4	1	0	2
68	PUBLIC BANK BHD	9	3	6	0	0
69	PUNCAK NIAGA HOLDINGS BHD	10	6	3	1	0
70	RESORTS WORLD	8	4	4	0	0
71	RHB CAPITAL BHD	9	5	2	1	1
72	SAPURA CREST PETROLEUM	8	7	1	0	0
73	SARAWAK ENTERPRISE CORPORATION BHD	7	5	2	0	0
74	SCOMI GROUP BHD	9	7	1	1	0
75	SELANGOR PROPERTIES BHD	5	1	4	0	0
76	SHELL REFINING CO (F.O.M.) BHD	8	4	4	0	0
77	SIME DARBY BHD **	15	10	2	1	2
78	SP SETIA BHD	12	4	7	1	0

79	STAR PUBLICATIONS (M) BHD	11	3	8	0	0
80	SUNRISE BHD	6	0	6	0	0
81	SUNWAY CITY	10	2	7	0	1
82	TA ANN HOLDINGS	7	4	3	0	0
83	TA ENTERPRISE BHD	9	3	6	0	0
84	TAN CHONG MOTOR HOLDINGS BHD	6	1	4	0	1
85	TANJONG PUBLIC LIMITED COMPANY	5	0	4	1	0
86	TELEKOM MALAYSIA BHD **	13	10	1	1	1
87	TENAGA NASIONAL BHD **	12	8	3	1	0
88	TITAN CHEMICALS CORP. BHD	10	4	1	0	5
89	TOP GLOVE CORPORATION BHD	9	1	7	1	0
90	TRADEWINDS PLANTATION	7	4	3	0	0
91	TSH RESOURCES	8	2	5	1	0
92	UCHI TECHNOLOGIES BHD	5	0	2	0	3
93	UMW HOLDINGS BHD **	8	6	2	0	0
94	UNISEM (M) BHD	9	1	5	2	1
95	WAH SEONG CORPORATION BHD	8	3	3	0	1
96	WCT	10	1	9	0	0
97	WTK HOLDINGS BHD	6	1	5	0	0
98	YTL CORPORATION BHD	13	3	10	0	0
99	YTL POWER INTERNATIONAL	13	4	9	0	0
100	ZELAN	6	5	1	0	0
	TOTAL	**848**	**395**	**353**	**35**	**65**
	PERCENTAGE	**100**	**46.5**	**41.7**	**4.1**	**7.7**

	TOTAL GLC **	**171**	**127**	**23**	**10**	**11**
	PERCENTAGE	**100**	**74.3**	**13.5**	**5.8**	**6.4**
	TOTAL EXCLUDING GLC	**677**	**268**	**330**	**25**	**54**
	PERCENTAGE	**100**	**39.6**	**48.7**	**3.7**	**8.0**

Appendix 6

Studies, Reports and Principles by International Organizations

ORGANIZATION / YEAR	TITLE OF STUDY / REPORT
The World Bank Group	
2012	Report on the Observance of Standards and Codes (ROSC) Accounting and Auditing (The World Bank, 2012)
2008	Doing business 2009: Comparing regulation in 181 economies (The World Bank, 2008)
2008	Governance, corruption, and trade in the Asia Pacific region (Abe & Wilson, 2008)
2007	Doing business 2008: A Project benchmarking the regulatory cost of doing business in 178 economies (The World Bank, 2007)
2006	Corporate governance and Shariah Compliance in institutions offering Islamic financial services (Grais & Pellegrini, 2006)
2005	Trade credit and bank credit: Evidence from recent financial crises (Love, Preve, & Sarria-Allende, 2005)
2005	Malaysia: Firm competitiveness, investment climate, and growth (The World Bank, 2005b)
2005	Corporate governance country assessment: Malaysia. Report on the Observance of Standards and Codes (ROSC) Corporate Governance (The World Bank, 2005a)
2001	Corporate governance country assessment: Malaysia. Report on the Observance of Standards and Codes (ROSC) Corporate Governance (The World Bank, 2001)
1999	Resolution of corporate distress: Evidence from East Asia's financial crisis (Claessens, Djankov, & Klapper, 1999)
1995	Vision, policy and governance in Malaysia (Jomo, Khoo, & Chang, 1995)

The International Monetary Fund (IMF)

1998	Financial market contagion in the Asian crisis (Baig & Goldfajn, 1998)[56]

The Asian Development Bank (ADB)

2001	Corporate governance and finance in East Asia: A study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand: Volume two (Country studies) (Capulong, Edwards, & Zhuang, 2001)
2000	Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand: Volume One (A Consolidated Report) (Capulong et al., 2000)
1999	Rising to the challenge in Asia: A study of financial markets, Volume 8: Malaysia (Asian Development Bank, 1999)

The Institute of International Finance (IIF)

2007	Corporate governance in Malaysia - An investor perspective (The IIF, 2006)

The Organisation for Economic Co-operation and Development (OECD)

2007	Asia: Overview of corporate governance frameworks in 2007 (The OECD, 2007)
2006	Implementing the White Paper on Corporate Governance in Asia: Stock-take of progress on priorities and recommendations for reform (The OECD, 2006)
2004	OECD Principles of Corporate Governance 2004 (The OECD, 2004)
2003	White Paper on Corporate Governance in Asia (The OECD, 2003)
1999	OECD Principles of Corporate Governance 1999 (The OECD, 1999)

[56] This study is not directly concerns with the issue of corporate governance; instead it is related to the Asian crisis. However, I consider it as relevant study that influence corporate governance reform in Malaysia. In 2005, the Governor of Malaysian Central Bank made a statement during the IMF meeting and touched the issue of corporate governance as well.

The Asia-Pacific Economic Cooperation

2004	APEC Corporate Governance Pathfinder Report (Australian Government, 2004)