

## CORPORATE GOVERNANCE AND DEFAULT RISK IN LONG-TERM CONVENTIONAL BONDS AND SUKUK IN MALAYSIA

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**Abstract:** *The presence of key institutional investors/owners and BOD characteristics as highlighted by Malaysian Code on Corporate Governance (MCCG) may have influence on the yield to maturity (YTM) of bonds and sukuk. It is argued that higher institutional ownerships will produce enhanced active monitoring on cost of debt and presumably more control on the likelihood of default risk occurrence as measured by the size of yield spreads for conventional bonds and sukuk. Agency theory also explains the relationship between principal and agent and the possible misalignment of interest of both parties is reflected through the incurrence of what is termed as agency cost. To reduce this agency cost requires the necessity of incurrence of cost of monitoring and controlling by the principal which in large firms is represented by institutional investors which delegated this responsibility to the appointed board of directors (BOD). Thus, the main objective of this study is to investigate the relationship between these corporate governance mechanisms with respect to institutional investors and BOD characteristics with the default risk as proxy by yield spread of bond and sukuk in Malaysia. The data are obtained from firm issuers' annual reports, Bondinfo Hub of Malaysian Central Bank, Malaysian Department of Statistics and Bloomberg databases for the period beginning 2000 to 2014. Unbalanced panel data are applied for the tests which cover the pooled ordinary least square (OLS), fixed effects (FE) and random effects (RE) models. The results suggest that the presence of institutional ownerships does have an inverse relationship on the default risk for long-term sukuk. However, the results do not support any relationship between institutional ownerships and long-term conventional bonds defaults. Mixed result reveal by BOD characteristics.*

**Keywords:** *Corporate Governance, Conventional Bonds, Sukuk, Default Risk*

### INTRODUCTION

Regardless of the corporate governance mechanism, there are surges of studied quoted that Berle & Means (1932) was the earliest study that linked an association between corporate governance with dispersed ownership by public corporations were characterized by a separation of ownership (shareholders and bondholder)

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and control (top management), i.e; Jensen & Meckling (1976); Bainbridge (1995); Coffee & Berle (1999); Becht, Bolton & Röell (2002); Gelter (2008); Elyasiani & Jia (2010). The relationship between corporate governance and bond performance can be reviewed in a study conducted by Weber (2006) and Qiu & Yu (2009) suggested that poor governance compliant by corporate control affect cost of debt to be increase. However, there still no study conducted to link between corporate governance with sukuk particularly on its default risk as proxy by yield spreads.

Government fiduciaries bodies that are familiar as institutional investors who are actively purchased and held the corporate bonds and sukuk rather than individual investors might be a significant factor to yields determinations. Many researchers focused on the impact of corporate governance mechanisms on bonds yields performances for instances (Bhojraj & Sengupta, 2003; Mungniyati, 2009; Manconi, Massa & Yasuda, 2010; Liu & Jiraporn, 2010; T. Edmonds, E. Edmonds & Maher, 2011; Becker & Ivashina, 2012; Tran, 2014; Tanaka, 2014; Dutordoir, Strong & Ziegan, 2014) and most of the studies did not distinguished between conventional bonds and sukuk. Thus, the outcome of these analyses may not be appropriate any longer considering that the sukuk market has greatly developed and has come out with various sukuk products with unique features which are clearly distinguishable from conventional bonds. Therefore, the impact of institutional ownerships on sukuk' yield spreads might be different from conventional bonds.

Not only institutional ownerships, BOD also highlighted by corporate governance code of best practices as one if not the only mechanisms that could be influence the default risk among bond issue by firm. Their internal role on top of the management is responsible to make a financing decision not only limited to the conventional or Islamic investment options but also analyzing in terms of issuances features for instance; size of issue, price volatility, tenure, firms profitability and leverage performance as well as current price of gross domestic product (GDP) during the issuances are contracted. This can be seen through extended study on this separation and control by Fama & Jensen (1983) analyzed the survival of organization based on control, separation of decision and risk bearing functions done by minority ownership agents as an effective common approach to monitoring and controlling of firms decisions by implied agency problems. Although, large investors can be effective in solving the agency problem, they may also inefficiently redistribute wealth from other investors to themselves. Besides, they are emphasis on the power of BOD to control the behavior of managers on behalf of principal which focus on large shareholding ownerships.

## **LITERATURE REVIEWS**

The relationship between agent and principal in the issue of separation and control lead to have agency conflict. Jensen & Meckling (1976) also emphasis on the diversion of the managers' interest from the owner interest which leads to the

agency conflict of interest sometimes refers as agency problems (Fama & Jensen, 1983; Shleifer & Vishny, 1996). In parallel with the institutional ownerships theory posits that institutional investors can act as a monitoring and controlling agent to overcome the agency problem arise from the issue of separation and control (Grossman & Hart, 1986). In Islamic perspectives, shariah laws through muamalat contract also recognize the relationship between agent and principal as wakeel and muwakeel relationship (Dusuki & Abozaid, 2007; Shamsuddin & Ismail, 2013). The agency conflict between this parties also arise whereby the existence of agency problems in Islamic finance undeniable as similar as conventional perspectives. To protect this conflict of interest and any potential loss in investment, Islamic financing stress on the profit-sharing contract (Ramli, Abdul Majid, Muhamed & Yaakub, 2014; Dusuki, 2008; 2009). Consistent with Islamic principles, both parties must hold the Al-Quran and Hadith or Sunnah as a main reference in their firm's management. The Islamic ethic values teaches about transparency, accountability, responsibility and fairness guided the opportunistic management behavior by them (Ramli, *et al.* 2014; Shamsuddin & Ismail, 2013).

Thus, concentrated ownership through large shareholdings, takeovers and bank finance is a nearly universal method of control that helps investors to get their initial capital plus profit margin (Shleifer & Vishny, 1996). Next, the issue on separation and control are further investigating by López-Iturriaga, García-Meca & Tejerina-Gaite (2015) for Spanish non-financial firms listed on the Spanish Stock Exchange during year of 2004 to 2010. They claimed that institutional investors are not a homogeneous group and pressure-resistant directors fulfill a more thorough monitoring role. In their finding, they highlighted that monitoring roles by both parties could enhance the good business relationship between management of the firm and institutional investors that affect firm' performance.

Among this dispersed ownerships with separation and control decision, many of the researcher found that institutional investor are important party involved in influencing the bond performance, for instance; Bianchi & Enriques (2001) through their empirical analysis shows that institutional shareholdings and investment strategies are compatible whereby institutional investor can play a significant role in corporate governance of Italian listed companies to reduce cost of capital. In addition to that, Claessens & Yurtoglu (2013) claims institutional investors are increasing throughout the world and their active role in corporate governance of firms is consequently becoming more important through financing accessibility, lower cost of capital, better performance and more favorable treatment of all stakeholders. By taken a sample of Australian large firms over 10 years to analyze the role of variation in firm-level corporate governance mechanisms in explaining a firm's cost of capital, Suchard, Pham & Zein (2012) found that greater insider ownership, the presence of institutional blockholders and independent boards have led to lower cost of capital.

Similar finding with Cassell, Myers & Zhou (2013) highlighted that stronger monitoring mechanisms as represented by higher institutional ownership can reduced companies' cost of capital. In consistent with Lim (2011) indicated the negative relationship between institutional ownership and cost of debt of Korean firms. In addition to that, Bhojraj&Sengupta (2003) found that default risk can be reducing by mitigating agency costs and monitoring managerial performance by institutional investors. They concluded that greater institutional ownership enjoy lower bond yields justifying that the result indicate negative significant relationship. On the contrary with Jiraporn *et al.* (2012) reported a positive relation that stronger corporate governance is associated with a higher cost of debt. They claimed that as governance strengthens by one standard deviation, the cost of debt rises by as much as 11% after controlling two specific characteristics from firm and issue respectively. Besides, suggest that corporate governance has a palpable effect on critical corporate outcomes such as credit ratings and bond yields and may mitigate the agency conflict between managers and shareholders. Becker & Ivashina (2012) also postulated that insurance companies with the largest institutional holders of corporate bonds reaching for higher bonds yields in their investments.

## RESEARCH METHODOLOGY

Secondary data are utilized for this study. The final data is 86 issuer firms with 112 tranches of issuances for LTCB and 54 issuer firms with 144 tranches for LTS to be a total sample for the long term debt instruments is 140 issuer firms with 256 tranches which cover a period of 2000 until 2014.

### Statistical Tests for Panel Model Selection

Pooled OLS estimator is ease of use for estimating regression model however, as it does not capture for unobservable individual heterogeneity. In this case, fixed effect and random effect estimator are used. This variety of approaches leaves the question about which model is the most appropriate in explaining the result for findings. This can be solving by performing two statistical tests on regression model developed. There are Breusch and Pagan Lagrangian Multiplier Test (BP-LM) and Hausman Test. BP-LM test tests for the existence of individual specific variance component or heterogeneity whether the pooled OLS is an appropriate model or not in interpreting the result. This test is important to discriminate between the pooled OLS and GLS or random effect model. It was developed by Breusch& Pagan (1980) and the presence of the individual specific term, that distinguishes between these models is developing based on the following statistical hypotheses:

$$H_0 : \sigma_\lambda^2 = 0 \quad H_0 : \sigma_\lambda^2 = 0 \quad \dots \text{(Pooled OLS)}$$

$$H_a : \sigma_a^2 \neq 0 \quad H_a : \sigma_\lambda^2 \neq 0 \quad \dots (\text{Random effects})$$

Therefore, if the null hypothesis is rejected whereby the p-value is less 0.01, 0.05 or 0.1 conclude that the random effect model in unbalanced panel data is more appropriate than pooled OLS estimations since it is able to deal with heterogeneity (Breusch & Pagan, 1980; Baltagi, 2001). Even, they are uncorrelated with the regressors, the random effect estimator will deliver a consistent estimator that is also efficient. However, the results may be inconsistent or biased. Then, the study runs for the Hausman test. The test was developed by Hausman (1978) for the purpose to salient distinction between random effect and fixed effect model which one is more appropriate to best fit with the estimator variables by considering the correlation between the and the set of regressors. This distinction is appropriate to put Hausman test based on the following hypotheses (Hausman, 1978; Baltagi, 2001; Greene, 2008; Kennedy, 2008):

$$H_0 : Cov(\lambda_i, X_{it}) = 0 \quad H_0 : Cov(\lambda_i, X_{it}) = 0$$

.... (is no correlation between  $\lambda_j$  and  $x_{it}$ , Random effect)

$$H_a : Cov(\lambda_i, X_{it}) \neq 0 \quad H_a : Cov(\lambda_i, X_{it}) \neq 0$$

.... (is correlation between  $\lambda_j$  and  $x_{it}$ , Fixed effect)

### Model Diagnostic Checks

In this section, diagnostic checks test are performed to discover about the normality of dependent variables and error terms, as well as multicollinearity and heteroskedasticity for the model regression estimations results. It is important to assess multivariate normality on the data before proceed with statistical methods (Korkmaz, 2014). However, De Vaus (2002); Tabachnick & Fidell (2007) and Howell (2007) stated that for secondary data is normal to have non-symmetrical. The data can be transformed to enable further statistical analyses include natural log transformation in order to solve the normality data problems (Tabachnick & Fidell, 2007; Howell, 2007).

There are three statistical tests are performed in order to test the normality of the data distribution in this study, such as Kolmogorov-Smirnov, Skewness and Kurtosis test. In Kolmogorov-Smirnov test result, null hypothesis represent the data is normally distributed. Thus, if the p-value is less than the alpha level of variables then the null hypothesis is rejected. Means, there is evidence that the data tested are not from a normally distributed sample. In other words, the data are not normal. On the contrary, if the p-value is greater than the chosen alpha level, then the null hypothesis that the data came from a normally distributed

sample are fail to reject. In particular, the multicollinearity problem can be detected through pairwise coefficients of correlation matrix test. The highest coefficient of correlations estimations result from both panels show less than this threshold (<0.80), so the multicollinearity will not be a serious problem in multiple regression analysis (T.Nguyen *et al.*, 2015; Gujarati, 2003). Nevertheless, Tabachnick & Fidell (2007) stated that the multicollinearity problems among variables can be detected when their coefficient of correlation estimations is less than 0.9. Other statistical test in Stata is performing a Variance Inflation Factor (VIF) to identify the severity of the multicollinearity among variables (Mack, 2015; Jadhav, Kashid & Kulkarni, 2014; Wooldridge, 2000; Snee, 1977; Marquardt, 1970). According to Wooldridge (2000), VIF and its tolerance result are two measures that can perform to detect a multicollinearity problem whereby the variance of the OLS estimator for a typical regression coefficient. It was highlighted by many empirical studies whereby if the mean value of VIF is greater than 10; the model shows that there is an indication of the presence of multicollinearity problem (Williams, 2015; T. Nguyen *et al.*, 2015; Hapsari, 2013; Chatterjee & Hadi, 2012; O'Brien, 2007; Cooper & Schindler, 2003).

Modified Wald test for groupwise heteroskedasticity in fixed effect and random effect of regression model are tested either the variances are constant or not. From the test, if the result of variances are not constant and varies for different values of independent variables and when the variables are not normally distributed (Tabachnick & Fidell, 2001), than it indicates the problem. This problem can be detected through p-value which is less than 0.05 denote that there is a heteroskedasticity problem. Robust regression is required to handle in the presence of heteroskedasticity problem. In addition, robust likelihood ratio type test statistics based on the t-estimates of the error scale. These regression t-estimators combine high robustness with high efficiency which makes them suitable to provide more reliable regression estimations and robust inferences beyond parameter estimation (Salibian-Barrera, Aelst & Yohai, 2016; Boente, Pardo-Fernandez, 2016).

### **Multivariate Panel Regression Model**

For testing the relationship among these variables, it will be discussed through considering the estimations models for the MPRA used in this study. This model is developed based on debt instrument categories for long-term and medium-term of conventional bonds and sukuk. The model estimators for pooled OLS, random effect and fixed effect are as follows:

The OLS model has treat  $\varepsilon$  as identically and independently distributed disturbances that are uncorrelated with  $\chi$ , or  $\text{Cor}(\varepsilon_i, X_i) = 0$ . In this case, the data can be pooled and OLS can be used to estimate the model with denote the estimator of the slope by  $\beta_{OLS}$ . The intercept and slope coefficients are constant across N and T representing by tranche issuances of each issuer postulates that both the intercept and the slope are the same across observations. However, these assumptions might

be restrictive and lead to heterogeneity bias which needed to handle the robustness checks analysis. Otherwise, the model do not required any additional technique for such estimations. The OLS model can be express as follows:

$$\begin{aligned} YieldSpreads_{it} = & \beta_0 + \beta_1(TOP - 6IO_{it}) + \beta_2(OthersIO_{it}) + \beta_3(BODR2_{it}) + \\ & \beta_4(BODC_{it}) + \beta_5(BODS_{it}) + \beta_6(BODM_{it}) + \beta_7(Volatility_{it}) + \\ & \beta_8(LnSize_{it}) + \beta_9(Tenure_{it}) + \beta_{10}(profit_{it}) + \beta_{11}(Leverage_{it}) + \\ & \beta_{12}(FirmValue_{it}) + \beta_{14}(FirmSize_{it}) + \beta_{15}(Sustain_{it}) + \\ & \beta_{16}(\ln GDP_{it}) + \varepsilon_{it} \end{aligned}$$

Where;

$\beta$  = the coefficient estimates of the explanatory variables,

$Top-6IO_i$  = the top-6 institutional ownerships of the companies,

$OthersIO_i$  = the others institutional ownership exclude top-6 IO of the companies,

$BODR2_i$  = the role duality of board of director of the companies,

$BODC_i$  = the fraction of board composition of the companies,

$BODS_i$  = the number of board of director of the companies,

$BODM_i$  = the percentage of board of director Muslim of the companies,

$Volatility_i$  = the different between maximum and minimum price of debt instrument for each tranche,

$LnSize_i$  = the log size of debt instrument issuances in MYR,

$Tenure_i$  = the tenure of the debt instrument issuances,

$Profit_i$  = the return of shareholders' assets (ROA) of the companies,

$Leverage_i$  = the value of total debt over total assets of the companies,

$FirmValue_i$  = the value of Tobin's Q of the companies,

$FirmSize_i$  = the log of total assets of the companies,

$Sustain_i$  = the sustainable growth rate of the companies,

$\ln GDP_i$  = the log of gross domestic product of Malaysian country,

$\varepsilon_i$  = the standard error of estimation.

Next, the FE model used is when  $\lambda_i$  is correlated with  $x_{it}$  and within variation in the data only, but is the most flexible in that it allows for the endogeneity of regressors. The individual specific effects are assumed to be individual specific intercepts to be estimated or more crucially when,

$$Corr(\lambda_i, X_{it}) \neq 0$$

This model also treats  $\lambda_i$  as a constant value for each tranche of issuances. Here, when the covariance between the individual specific effect and any regressor is not zero, neither pooled OLS nor random effects estimators provide consistent

estimators. The fixed effect estimator eliminate an unobserved effect by removing  $\beta_{fe}$  from the model and then running pooled OLS on the resulting fixed effect estimator,  $\lambda_i$  are as follow:

$$\begin{aligned} YieldSpreads_{it} = & (\beta_0 + \lambda_i) + \beta_1(TOP - 6IO_{it}) + \beta_2(OthersIO_{it}) + \beta_3(BODR2_{it}) + \\ & \beta_4(BODC_{it}) + \beta_5(BODS_{it}) + \beta_6(BODM_{it}) + \beta_7(Volatility_{it}) + \\ & \beta_8(InSize_{it}) + \beta_9(Tenure_{it}) + \beta_{10}(profit_{it}) + \beta_{11}(Leverage_{it}) + \\ & \beta_{12}(FirmValue_{it}) + \beta_{14}(FirmSize_{it}) + \beta_{15}(Sustain_{it}) + \\ & \beta_{16}(\ln GDP_{it}) + u_{it} \end{aligned}$$

Where;

$(\beta_0 + \lambda_i)$  = the intercept for fixed effect

$u_{it}$  = the error term for fixed effect

Then, the RE model assume that the tranche of issuances have their own intercepts while restricting the slope to be homogenous. To accommodate such heterogeneity, the random effect model was decomposed the  $\varepsilon$  into two composite error term as follow:

$$\varepsilon_{it} = \lambda_i + u_{it}$$

Besides,  $\lambda_i$  represent by tranche issuances effect (unobserved heterogeneity) and it is time invariant hence it is not necessary to use the year index. The model assumed the  $\sigma_{\mu}^2$  is identically and independently distributed with mean zero and variance,  $u_{it}$  and more crucially uncorrelated with the regressor as follows:

$$Corr(\lambda_i, X_{it}) = 0$$

$$\begin{aligned} YieldSpreads_{it} = & \beta_0 + \beta_1(TOP - 6IO_{it}) + \beta_2(OthersIO_{it}) + \beta_3(BODR2_{it}) + \\ & \beta_4(BODC_{it}) + \beta_5(BODS_{it}) + \beta_6(BODM_{it}) + \beta_7(Volatility_{it}) + \\ & \beta_8(InSize_{it}) + \beta_9(Tenure_{it}) + \beta_{10}(profit_{it}) + \beta_{11}(Leverage_{it}) + \\ & \beta_{12}(FirmValue_{it}) + \beta_{14}(FirmSize_{it}) + \beta_{15}(Sustain_{it}) + \\ & \beta_{16}(\ln GDP_{it}) + \lambda_i + u_{it} \end{aligned}$$

## RESULTS AND DISCUSSION

The validity tests result of multivariate regression model for panel A (LTCB) and panel B (LTS) show a significant in F-statistics, F-test and Wald chi-squared in entire model; 1, 2 and 3. As well, reveal an improvement result for R-square value from Table 1 whereby this both panels indicate in range of 19 percent to 58 percent towards all models developed. Concluded that, the estimation of multivariate



**Table 1**  
**The Regressions Results for LTCB and LTS**

Debt Instrument Category: Dependent variable: Yield Spread Explanatory variables	Panel A: LTCB			Panel B: LTS		
	Model					
	OLS (1)	FE (2)	RE (3)	OLS (1)	FE (2)	RE (3)
Intercept	-0.307 (-0.04)	-130.200* (-2.46)	-1.618 (-0.14)	-11.130 (-1.08)	5.205 (-0.24)	4.881 (-0.33)
<b>Institutional Ownerships:</b>						
Top-6 IO	0.001 (-0.09)	0.061*** (-4.00)	0.018 (-1.44)	-0.034 (-1.37)	-0.234* (-2.73)	-0.079 (-1.65)
Others IO	0.010 (-1.15)	0.042** (-3.04)	0.011 (-1.42)	-0.047*** (-3.85)	-0.214** (-2.96)	-0.110* (-2.26)
<b>Board of Directors Characteristics:</b>						
BODR2	0.662 (-1.53)	2.484*** (-3.76)	1.096 (-1.58)	2.978*** (-4.86)	4.819 (-2.02)	3.249** (-3.15)
BODC	-0.209 (-0.26)	4.144*** (-7.18)	0.867 (-0.83)	1.780 (-1.56)	-2.191 (-1.22)	0.609 (-1.60)
BODS	0.076 (-1.04)	-0.079 (-0.58)	0.112 (-1.30)	-0.045 (-0.40)	-0.183 (-0.44)	0.063 (-0.62)
BODM	0.018* (-2.38)	-0.020 (-0.99)	0.019* (-2.05)	0.008 (-0.94)	0.001 (-0.02)	-0.037 (-1.51)
<b>Issue Characteristics:</b>						
Volatility	0.030 (-0.36)	0.127 (-2.02)	0.066 (-1.30)	0.258* (-2.07)	0.281* (-2.36)	0.262** (-2.73)
lnSize	-0.095 (-0.90)	0.130 (-1.40)	0.046 (-0.55)	-0.403*** (-3.69)	-0.217 (-1.96)	-0.198 (-1.77)
Tenure	0.003 (-0.14)	0.016 (-0.77)	-0.002 (-0.16)	0.045** (-3.17)	0.111* (-2.85)	0.074** (-2.88)
<b>Issuer Characteristics:</b>						
Profit	0.072* (-2.24)	-0.216** (-2.91)	0.031 (-0.75)	-0.040 (-0.65)	-2.311 (-1.55)	-0.129 (-0.48)
Leverage	-0.062 (-1.92)	-0.205** (-3.12)	-0.073 (-1.61)	0.351*** (-4.33)	-0.487 (-0.51)	0.857* (-2.06)
Firm Value	0.068 (-0.13)	-0.592* (-2.12)	0.069 (-0.27)	2.817** (-3.33)	11.430 (-0.92)	0.819 (-0.35)
Firm Size	0.008 (-0.11)	0.039 (-0.83)	-0.028 (-0.63)	-0.307 (-1.61)	-1.183 (-1.41)	-0.493 (-0.99)
Sustain	-0.024 (-1.65)	0.019** (-2.93)	-0.009 (-0.74)	0.265*** (-4.17)	0.562 (-1.64)	0.124 (-1.74)
<b>Systematic Risks:</b>						
lnGDP	0.082 (-0.14)	9.910* (-2.47)	0.091 (-0.11)	0.949 (-1.23)	1.055 (-0.6)	0.275 (-0.29)
Firm fixed-effects	No	Yes	No	No	Yes	No
No of observations	112	112	112	144	144	144
R-squared	0.2503	0.4748	0.1906	0.4176	0.5817	0.5349
Adj R-squared	0.1331	-	-	0.3494	-	-
Model Fit (F-stat)	2.14**	3.86***	-	6.12***	10.20***	-
F-test	-	4.75***	-	-	29.39***	-
Wald chi-squared	-	-	74.95***	-	-	58898.15***

Notes: In each cell, p-value (sig.) appears in the first row and t-value is in the second row. Symbols \*, \*\* & \*\*\* indicates significant at the 90, 95 & 99 percent confident level respectively.

regression result is valid in explaining the relationship between yields spread and its determinants in long term issuances for debt instrument cluster, conventional bonds and sukuk.

### **Institutional Ownerships and Yield Spreads in LTCB and LTS**

As reported in panel A for model 1 and 3, there are no significant relationships between the presences of institutional ownerships with yield spreads in long term conventional bonds. However, it shows a significant relationship in model 2 with positive coefficient of estimations. Suggesting that larger presence of institutional ownerships will have higher yield spreads which is contradicted with the hypotheses developed. Supposedly, higher share ownerships lead them to have higher concentration for having discussion with top management especially during formal meeting of BOD or as informal on their right and interest.

On the contrary, the presences of top-6 of institutional ownerships show a significant negative relationship at 90 percent confident level in model 2 with t-value of -2.73 signify that higher presence of top-6 institutional ownerships will have lower long term sukuk yield spreads. It should be noted that presence of institutional ownership are positive coefficient of estimation in conventional bonds yield spread however it was negatively impact to sukuk yield spreads for long term issuances. It was highlighted that Malaysian government ownerships through six major investment institutions invest in public listed companies; EPF, KWAP, PNB, SOCSO, Tabung Haji and LTAT play an important role in reducing the dynamic change in yields. This finding is consistent with study done by Shailer & Wang (2015) whereby shareholding firms under Chinese government ownerships control generally have a lower cost of debt than firms under private control.

Due to dealing with sukuk issuances, most probably top-6 institutional investors refer to Islamic procedures and guidelines in monitoring tranche issuance performance. The syariah principles as guided in Syariah Governance (SG) by Islamic Financial Institutions (IFIs) are important references to institutional investors. Following this syariah principle not only leads them to proper monitoring but also able to reduce default risk. Consequently, it can prevent issues arise as regard to conflict of interest between institutional ownerships and BOD as described by agency theory.

### **Board of Directors and Yield Spreads in LTCB and LTS**

As reported in panel A, BOD role duality indicates a significant result only in model 2 and not to the other models. In model 2, BOD role duality has shown a positive significant relationship towards yield spreads with t-value is -3.76 at 99 percent confident level. Those BODs who have separate positions between chairman and CEO are lead to have lower yield spreads compared than those who

have combine the position. This finding is consistent with study conducted by Simpson & Gleason (1999) which argued that board CEO-Chair duality may influence the internal control system of a banking firm in such a way as to reduce the probability of financial distress in the firm. Here, it can be highlight that default payment by firm also one of indicator under financial distress firms. In terms of BOD composition, model 1 and 3 indicate insignificant mixed results with negative and positive coefficient respectively justifying that the composition of more or less than one third of independent or outside directors does not have any significant impact to the yield spreads performance. However, most of the previous study reported a negative significant relationship, for instance by Chen (2012) found a significant on the relation between classified boards, i.e; executive directors, non-executive, independence directors with cost of debt reported that the boards have an impact to reduce both cost of debt as represented by bond spread proxy by YTM. In addition to that, Ertugrul & Hegde (2008) examine how stock and stock option compensation for outside directors affects corporate bond yields in the secondary market. They claimed that greater ratio of outside directors' compensation lead to lower average yield spread. Moreover, Richardson, Lanis & Leung (2014) observed a negative correlation between debt and the proportion of outside directors on the board.

With respect to the BOD size in panel A, all models report insignificant relationship towards yield spreads. Thus, there is no relationship between numbers of directors in the issuer firms with the yield spreads. Suggesting that, higher or smaller number of directors in the firms does not have any relation towards default risk much probably because their appointment based on short term contractual agreement normally covers in 2 to 3 years, else this sample capture for long term conventional bonds which more focus on long term planning. BOD Muslim has positive significant relationship in model 1 and 3 at 90 percent confident level respectively. Even though, the results show a significant in model 1 and 3 respectively however the coefficient of estimations result is not met with the predicted sign. Therefore, higher percentage of Muslim directors is assumed to have a wide discussion on the debt instruments selection portfolio and expectation decision favor to sukuk issuances in mitigating the risk of default. Still, the control variables such as profitability, leverage, firm value and sustainability growth rate show significant result especially in model 1 (panel B) and model 2 (panel A). Implying that, regardless of their monitoring role and syariah advisory (since this panel D is refers to those companies who issued long term sukuk) do not involved in risk reduction costs, however they are able to boost the profitability and market valuation performance. This can be seen in the study done by Mollah & Zaman (2015) stated that, the higher the syariah board size has a positive impact towards Islamic bank performance in their ROA and Tobin's Q.

## CONCLUSION AND RECOMMENDATIONS

The presence institutional ownerships have positive significant relationship towards yield spreads in long-term issuances of conventional bonds and sukuk. A significant positive relationship is found when high presence of top-6 institutional ownership are associated to high yield spreads of long term issuances towards conventional bonds and sukuk issuances. The evidence however does not support the issuer to reduce default risk even though the presence of top-6 ownerships among institutional investor is higher. Then, BOD characteristics such as role duality, number of directors and director's religion appears to become significant determinants in influencing yield spreads except for the composition of independent directors in the firms. In overall, evidence on BOD role duality suggests that the separation role between chairman of directors and CEO are important determinants towards long-term issuances. BOD has more time to focus on the decision beside have clear rights on their duties and responsibilities if the different person held the position of board chairman and CEO of firms. Their decisions in making long-term investment for sukuk are able to reduce default risk indicate by lower in yield spreads. This investment decision is important to their long-term financial planning for profit sharing and interest payment to sukukholders and bondholders respectively. Consequently, it can attract more potential institutional investors to invest in the firms.

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