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BOARD OF DIRECTORS CHARACTERISTICS AND FINANCIALLY DISTRESSED FIRMS

Takiah Mohd Iskandar
Universiti Kebangsaan Malaysia

Roslina Jusuh
E-mail: alia@yahoo.com

Zakiah Mohamammadun Mohamed
Universiti Kebangsaan Malaysia

ABSTRACT

This paper examines certain characteristics of board of directors of companies listed on the main and second board of Bursa Malaysia which are identified as financially distressed under the provision of the Practice Note 4 (PN4) of the Listing Requirements on 1st March 2001. The note provides that when companies are found with financial distressed their listing status is suspended and transactions relating to listing of the companies are temporarily withheld until the financial problems are resolved. A company is classified as financially distressed if it does not meet anyone or all of the specified conditions. A competent board of directors is expected to be able help companies alleviate the problems and re-listed on Bursa Malaysia. Five characteristics of board of directors included in this study are ownership structure, financial literacy, multiple directorship, activeness, and equity ownership. Based on an archival data of 100 financially distressed companies for three year period between 2001 and 2003, the study finds that the ability of board of directors to re-state the listing of financially distressed companies is positively related with multiple directorships and equity ownership of the board members. The use of pooled data approach enhances the accuracy of evaluating the impact on financial performance of the identified characteristics of board of directors. Findings indicate that knowledge and experience from multiple directorships provide a source of influence and business networking of the company. The increase in equity ownership by members of board of directors is also necessary in minimizing the agency costs resulting from conflicts of interest between the management and owners. Both factors, financial and multiple directorships need to be considered in any policy decisions involving various stakeholders. It is the responsibility of the board of directors to ensure that interests of all stakeholders are protected.

Field: *Corporate Governance*

1. INTRODUCTION

The collapse of companies such as Enron and World Com in the United States and TV3, Chase Perdana and Pan Global in Malaysia, has raised concern over the role of board of directors as the main player of corporate governance. The board of directors is responsible in paving the future direction of the companies and developing the strategic plan that would bring prosperities to the shareholders (FCCG 2001). An effective board of directors would lead to a better performance for the company (Charan 1998; Laing & Weir 1999). Weak boards of directors, on the other hand, would result in financial difficulties. Hence, companies with financial difficulties need to focus on enhancing the monitoring and controlling mechanism of decision making process by the top management (Mohd-Mohid, Takiah & Norman, 2004). The conflict of interest arising from the separation between management and owners is a challenge to the board of directors (Fama & Jensen, 1983). The board is responsible to ensure the compliance of the original mission in enhancing the economic value of the company (Shamsul Nahar, 2001).

In evaluating the ability of the board of directors to improve the financial performance of companies, prior studies compare the structure of the board of directors between companies with losses and those with profits. Generally, results show that characteristics of the board of directors play very important role in determining the success or failure of companies. During an economic downturn, companies with stronger control demonstrate better performance as compared to companies with weaker control (Mitton, 2002). Previous studies use a cross-sectional design to relate the board characteristics with ability of the board of directors to secure companies from financial difficulties or to enhance the company performance. A cross sectional design, however, may not provide an accurate measure of the ability of board of directors to improve the company performance. A longitudinal approach may be able to provide a better measure of the board characteristics that relate to the ability of the board to successfully secure companies from financial problems which in turn improve the company achievement (Daily 1995; Mueller & Barker III, 1997).

In this study, the effectiveness of board of directors is examined in relation to its ability to bring companies on the listing of Bursa Malaysia. In order to be listed on stock exchange, a company needs to maintain a minimum level of performance. In Malaysia, the minimum conditions[1] are specified in paragraph 8.14(2) of the Listing Requirements of Bursa Malaysia. Any listed company that does not meet anyone or all of the conditions is considered to have financial problems, hence, to be de-listed from the exchange. However, the Practice Note 4 (PN4) of the requirements provides that companies listed on Bursa Malaysia which are facing financial difficulties shall not be de-listed immediately but shall be suspended temporarily until they are able to solve their problems. Under the PN4 provision, a two year period is given for them to resolve the problem. During the period, all transactions relating to the listing of companies are withheld until the financial problems are resolved. In order to fulfill the required conditions companies may undertake certain strategic actions including developing restructure plan of performance or appointment of independent monitoring mechanism.

The success of the implementation of PN4 provision depends on the ability of the company under the leadership of board of directors to carry out its responsibilities to recover the company financial difficulties. Past studies provide support for significant positive relationships between effectiveness of board of directors and company performance (Coles, 2001; Laing & Weir, 1999; Mohd-Mohid *et al.*, 2004). An unsatisfactory performance of company is the result of ineffective board of directors (Ho & Williams, 2003). It is evident that the success of a company is related to the characteristics of board of directors. This study examine the extent that boards of directors are able to take advantage of the opportunities given to them to rescue the financially distressed companies to become normal and healthy and be able to be re-listed on Bursa Malaysia. Unlike past studies, this study adopts the pooled data approach in strengthening results of the statistical analyses. Accordingly, the study aims at providing empirical evidence on the relationships between certain characteristics of board of directors including leadership structure, level of financial literacy, multiple directorships, activeness, and equity ownership, and the recovery of company financial distress.

2. PRIOR STUDIES AND HYPOTHESIS DEVELOPMENT

The failure of big companies to continue business is often associated with weak controlling and monitoring mechanism over the strategic decision making process of the board of directors (Mohd-Mohid *et al.*, 2004). The ability of board of directors to control and monitor the operation of the company and to reduce the agency costs has significant relationships with the board characteristics (Jensen & Meckling, 1976). Jensen and Meckling (1976) argue that certain characteristics of board of directors such as ownership structure and reward structure would influence the financial position of a company. The failure or success of company, among other things, is the result of effective role of the board of directors. A failure of company is the ultimate of weak internal control system of the company (Daily 1995). Understanding the role of board of directors is important because of its influence over the running of a business and results of company operation. Previous studies have identified six characteristics of board of directors that have significant relationships with the company performance including leadership structure, financial literacy, multiple directorships, activeness, and equity ownership of board of directors. However, the studies do not examine the improvement of financial distress in relation to the characteristics of board of directors using the longitudinal approach.

LEADERSHIP STRUCTURE

Leadership structure refers to the characteristic of the company top management, either as a joint leadership structure or a separate leadership structure. A joint leadership structure, often known as CEO duality, exists when the chief executive officer (CEO) is also the chairman of board of directors. Under a joint leadership structure, the same individual is holding the positions of CEO and chairman of the company. On the other hand, a separate leadership structure exists when the role of CEO and chairman are assigned to two different individuals. Although there are two opposing views on the optimal leadership structure of company, a number agrees that the management of a company is more effective if positions of CEO and chairman are held by separate individuals (Fama & Jensen, 1983). A CEO is directly responsible to shareholders represented by the board of directors (Buang, 1998). The chairman of board of directors, on the other hand, is responsible to monitor the process of appointment, dismissal, evaluation, and reward of CEO (Briekley *et al.*, 1997). The joint appointment of the positions may therefore create an opportunity for them to develop monopolistic behavior.

The responsibility of managing a company rests on the shoulder of the board of directors. The board of directors is responsible to ensure that the top management headed by the CEO acts in the interest of the shareholders to yield a maximum economic value of the company.

The effort of the board of directors to successfully carry out its responsibility is influenced by the leadership structure either joint or separate leadership structures (Fama & Jensen, 1983; Donaldson & Davis, 1991). However, the optimal structure of a company is still subjected to great debates.

Previous studies show that companies would assign separate individuals to hold the positions of a CEO and the chairman in order for them to perform their functions effectively. The delegation of duties of CEOs and chairmen of board of directors to the same individual is appropriate because both positions would lead to a very powerful and influential position. Controls of the top management actions by two separate individuals would be better and more effective because it helps overall monitoring and reduction in agency costs (Pi & Timme, 1993; Rechner & Dalton, 1991). A separate leadership structure enables CEOs to make decisions more independently. The separation of the two roles to two different individuals helps avoid the possibility that the management would make decisions for their own personal interest rather than for the interests of the shareholders. (Pi & Timme, 1993).

Donaldson and Davis (1991) give a contradicting argument that when both the CEO and chairman positions are assigned to the same individual the value of the firm increases due to a stronger and clearer leadership. It is argued that the joint leadership structure would result in a more clear and transparent communication between the management and board of directors (Brickley *et al.*, 1997). This view is inconsistent with a few others including those of Berg and Smith (1978), Chaganti, Mahajan and Sharma (1985), and Daily and Dalton (1997). The mixed results suggest that an optimal leadership structure may change in different time frames (Dahya & Travlos, 2000).

In the context of company turnaround, a quick decision is a critical factor and is necessary to solve problems which may be better achieved in a joint leadership structure (Mueller & Barker III, 1997). Hence, the hypothesis of this study supports the notion that joint leadership structure helps restructure company through quick and appropriate decisions within the joint leadership structure environment. The following hypothesis is formulated.

H1: Leadership structure has a significant positive relationship with the re-listing of the company.

FINANCIAL LITERACY

Financial literacy of board of directors is identified as a significant factor that determines the company financial performance with high credibility from the perspectives of the customers, banks, and government bodies (Nik Hasyuden, 2003). Financially literate board members are expected to make specific contribution to the board in terms of gaining respects from the society. Financially literate board of directors is able to give guidance to the company in obtaining source of capital effectively to help company overcoming financial problems (Lee *et al.*, 1999).

The Cadbury Report (1992) emphasizes the importance of financial literacy to ensure the effectiveness of board of directors. With the knowledge of accounting and finance the ability of the board of directors is enhanced reflecting their capability to play their role efficiently and effectively (Pomeranz, 1997; Libby & Luft,, 1993). Non-executive directors with accounting and financial knowledge are able to make abnormal return to the company, hence, increase the economic value the company (Rosenstein & Wyatt, 1990; Lee *et al.*, 1999).

Based on the discussion above, it is concluded that each member of board of directors must have the knowledge and experience in the area of accounting and finance. The existence of qualified members of board of directors enhances the integrity of the board in controlling and monitoring the company management. Qualified board members become wiser and able to provide leadership to the company. Their existence gains better confidence of capital providers (Daily, 1995). The following hypothesis is therefore developed.

H2: Financial literacy of board of directors has a significant positive relationship with the re-listing of the company.

MULTIPLE DIRECTORSHIPS

Multiple directorships refers to the number of director appointment held of members of directors in different companies. Previous studies on the effect of multiple directorships on company performance produce mixed results. One school of thought believes that board members need to have a focus in order to monitor the company more effectively (Lipton & Lorsch, 1992; Core *et al.*, 1998). The amount of time the directors are able to spend in dealing with the company depends on the number of director positions an individual director hold in different companies. An individual who holds too many director positions in different companies has a limited time to perform their duties and responsibilities in any of those companies. Hence, they become less committed and produce ineffective and inefficient performance (Lipton & Lorsch, 1992; Core *et al.*, 1998).

Another school of thought believes that the number of director position held by an individual reflects his/her competency and capability to provide an effective role of directors (Mace, 1986). The higher the number of director position the more capable they are in carrying out their duties effectively due to the broad experience and exposures (Moh-Mohid *et al.,* 2004). Multiple directorships provides an opportunity for the company to be more competitive and to have greater opportunity to obtain a wider range of resources and information (O'Neil & Thomas, 1996).

Based on the above discussion, it is argued therefore that members of the board with multiple directorships would be able to help financially distressed companies recover from their financial difficulties. Multiple directorships experience provides members of the board with exposure to bring back companies to the listing on its appropriate industry of Bursa Malaysia. The success of re-listing is expected to be higher among distressed companies where high component of their boards of directors have multiple directorships. Companies benefit from the industry networking developed by directors through multiple directorships. These discussions lead to the following hypothesis.

H3: Multiple directorships has a significant positive relationship with the re-listing status of the company.

ACTIVENESS OF BOARD OF DIRECTORS

The activeness of board of directors is reflected in the number of meeting the board held in a year. Board meetings are held to discuss issues pertaining to the operation and management of the company, hence, reduces information asymmetry. An effective monitoring requires the board of directors to function actively (Menon & Williams, 1994). However, others are of the opinion that the frequency of meeting of the board does not guarantee its effectiveness because of limited time available to discuss various issues relating to the company day to day operation and the quality of discussion during the meeting is not assured (Menon & Williams, 1994). However, meetings of board of directors provide opportunities for the board members to be updated with information on the company problems to discuss strategies to overcome the problems.

Members of board of directors who do not meet have no opportunity to interact and develop common understanding of the company (Lipton & Lorch, 1992). The board meetings provide a platform for board members to discuss and plan strategies to control and monitor the management as well as to improve the company business (Lipton & Lorch 1992). This means boards of directors that meet actively are expected to be able to design strategic action plans for the company to look for solutions for unsatisfactory operating performance and to improve its future achievements (Vafeas, 1999). The above discussions lead to the following hypothesis.

H4: Activeness of board of directors has a significant positive relationship with the re-listing status of the company.

EQUITY OWNERSHIP

Another characteristic of effective board of directors is equity ownership of the board members. As a result of equity ownership, directors have interests in the company in terms of share ownerships. Equity ownership of board members reduces agency costs resulting from a reduction in the gap between owners and the management (Jensen & Meckling, 1976).

Members of board of directors who own shares in the company establish a controlling mechanism for the company to achieve better financial and market performance (Jensen & Meckling, 1976; Coles *et al.*, 2001). When a director is also the owner of the company, he/she has a better access to information and has an influence on decisions directly affect his/her own wealth to ensure an increase in the company overall economic value.

The discussion above is in line with the underlying argument of the agency theory which provides an argument that equity ownership of board of directors reduces gaps between owners and management of the company. The reduction in the gap between owners and the management of companies due to the increase in the percentage of equity ownership of board of directors is one way of solving problems faced by financially distressed companies. Based on the discussion above, the following hypothesis is developed.

H5: Equity ownership of board of directors has a significant positive relationship with the re-listing status of the company.

3. METHODOLOGY

This is a longitudinal study using pooled data for the period from 2001 to 2003. The year 2001 is selected because it is the closest year to the implementation of the provision of PN4 at 15th February 2001. The year 2001 is the final year of reporting the company performance and financial position before the categorization of companies as PN4 on 1st March 2001. Companies that are identified as PN4 are included in the sample. The classification of companies as PN4 is based on the financial achievement in 2000. For the purpose of this study, characteristics of board of directors are identified for the companies during the three year period under study. Characteristics of board of directors for these two groups of companies are accumulated as pooled data.

The success of the company to come out of financial distress is determined at the end of 2003 based on the listing status of the company. Companies that are re-listed at the end of 2003 are considered to be successful to come out of financial distress. Companies that remain as PN4 or are de-listed from Bursa Malaysia are considered to be suffering from financial distress.

The relationships between the board characteristics and financial distress are tested based on the pooled data. The longitudinal test is used with the objective of evaluating the strength of the board of directors in resolving the company financial problems in the given provisional period by the Bursa Malaysia. The longitudinal approach is expected to give a better reflection on the success of board of directors of its financial restructuring plan in an attempt to overcome the company financial distress and to be re-listed on Bursa Malaysia in the original sector. The board of directors is responsible to ensure that companies are succesfully declassified from PN4 category and accepted back for listing on Bursa Malaysia. The longitudinal approach enables the researcher to evaluate the change in the company performance and to test the relationships between the performance and board characteristics. A three year period is argued to be an appropriate period for the observation and evaluation of the board of directors since the minimum period allowed by Bursa Malaysia is two years.

OPERATIONALIZATION OF VARIABLES

Dependent Variable

The dependent variable of this study is the re-listing of PN4 companies on Bursa Malaysia in the original industry. Re-listing of PN4 companies to the original industry on Bursa Malaysia is given when the companies are able to improve their performance particularly to attain positive shareholders funds.

Independent Variables

Independent variables of the study are selected characteristics of board of directors including leadership structure, financial literacy of board of directors, multiple directorship, activeness, and equity ownership.

Leadership Structure: Leadership structure refers to either joint leadership or separate leadership. Joint leadership exists when the posts of chief executive officer and chairman are held by the same individual. Separate leadership, on the other hand, exists when both positions are held by two separate individuals. In this study, separate leadership is coded 1 and joint leadership is coded 0. This measurement approach is also used by Judge *et al.* (2003) and Dehaene *et al.* (2001).

Financial Literacy: Financial literacy of board of directors is determined based on the members' knowledge of accounting and finance as well as the working experience in both areas. Prior studies in this area in Malaysia use the Malaysian Institute of Accountants (MIA) membership as the proxy of financial literacy (eg Ruzaidah & Takiah. 2004; Nor Haizah, Takiah & Norman. 2006; Mohd-Mohid *et al.*. 2004). Such measure does not provide an accurate basis of financial literacy because it does not take into consideration the formal higher education and experience in the related areas (Collier 1993).

In this study, the measure of financial literacy is improved by taking into consideration both components, knowledge in accounting and finance, and experience in the areas. Scores for accounting and finance knowledge of members of board of directors are calculated in the following manner: score 3 is assigned for directors who are not members of MIA, score 2 for directors with experience in financial sector, and score 1 for directors who are member of MIA but with education in accounting and finance. Scores for experience is based on the number years of experience in the area of accounting and finance as follows: score 4 for experience for > 30 years, score 3 for experience between > 20 years and ≤ 30 years, score 2 for experience of > 10 years and ≤ 20 years and score 1 for experience of ≤ 10 year. Thus, the financial literacy of board of directors is determined based on the ratio of the score of financial literacy of member of board of directors compared to the maximum score that would have been attained by all members of the board. The ratio for each company is calculated based on the following formula:

$$\frac{\text{(Score of accounting \& finance knowledge + Score of experience)}}{\text{Maximum score}}$$

Maximum score is the highest score that would be attained by the company board of directors.

Multiple Directorships: Multiple directorships of board members is measured in terms of the average number of director positions of board members in other companies. It is computed by dividing the total number outside director positions for all board members by the number of board members. This method of measuring multiple directorships is consistent with that used by Shivdasami (1993), Song and Windram (2000), and Ruzaidah and Takiah (2004).

Activeness: The number of meeting is used to proxy activeness of board of directors. Frequency of board meeting during the year measures the activeness of board of directors. This approach of determining the activeness of board of directors is used in previous studies (Menon & Williams, 1994; Ruzaidah & Takiah, 2004); Vafeas, 1999; Mohd-Mohid et al., 2004).

Equity Ownership: Equity ownership of board of directors is determined based on the company shares directly owned by members of the board. Indirect ownerships of company equity such as by subsidiary companies and ownerships by nominee are not included. The percentage of equity ownership is the total shares owned by members of board of directors divided by total shares issued by the company. This method is consistent with that used by Joh (2003) and Mohd-Mohid *et al.* (2004).

Control Variables

This study includes four control variables, which are industry performance, leverage, audit quality, and size of company. Industry performance is measured by the average annual profit of the original industry of the selected companies. The information is extracted from *Bloomberg* of Bursa Malaysia. Leverage is measured by the level of financial distressed of the company (Mueller & Barker III, 1997; Daily, 1995). Quality of audit is measured based on size of audit firms. In this study, Big 5/Big 4 audit firms represent high quality audit services are coded 1. Non-Big 5/Big 4 audit firms are coded 0 representing lower quality audit services. Size of companies is measured by 'natural logarithm' of total asset of company. This method of operationalization of company size is consistent to that used by Coles *et al.* (2001) and Mohd-Mohid *et al.* (2004).

4. RESULTS

Sample

The sample consists 98 PN4 companies. Initially A hundred PN4 listed companies of Bursa Malaysia are included in the sample as upon the announcement on 1st March 2001. Two companies in the finance industry are also excluded from the sample. The exclusion of finance industry is because different regulatory specifications governing the industry which may have significant impact to their corporate governance practice, hence, causing confounding problems to the results. Companies that are classified as PN4 subsequent to the cut-off date of 1st March 2001 are not included in the sample. The 1st March 2001 is used as the cut-off date to keep track of the development of each selected company from the announcement date until it is either successfully re-listed on or de-listed from Bursa Malaysia. The use of cut-off date also helps avoid confusion in tracking the development of the companies and evaluating its relationships with the board characteristics.

Data on the characteristics of board of directors is extracted from various sources. Annual reports are the main source of information because it is an important means of communication of the companies, cheap and effective (Zeghal & Ahmed, 1990). The other sources are Bursa Malaysia Annual Companies Handbook for the composition of member of board of directors, the *Bloomberg* of Bursa Malaysia, for the sector and company achievement, and Impian Data Base of Securities Commission for other information on board of directors. Table 1 presents the distribution of sample by years and re-listing status of companies.

Table 1
Distribution of Sample by Re-listing Status each Year

Re-listing status of companies	*Year*			*31 Dec 2003*
	2001	*2002*	*2003*	*Total*
Successful	1	7	12	20 (20%)
Unsuccessful	97	90	74	78 (80%)
Total	98	97	86	98 (100%)
Analysis of unsuccessful PN4 companies for listing:				
Continue as PN4	97	86	48	48 (62%)
De-listed		4	26	30 (38%)
Total	97	90	74	78 (100%)

A total of ninety eight PN4 companies have been investigated for a period from 2001 to 2003. Only about 20% of the companies have been successfully re-listed to the respective industry on Bursa Malaysia. The remaining 80% are unsuccessful, either remains as PN4 or being de-listed from the stock exchange. Within one year of PN4 exercise (i.e. year 2001) only one company has been successfully re-listed. Seven companies are re-listed in year two and twelve companies in year three, adding up to a total of twenty companies. The analysis shows that only a small number of the PN4 companies have been able to improve their performance during the allowable period. A total of four companies are de-listed in 2002 and twenty six companies in 2003. As at 31 December 2003, a total of thirty companies are de-listed and forty eight companies remain with the status of PN4.

Descriptive Statistics

Table 2 summarizes descriptive statistics of all variables of this study. For the purpose of comparison, mean values and standard deviations of variables are presented separately each year under study for successful and unsuccessful companies.

Table 2
Mean of Variables

Variables	*Year*							*Pooled Data*
	2001		*2002*		*2003*		*(2001–2003)*	
	Mean	*Std Dev*	*Mean*	*Std Dev*	*Mean*	*Std Dev*	*Mean*	*Std Dev*
Leadership Structure								
Successful	.40	.503	.30	.470	.30	.470	.33	.475
Unsuccessful	.32	.470	.24	.432	.25	.438	.28	.448
Total	.34	.475	.26	.438	.26	.444	.29	.454
Financial Literacy								
Successful	.2005	.1234	.2300	.1416	.2195	.1350	.2167	.475
Unsuccessful	.1579	.1144	.2064	.1404	.2098	.1502	.1883	.448
Total	.1666	.1169	.2114	.1402	.2126	.1450	.1948	.13455
Multiple Directorship								
Successful	.8435	.7303	.9935	.8854	1.2025	.9372	1.0132	.847
Unsuccessful	.6188	.6240	.6385	.5998	.7825	.7138	.6654	.6383
Total	.6647	.6495	.7140	.6758	.9060	.8023	.7457	.70578
Activeness								
Successful	5.55	3.410	5.50	2.982	5.90	1.804	5.65	2.773
Unsuccessful	5.76	4.295	5.57	3.423	5.87	2.133	5.79	3.543
Total	5.71	4.114	5.7100	3.320	5.8800	2.027	5.7600	3.376
Equity Ownership								
Successful	.0655	.1471	.07450	.1511	.0660	.1263	.0687	.1395
Unsuccessful	.0249	.0515	.0199	.0477	.0183	2.144	.0214	.0481
Total	.0332	.0813	.0315	.0834	.0324	.0797	.0323	.0813
Control Variables:								
Industry performance	20.128	19.049	18.99	6.709	30.232	28.422	22.359	19.578
Audit quality	.57	.497	.57	.497	.59	.496	.58	.495
Leverage	.7174	.5796	.6053	.6343	.7190	.7337	.6776	.6423
Company size	4.065	13.702	3.895	13.481	4.216	10.883	4.044	12.891

Test of Data

A test of normality is carried out to see whether data in normally distributed in order to perform parametric statistics (Coakes & Steed, 2001). The result shows that there is no problem of normality of data. A test of multi-collinierity is performed using correlation between variables. As shown in Table 3, the coefficients of correlation between independent variables range between .003 and .308. This indicates that there is no multi-collinierity problem with the data. Multi-collinierity problems exist only if the value of correlation exceed .80 (Cooper & Schindler, 2001) or .90 (Tabachnick & Fidell, 2001). Thus, the logistic regression can be used to analyze the data.

Table 3
Analysis of Correlation between Variables

Variables	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
Re-listing status	1	0.054	0.089	0.208	-0.017	0.245	0.261	-0.030	0.548	0.308
Leadership Structure	0.054	1	0.064	-0.097	0.036	-0.175	0.024	0.013	0.042	0.077
Financial Literacy	0.089	0.064	1	0.087	0.209	-0.139	0.034	0.140	0.128	0.053
Multiple Directorship	0.208	-0.097	0.087	1	0.123	0.125	0.018	-0.114	0.166	0.135
Activeness	-0.017	0.036	0.209	0.123	1	-0.044	-0.122	-0.088	-0.064	0.024
Equity Ownership	0.245	-0.175	-0.139	0.125	-0.044	1	-0.041	-0.065	0.349	-0.069
Industry performance	0.261	0.024	0.034	0.018	-0.122	-0.041	1	0.003	0.089	-0.034
Audit quality	- 0.030	0.013	0.140	-0.114	-0.088	-0.065	-0.003	1	-0.099	-0.174
Leverage	0.548	0.042	0.128	0.166	-0.064	0.349	0.089	0.099	1	0.184
Company size	0.308	0.077	0.053	0.135	0.024	-0.069	-0.034	-0.174	0.184	1

Hypothesis Testing

Logistic regression is used to test hypotheses on pooled data accumulated for the years between 2001 and 2003. The use of pooled data is expected to reduce inherent bias problems from time series (Salsiah, 2005). Results of the analysis are presented in Table 4. The table shows that the model tested based on pooled data is significant ($p=.000$; <.05) with the value of *Nagelkerke* R^2 of .553 and *Cox & Snell* R^2 value of .366. This shows that independent variables in the model of this study are able to explain about 55.3% of the changes in the success of the company to be re-listed based on the independent variables. The value of *Nagelkerke* R^2 which is fairly high and the significant value of X^2 suggest that, overall, the logistic regression model I estimated to be good.

Results show that only two independent, multiple directorships and equity ownership of board of directors have significant positive relationships with re-listing of companies. Leadership structure, financial literacy and activeness of the board of directors respectively do not have significant relationship with re-listing of the distressed companies.

Multiple Directorships and Re-listing of PN4

Table 4 shows that multiple directorships is significantly related to re-listing of PN4 at $p=.026$. The higher is the ratio of multiple directorships is the more likely is PN4 companies are going to be successfully listed back on Bursa Malaysia. This shows that multiple directorships contributes significantly to the success of distress companies in overcoming their financial problems. As shown in Table 2, the mean values of multiple directorships of the successful

PN4 increase from .8435 in 2001 to .9372 in 2003 compared to only .6188 in 2001 to .7138 in 2003 among the unsuccessful PN4. The mean value of pooled data of multiple directorships is 1.0132 for successful PN4 and .6654 for the unsuccessful ones. Directors of PN4 that are successfully re-listed hold more director positions in other companies compared to directors of unsuccessful PN4. The result supports H3 on the significant positive relationship between multiple directorships and re-listing of distress companies.

This result is consistent with Mace (1986) and Fich and White (2004) who claim that only board of directors who are experienced and effective are invited to become directors of other companies. Directors with multiple directorships are very useful for companies in enhancing performance because of their industry networking and exposures. Hence, this factor helps distress companies recover from their financial problems.

Equity Ownership and Re-listing of PN4

Results of the logistic regression analysis in Table 4 show that equity ownership of board of directors has significant positive relationship with re-listing of PN4 at $p=.014$. The result support H5 which suggests significant positive relationship between equity ownership and re-listing of distress companies. Descriptive statistics in Table 2 show the pooled data mean value of .0687 for the successful PN4 compared to only .0214 for the unsuccessful PN4. The mean value of equity ownership for the successful PN4 has been constantly higher (about .07) than the unsuccessful PN4 (about .02) over the years 2001 to 2003.

The result is consistent with other previous studies such as Joh (2003), Coles et al. (2001), and Daily (1995). Members of board of directors who are also owners of the company are more motivated to improve the company performance. As Tosi et al (2003) agree corporate governance crisis can be addressed by bringing in shareholders or stakeholders with direct interest to be in the board. The finding is in line with the agency theory argument on the gap between the management and stakeholders. The conflict of interest can be reduced through the appointment of directors among shareholders or by increasing share holding among the board members.

Table 4
Results of Logistic Regression Analysis

Independent Variables	*Coefficient*	*SE*	*p*
Constant	-6.598	1.191	.000
Control variables			
Industry performance	.042	.013	.001
Audit quality	.587	.441	.176
Leverage	2.256	.425	.000
Company size	.091	.037	.014
Independent variables			
Leadership Structure	.547	.467	.242
Financial Literacy	-.192	1.666	.908
Multiple Directorship	.671	.301	.026
Activeness	.045	.068	.511
Equity Ownership	6.528	2.668	.014
N	261		
Nilai Nagelkerke R^2	.553		
Nilai Cox & Snell R^2	*.366*		

Other Independent Variables and Re-listing of PN4

Table 4 also shows results on the relationships between other independent variables under study, leadership structure, financial literacy, and activeness, and re-listing of PN4. The study finds leader structure does not have significant relationship with re-listing of PN4. Thus, H1 is not supported. Further analysis is carried out on this variable to see the extent of the practice of leadership structure among PN4 companies. Results are summarized in Table 5. Results show the overall percentage of companies practicing separate leadership structure is quite high, that is around 71%. The percentage with separate leadership structure is lower (67%) among PN4 companies that successfully re-listed compare to the unsuccessful PN4 companies (73%).

An earlier study in Malaysia shows that higher percentage of PN4 companies practice joint leadership structure compared to the non-PN4 (Mohd-Mohid *et al.*, 2004). However, this study shows that among these PN4, more of those successfully re-listed practice joint leadership structure (33.3%) compare to the unsuccessful ones. Although not statistically significant, a higher percentage of unsuccessful PN4 practices separate leadership than the successful PN4. Results suggest that joint leadership structure gives more time for CEOs to pay attention on issues that require immediate actions. In a situation when companies are in difficulties, the conflict of interest between the management and shareholders is lower compared to the situation when companies are not in distress. During such a crisis, the concern of CEOs is to clear their reputation. It is very critical for the board to make efficient and effective decisions. Joint leadership structure enable decisions be made as quick as possible to remedy the situation (Muller & Baker III, 1997).

Table 5
Leadership Structure and Re-listing Status of Companies

Leadership Structure	*Successful*	*Unsuccessful*	*Total*
	N (%)	N (%)	N (%)
Joint	20 (33.3%)	55 (27.5%)	75 (28.8%)
Separate	40 (66.7%)	145 (72.5%)	185 (71.2%)
	60 (100%)	200 (100%)	260 (100%)

With respect to financial literacy, the study finds no significant relationship between financial literacy of board of directors and re-listing of PN4 at $p<.05$. See Table 4 for details. Hence, H2 is not supported. The finding contradicts with Rosenstein and Wyatt (1990), Lee *et al.* (1999) and Cheo *et al.* (2003) who find that the appointment of new directors who has expertise in accounting and finance significantly increases the financial achievement of companies. However, the finding of this study is consistent with that of Mohd-Mohid *et al.* (2004) suggesting that there is no significant different in the financial literacy between members of directors of companies with financial difficulties and those with no financial difficulties. In this study, as shown on Table 2, mean financial literacy for successful PN4 is .217 and for unsuccessful PN4 is .189. The insignificant result of this study supports the Mohd-Mohid *et al.* (2004) argument that the appointment of board of directors among those with financial literacy is a legal requirement which must be complied with regardless whether the PN4 is successfully or unsuccessfully re-listed. Hence, the existence of financially literate board members does not reflect the company's effort to improve performance but merely a fulfillment of regulatory requirements for listing purposes.

Another characteristic which study finds not significantly related to re-listing of PN4 is activeness of board of directors. The finding does not provide support to H4. On average the number of meeting held by the successful PN4 and unsuccessful PN4 are 5.65 and 5.79 times per year respectively. The frequency of meeting is stable for both groups of companies over the years 2001 to 2003. The result contradicts with Vafeas (1999) who finds that the company achievement increases significantly with increase in the number of board meeting. The insignificant result of this study suggests that the use of frequency of meeting may be an inappropriate measure of activeness of the board. Frequency of meeting may not fully reflect the conduct and quality of discussions during the meeting. This argument is in line with Menon and Williams (1994) who suggest that activeness of the board should be measured based on length of time or agenda of the meeting. The change in the proxy of activeness from the number of meeting per year to the duration of the meeting was found to improve the accuracy of measurement (Collier & Gregory 1999).

5. CONCLUSIONS AND IMPLICATIONS

This study addresses the issue of re-listing of PN4 companies on Bursa Malaysia under the leadership of board of directors. The role of board of directors has been examined among listed companies that have been de-listed as a result of not meeting the minimum listing requirements of Bursa Malaysia. The effort of re-listing the PN4 is a challenge to the board. Boards of directors which comply with good practices of corporate governance are expected to be able to help companies recover from financial distress. In this study, the ability of board of directors to secure the listing status of companies represents a proxy of effectiveness of board of directors.

This study has identified five characteristics of board of directors which are expected to contribute to good practice of corporate governance. These characteristics are leadership structure, financial literacy, multiple directorships, activeness, and equity ownerships. Data on these five characteristics collected as pooled data for the years 2001 to 2003 for the PN4. Based on the pooled data, relationships between the selected variables and the success of re-listing PN4 companies are examined. Results show that only two variables, multiple directorships and equity ownership, which are positively and significantly related to the re-listing of PN4 companies. Multiple directorships which are indicated by the appointment of board members on the board of other companies reflect recognition of integrity and competency. Hence, the higher the number of multiple directorships the more capable the board of directors is to overcome the company problems more effectively. The experience the directors gain from other companies contributes to the management in terms of new ideas and networking.

The positive significant relationships between equity ownership of board of directors and re-listing of PN4 companies suggest that the gap of separation between the management and owners results in an increase in the effectiveness of board of directors. When managers are also owners the conflict of interest between the two parties will be minimized. Managers will focus their attentions on resolving the company financial problems and improving its performance. The result suggests the importance of equity ownership among members of board of directors as a mechanism in enhancing the effectiveness of the board. The different ways to increase equity ownership would depend on the choice made by the company which may include reward package through stock option or bonus to motivate them to perform better and to receive higher return from increasing profit (Carroll, 2004).

Findings of this study suggest that a particular attention must be given to the importance of relevant experience as a requirement to be members of board of directors. Companies need effective boards of directors to provide strong control and monitoring mechanisms which ensure the sustainability of the company existence and profitability. Financial problems faced by companies normally arise from lack of effective control and monitoring mechanisms. Hence, highly experienced and committed individuals would be able to strengthen the corporate governance and to ensure better future of the company. The knowledge and experience from multiple directorships provide the source of influence and business networking to the company (Mace, 1986; Kaplan & Reishus, 1990).

Another important factor is the equity ownerships of the directors. An increase in equity ownership by members of board of directors would minimize the agency cause resulting from conflicts of interest between the management of owners (Mohd-Mohid *et al.*, 2004). Both factors need to be considered in any policy decisions which may affect various stakeholders such as the professionals, enforcement agencies, government organizations, and industry. The board of directors is responsible to ensure that interests of the shareholders and the public at large are protected.

Characteristics of board of directors that do not have significant statistical relationships with the re-listing of PN4 are leadership structure, financial literacy, and activeness of the board. The findings are not consistent with the previous studies. Previous studies such as Mueller and Barker III (1997), Donaldson and Davis (1991) and Brickley (1997) find that joint leadership structure is more effective in managing a company. On the contrary, Ho and Williams (2001), and Core and Lacker (1998) find that separate leadership structure provides more effective management. Based on the Malaysian environment, it is argued that separate roles of CEOs and chairmen are being strongly encouraged among listed companies under the Code of Best Practice of Corporate Governance.

Note

1. Paragraph 2 of Practice Note 4 contains four criteria that must be met by listed companies in order to maintain their listing status. Firstly, qualified or disclaimer audit opinion issued to the company, secondly, adjusted deficit shareholders' equity, thirdly, appointment of a receiver or administrator to manage the company assets, and fourthly, appointment of a special administrator under the provision of Danaharta Nasional Berhad 1998.

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