Corporate governance reforms and shareholders' confidence in emerging markets

A case of Malaysia

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Abstract

Purpose – The purpose of this paper is to investigate the relation of corporate governance (CG) attributes, such as separate leadership (SL) structure, independent chair (IC) of the board, and the proportion of independent directors on the board (Bind) recommended by the new Malaysian Code on Corporate Governance (2012), with firms' market performance measured by share market price.

Design/methodology/approach – The paper uses a randomly selected sample of 150 non-financial Malaysian listed companies. To find the distinct impact of the code, the paper explicitly divides the sample into two-year pre-context (2010-2011) and two-year post-context (2013-2014) of the code. Besides descriptive statistics, the study also employs correlation and multiple regression estimators.

Findings – By comparing the pre-context and post-context of the code, the study found that SL and Bind have a significant positive relation while IC of the board has a significant negative relation with share market price after enactment of the code.

Research limitations/implications – The paper has a limitation of using only two years of data due to its non-availability particularly after enactment of the code. The findings show that the new code slightly improved compliance to the CG attributes investigated. Based on findings, the study also recommends further improvement in compliance to CG codes and other voluntary regulations in Malaysia.

Originality/value – Besides contributing to the limited and incongruent literature in pre-context and post-context of CG regulations, the paper also provides important insights for regulators and policy makers of the emerging markets like Malaysia.

Keywords Corporate governance, Malaysian Code on Corporate Governance 2012, Non-financial Malaysian listed companies, Shareholders' confidence

Paper type Research paper

Introduction

Agency theory assumes a conflict of interests between management and shareholders (Jensen and Meckling, 1976). The theory assumes that management being an agent of the shareholders is liable to protect their interests. However, due to individualism and opportunism of managers as posited by agency theory, they tend to protect their own instead of shareholders' interests. In view of this, the theory assumes that independence of the board which can be judged from its leadership structure and presence of independent directors can better protect the interests of shareholders from the expropriation of the management (Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976; Jensen, 1993). Accordingly, corporate governance (CG) codes and other regulations, which are mostly based on agency theory, also have consistently been focusing on independence in structure and composition of the board (La Porta *et al.*, 2000). Recently, the issue of boards' independence was brought into the limelight of regulators and policy makers by the global financial crisis of 2007-2008 that badly affected shareholders' confidence around the world. Subsequently, many countries such as the USA, the UK, Italy, and China and international forums like United Nations Conference on Trade and Development and Organization for

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Economic Co-operation and Development roundtable for CG development in Asia, all stressed upon strengthening of CG regulations for the restoration of shareholders' confidence (Dailami and Masson, 2009; OECD, 2011; United Nations, 2010).

As a result, many countries introduced and others revised their in-practice CG codes and regulations around the world. Like others, Malaysia also introduced its third CG code, i.e., Malaysian Code on Corporate Governance (Dailami and Masson, 2009; Malaysian Code on Corporate Governance (MCCG), 2012). Among others, the new code mainly focused on the independence of the Malaysian boards. The code recommended separating and establishing an independent chair (IC) of the board. Moreover, the code also recommended that firms which do not comply with the recommendation regarding IC of the board must increase the proportion of independent directors on their boards (MCCG, 2012). The establishment of an IC of the board is a new recommendation that was never addressed by the previous two CG codes (Malaysian Code on Corporate Governance (MCCG), 2007) of the country (MCCG, 2007). It was first proposed by the Securities Commission of Malaysia in July 2011 and decided to be included in the new code after receiving a positive public response in September 2011 (MCCG, 2012). Prior to this, the previous code, i.e., MCCG (2007) recommended only the separation of two influential roles of CEO and chairman of the board. Alternatively, the code also provided an escape to splitting leadership structure by suggesting an increase in the proportion of independent directors on the boards of the non-compliant firms (MCCG, 2007). As per the premise of agency theory, it is believed that the new regulatory attempt (MCCG, 2012) or tuning up of the recommendations of the previous code (MCCG, 2007) regarding independence of Malaysian boards will assist firms in ensuring good governance and improving monitoring and advising of their management. Also, it is believed that these, in turn, will improve the confidence of shareholders and firms' market performance reflected by an increase in share market price (Baker and Anderson, 2010; Benali, 2013; Lama, 2013). However, these projections regarding the new code are mere expectations as its recommendations have rarely been empirically investigated in the past. Among others, the lack of investigation might be due to the recent introduction of the new code in March 2012.

Moreover, most of the previous empirical studies focusing on other two CG codes (MCCG, 2007) investigated their impact on accounting measures of firms' performance as an outcome variable in pre-context and post-context (Hamid and Aziz, 2012; Hussin and Othman, 2012; Noor and Fadzil, 2011, 2013; Saad, 2010). However, it is argued that accounting measures explain firms' actual performance based on facts and figures while market measures portray their perception in the eyes of investors, society and other stakeholders (Gentry and Shen, 2010). Based on these, there is a need of an empirical investigation that can examine the impact of the new code on compliance and perception of the shareholders. Therefore, this study investigates how specific CG attributes such as SL structure, IC of the board and proportion of independent non-executive directors on the board (Bind) recommended by the new code impacted their compliance in non-financial Malaysian listed companies. Also, the study aims to investigate the impact of these specific CG attributes on firms' market performance measured by share market price. To find the distinct impact of the code, the study explicitly divides a sample of 150 non-financial Malaysian listed companies into two-year pre-context (2010-2011) and two-year post-context (2013-2014) of the code. The study contributes to the limited incongruent literature in pre-context and post-context of the CG regulations (Owusu *et al.*, 2012). The study also enriches the previous literature that mostly focused on the relationship between CG codes and accounting measures of firms' performance in the past. Besides contributing to literature, findings of the study also provide important insights for augmenting practice and policy. The findings update regulators, policy makers and other stakeholders of the emerging markets like Malaysia regarding the shareholders' response to the regulatory attempt of strengthening the independence of the board. The remaining of the paper is organized as follows: the following section synthesises the previous literature in pre-context and post-context of the CG regulations while the next section reports the relevant literature for developing hypotheses. These are followed by research design, results and findings and their explanation in the subsequent sections. The study also provides recommendations for further improvement of the policies and regulations before suggesting avenues for further research in the area.

Previous literature in the pre-context and post-context of CG codes

Malaysia has had three CG codes (MCCG, 2007, 2012) till date. Few empirical studies have investigated the impact of these codes on firms' financial performance in the pre-context and post-context periods. However, these studies are specifically limited to the previous two CG codes, i.e., MCCG (2007) (Noor and Fadzil, 2013). A study in the pre-context and post-context periods of MCCG revealed that the code changed an insignificant relation of CG practices with firms' financial performance to a significant positive (Saad, 2010). Similarly, another study found that MCCG (2007) changed the association of audit committee to significant positive in relation to financial performance of the government-linked companies (Hamid and Aziz, 2012). Noor and Fadzil (2013) found that MCCG (2007) improved the relation of boards' characteristics with firms' performance. It is also found that recommendations of the MCCG (2007) regarding board and audit committee improved firms' financial performance (Noor and Fadzil, 2011). However, in contrast, it is also argued that there is no strong evidence that MCCG (2007) improved the financial performance of the listed companies in Malaysia (Hussin and Othman, 2012). Many empirical studies carried out in other countries also found that CG regulations affect firms' in-practice structure that decreases their market value (Bello, 2016; Crina, 2016; Haniffa and Hudaib, 2006; Tariq and Abbas, 2013). Overall, the discussion in this section evidences scarcity and incongruence of empirical literature that mostly focused on the association of previous two CG codes with firms' accounting performance in Malaysia. Based on this, there is a need for further empirical investigations in pre-context and post-context of MCCG (2012) in relation to firms' market performance. Accordingly, the following section synthesises the previous literature for developing hypotheses and further investigation.

Literature review and hypotheses development

Separate leadership structure and firms' market performance

The leadership structure is known to be separate when the two roles of CEO and chairman of the board are performed by different individuals (Bansal and Sharma, 2016; Rutledge *et al.*, 2016). Agency theory assumes that CEO duality grants many powers to an individual which affects the monitoring role of the board. Moreover, the theory also assumes that excessive powers allow CEO to protect his/her own interests rather than those of the shareholders (Abdullah, 2004; Jensen, 1993; Rutledge *et al.*, 2016). Therefore, the theory recommends separating the role of chairman of the board from CEO of the company. The theory posits that separation of the roles strengthens independence of the board which ensures effective monitoring and advising of their management. In addition, it also enriches the quality of boardrooms' decisions, which improves firms' performance (Fama, 1980; Fama and Jensen, 1983; Jensen, 1993). Accordingly, the Recommendation no. 3.4 of MCCG (2012) states that:

> The positions of chairman and CEO should be held by different individuals and the chairman must be a non-executive member of the board.

Many empirical findings endorse these theoretical postulations and regulatory endeavours for separating the roles of CEO and chairman of the board. These studies found that there is a significant positive relationship between SL and firms' performance (Kajola, 2008; Tham *et al.*, 2012). Similarly, it is also found that CEO duality has a significant negative impact on firms' performance (Rutledge *et al.*, 2016). However, in contrast, many studies also found that SL has no or a negative relation with firms' performance (Dulewicz and Herbert, 2004; Ponnu, 2008; Shukeri *et al.*, 2012; Weir and Laing, 2000; Weir *et al.*, 2002). Contrary to agency theory, it is also found that CEO duality has no (Arora and Sharma, 2016) or a positive association with firms' performance (Bansal and Sharma, 2016; Mehrotra, 2016). Habib (2016) found that CEO duality has a positive impact on firms' performance (ROA). Therefore, separating chairman from the CEO negatively affects firms' performance (Dey *et al.*, 2011; Habib, 2016; Kajola, 2008). These findings endorse the postulations of stewardship theory that opposes separation or splitting of the leadership. The theory supports combined leadership, i.e., CEO duality on account of entrusting the powers of two influential positions to an individual committed to the betterment of shareholders and success of the firm (Arora and Sharma, 2016; Bansal and Sharma, 2016).

To sum up, contradictory theoretical postulations, incongruent findings of the previous empirical studies and the introduction of MCCG (2012) necessitate further investigation of the relationship between SL structure and firms' market performance in the Malaysian context. Therefore, on the basis of agency theory, this paper establishes following hypotheses for further investigation:

H1a. Separate leadership structure of the board has a positive association with firms' market performance before MCCG (2012).

H1b. Separate leadership structure of the board has a positive association with firms' market performance after MCCG (2012).

Independent chair of the board and firms' market performance

Board chair is independent if the chairperson of the board is an independent director. It is also considered independent if the chairperson is not an existing or ex-director of the firm (Brickley *et al.*, 1997; MCCG, 2012). Agency theory assumes that independence of the board reduces agency conflict between the management and shareholders by ensuring effective monitoring of managers (Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976). However, it is argued that independence of the board cannot be achieved in absence of its IC (Coles and Hesterly, 2000). Besides strengthening independence of the board, IC of the board is also recommended in the firms having influential CEO. It is due to the fact that being free from the influence of the CEO, IC of the board ensures strict monitoring and advising of the management by countering the pressure or influence of the CEO. These, in turn, reduce the intensity of agency conflict which enhances the confidence of shareholders (Balsam *et al.*, 2011; O'Connell and Cramer, 2010). Accordingly, the Recommendation no. 3.4 of MCCG (2012) states that:

> The positions of chairman and CEO should be held by different individuals and the chairman must be a non-executive member of the board.

The IC of the board was first proposed by CG blueprint document of Securities Commission Malaysia in July 2011. However, before including into the MCCG (2012), the proposal floated for knowing the response of public till September 2011. After receiving a positive public response, the proposal converted into the recommendation of MCCG (2012). Many studies endorse the theoretical postulation and regulatory attempts for establishing an IC of the board. These studies support independence of the boards' chair on account of its significant positive association with firms' performance (Hussin and Othman, 2012; O'Connell and Cramer, 2010). It is found that IC of the board improves firms' compliance to CG attributes which signals their positive image to public, investors and market (Delloitte, 2014). Therefore, shareholders express more confidence in the firms having IC of their boards (Balsam *et al.*, 2011; Coles and Hesterly, 2000).

However, in contrast, it is argued that establishing an IC of the board increases firms' costs (Coles and Hesterly, 2000). Also, it is argued that IC requires vast experience of the independent director than his/her other counterparts on the board (Spencer Stuart, 2011). Based on stewardship theory, independent directors have little knowledge and experience of the firm and industry (Davis *et al.*, 1997; Donaldson and Davis, 1991). Therefore, IC of the board is not effective in technical firms (Balsam *et al.*, 2011). In view of these, it is also found that the regulatory pressure for establishing IC decreased firms' market value (Spencer Stuart, 2011). Saat and Kallamu (2014) argued that monitoring abilities of the board's IC are tampered by the influence of the CEO and executive directors, which affect firms' performance in Malaysia.

To sum up, the previous empirical literature is not only limited but also incongruent which necessitate further investigation of the relationship between independent board chair and firms' performance. The theoretical contradiction and introduction of MCCG (2012) also pronounce the need for further investigation of the relationship, particularly in the Malaysian context. Therefore, on the basis of agency theory, this paper establishes following hypotheses for further investigation:

H2a. Independent chair of the board has a positive association with firms' market performance before MCCG (2012).

H2b. Independent chair of the board has a positive association with firms' market performance after MCCG (2012).

The proportion of independent directors on the board and firms' market performance

Agency theory supports independence of the board that can be gauged from the proportion of independent directors on the board (Fama, 1980). The theory posits that besides augmenting independence and improving the quality of decisions of the board, independent directors also facilitate firms in unbiased, sincere, and merit-based judgments and analyses. Being neutral and free from the influence of the management, independent directors keep an eye on firms' overall operations for protecting the interests of shareholders (Fama and Jensen, 1983; Jensen and Meckling, 1976). Accordingly, the Recommendation no. 3.5 of MCCG (2012) states that:

> The board must comprise a majority of independent directors where the chairman of the board is not an independent director.

Many empirical studies also found that the proportion of independent directors on the board has a significant positive association with firms' performance (Heenetigala, 2011; Malik, 2012). It is found that firms with a higher number of independent directors on their boards have higher market value (Zhu *et al.*, 2015). Also, it is found that true independence of the board increases the CEO's fear of removal on account of poor performance (Masulis and Guo, 2013). Durua *et al.* (2016) found that the negative effect of the CEO duality is positively moderated by the presence of independent directors on the board. They found that the interlocking of the independent directors has a positive impact on firms' performance.

In contrast, stewardship theory posits that independent directors lack firm and industry-specific knowledge (Davis *et al.*, 1997; Donaldson and Davis, 1991). Therefore, they are highly dependent on executive directors particularly in seeking firms' specific information which tampers their effectiveness and quality of decisions (Davis *et al.*, 1997; Donaldson and Davis, 1991). In addition, the stewardship theory also assumes that executives are stewards of the firm who are committed toward its success and maximization of shareholders' wealth (Davis *et al.*, 1997). Many empirical studies endorse these postulations by documenting a significant negative relation between independence of the board and firms' performance (Bhagat and Bolton, 2009; Ness *et al.*, 2010). Regardless of positive and negative relations, many studies also concluded that independent directors have no significant relation with firms' performance (Abdullah, 2004; Klein, 2002; Mehrotra, 2016; Orazalin *et al.*, 2015; Ponnu, 2008; Tham *et al.*, 2012; Wang, 2014).

Summing up, there is a theoretical contradiction regarding the presence of independent directors on the board in relation to firms' performance. The mixed findings of previous empirical literature further highlight theoretical contradiction. In view of these and introduction of MCCG (2012) that recommended an increase in the proportion of independent directors necessitate further investigation of the relationship between independent directors and firms' performance in the Malaysian context. Therefore, on the basis of agency theory, this paper establishes the following hypotheses for further investigation:

H3a. The proportion of independent non-executive directors on the board has a positive association with firms' market performance before MCCG (2012).

H3b. The proportion of independent non-executive directors on the board has a positive association with firms' market performance after MCCG (2012).

Research design

Scope and methodology of the study

Consistent with previous literature, this study controls the size of firm and board due to their possible influence on the estimation of desired investigation (Hahn and Lasfer, 2015; Randøy *et al.*, 2006). The sample of the paper is composed of 150 listed companies randomly selected from consumer, construction and technology sectors of the Malaysian economy. The information regarding share market price and firms' size was extracted from DataStream while the data for firms' age and CG attributes such as SL structure, IC of the board and proportion of independent directors on the board was collected from annual reports of the sample companies. The data were collected for four years from 2010 to 2014 by excluding 2012, which being the year of introduction of the new code. The four-year time span of the study explicitly represents two-year pre-context (2010-2011) and two-year post-context (2013-2014) of the code.

Measurement of variables

(1) Separate leadership structure (SL): 1 if leadership is separate and 0 otherwise.

(2) Independent chair of the board (IC): 1 if chair of the board is independent and 0 otherwise.

(3) Independent directors on the board (Bind): the proportion of independent directors to the number of total directors on the board.

(4) Share Market Price (SP): average share market price for one year.

(5) Board size (BSiz): total number of directors on the board.

(6) Firms' size (FSiz): market capitalization of the firm.

Results and findings

Descriptive statistics

The comparison of descriptive statistics shows a significant increase in the compliance to CG attributes and share market price after enactment of the code as reported in Table I.

Variable	Mean	SD	Min.	Max.	Mode
SP (pre)	1.723	3.34	0.05	2.19	–
SP (post)	2.193	5.05	0.03	4.7	–
SL (pre)	–	0.45	0	1	70.6
SL (post)	–	0.38	0	1	82%
IC (pre)	–	0.48	0	1	35%
IC (post)	–	0.50	0	1	47%
Bind (pre)	0.45	0.13	0.23	0.83	–
Bind (post)	0.47	0.13	0.25	1	–
BSiz (pre)	7.22	1.708	4	13	–
BSiz (post)	7.11	1.673	4	12	–
FSiz (pre)	5.16	0.677	3.73	7.35	–
FSiz (post)	5.24	0.660	3.92	7.38	–

Notes: $T = 2$ years, $n = 150$, total observations = 300 (150 × 2). SP, share market price; SL, separate leadership; IC, independent chair of the board; Bind, the proportion of independent directors on the board; BSiz, board size; FSiz, firms' size

Table I. Descriptive statistics for pre-context (2010-2011) and post-context (2013-2014) of MCCG (2012)

The statistics indicate that the new code improved compliance to CG attributes which attracted investors. Overall, the findings which provide support for the new code achieved the first objective of the study.

Correlation matrix

Tables II and III show the Pearson's and Spearman's correlation matrixes in pre-context and post-context of the MCCG (2012), respectively. The simultaneous application of both the correlation matrixes has a rationale of using variables in the study having mixed nature (Gujarati, 1995; Tariq and Abbas, 2013; Wooldridge, 2002). Both Tables II and III show

Pre	SP	SL	IC	Bind	BSiz	FSiz
SP	1	−0.004	0.174**	−0.008***	0.232**	0.753**
SL	−0.007	1	0.365**	−0.033	0.161**	−0.01
IC	0.163**	0.354**	1	0.268**	0.065*	0.147*
Bind	−0.124*	0.034	0.115*	1	−0.389**	0.003***
BSiz	0.222**	0.114***	0.129*	−0.381**	1	0.269**
FSiz	0.728**	−0.018	0.112*	−0.153**	0.329**	1

Notes: $T = 2$ years, $n = 150$, total observations = 300 (150 × 2). SP, share market price; SL, separate leadership; IC, independent chair of the board; Bind, the proportion of independent directors on the board; BSiz, board size; FSiz, firms' size. *,**,***Significant at 1, 5 and 10 percent levels, respectively

Table II. Pearson's and spearman's correlation matrix for pre-context (2010-2011) of MCCG (2012)

Post	SP	SL	IC	Bind	BSiz	FSiz
SP	1	0.007	0.163**	−0.124	0.222**	0.728**
SL	0.055	1	0.354**	0.034	0.114*	−0.018
IC	0.108*	0.354**	1	0.115*	0.129*	0.112*
Bind	−0.032	0.008	0.079*	1	−0.381**	−0.153**
BSiz	0.129*	0.098*	0.114*	−0.383**	1	0.329**
FSiz	0.526**	0.025	0.128*	−0.119*	0.323**	1

Notes: $T = 2$ years, $n = 150$, total observations = 300 (150 × 2). SP, share market price; SL, separate leadership; IC, independent chair of the board; Bind, the proportion of independent directors on the board; BSiz, board size; FSiz, firms' size. *,**,***Significant at 1, 5 and 10 percent levels, respectively

Table III. Pearson's and spearman's correlation matrix for post-context (2013-2014) of MCCG (2012)

Pearson's and Spearman's statistics above and below the diagonal line, respectively. The statistics in both the tables explain the correlation between CG attributes and share market price in pre-context and post-context of the code. The findings of both the matrixes reported in Table II show that IC, BSiz and FSiz have a significant positive while Bind has a significant negative association with SP before enactment of the code. Also, the findings show an insignificant negative correlation of SL with SP in pre-context of the code.

Table III shows the Pearson's and Spearman's correlation matrixes for the association between CG attributes and share market price after enactment of the code. The statistics of both the matrixes show that IC, BSiz and FSiz have a significant positive while Bind has an insignificant negative association with SP. However, the correlation between SL and SP changed from insignificant negative before (Table II) to insignificant positive after enactment of the code as reported in Table III.

Multiple regression analyses

Before employing regression for more sophisticated estimation, the data diagnosed for the issues such as multicollinearity, heteroscedasticity and autocorrelation. The statistics of Pearson's and Spearman's correlation matrixes reported in Tables II and III before and after enactment of the code evidence that none of the correlation between regressors is equal or higher than 0.8 (Gujarati, 1995; Tariq and Abbas, 2013; Wooldridge, 2002). Thus, there is no issue of multicollinearity in both the data sets representing pre-context and post-context of the code. The study employed Breusch-Pagan/Cook-Weisberg test for checking homoscedasticity. The findings of the test confirm the presence of heteroscedasticity in pre-context and post-context of the code as reported in Table IV. It is found that there is no autocorrelation as Durbin-Watson (DW) statistics in pre-context and post-context of the code are close to 2 (Table IV). It is due to the fact that any DW value below 1.00 or above 3.00 indicates a serious issue of autocorrelation (Gujarati, 1995; Tariq and Abbas, 2013; Wooldridge, 2002).

The presence of heteroscedasticity implies that ordinary least square (OLS) is no more the best linear unbiased estimator. It is due to the reason that OLS strictly requires the satisfaction of all classical assumptions including homoscedasticity. The non-applicability of OLS is further confirmed by the results of Breusch and Pagan Lagrangian multiplier test for random effect (RE) as reported in Table V. The findings of the test evidenced panel effects, i.e., fixed or random in both the contexts surrounding the code (Gujarati, 1995; Wooldridge, 2002).

The study employed Hausman test to select the appropriate estimator between fixed and RE of the generalized least square (GLS). The findings of Hausman test in pre-context and

	Pre MCCG (2012)	Post MCCG (2012)
χ^2 (3)	86.58	83.87
Prob > χ^2	0.000	0.000
DW	1.87	1.89

Note: Ho: constant variance

Table IV. Breusch-Pagan/Cook-Weisberg test for heteroscedasticity

	Pre MCCG (2012)	Post MCCG (2012)
χ^2 (01)	132.23	148.11
Prob > χ^2	0.000	0.000

Table V. Breusch and Pagan Lagrangian multiplier test for RE post-context of the code show appropriateness of the RE over fixed effect as reported in Table VI. In other words, there is an association between regressors and unobserved heterogeneity (Gujarati, 1995; Wooldridge, 2002).

The GLS RE estimator was further robust for controlling the evident heteroscedasticity in both sets of the data (Gujarati, 1995; Wooldridge, 2002). The robust results reported in Table VII show an insignificant positive relation of both the SL and IC with share market price in the pre-context (2010-2011) of MCCG (2012). However, the findings show that the proportion of independent directors on the board (Bind) has positive but statistically weak relation with share market price before enactment of the code. Among control variables, board size (BSiz) has an insignificant negative while firms' size (FSiz) shows a significant positive relation with share market price.

The RE robust analyses reported in Table VIII show that SL and proportion of independent directors on the board (Bind) have a significant positive relation with share market price after enactment of the code. However, the relationship between IC of the board and share market price is significantly negative in post-context of the code. Among control

Table VI. Hausman specification test

	Pre MCCG (2012)	Post MCCG (2012)
χ^2 (01)	2.14	2.92
Prob > χ^2	0.5436	0.4034

Note: Ho: difference in coefficients not systematic

Table VII. GLS random effect robust results – 2010-2011 (pre)

Variables	Coef.	SE	z	$P > z$	95% conf.	Interval
SL	0.1775	0.2493	0.71	0.239	−0.31111	0.666025
IC	0.0996	0.3110	0.32	0.375	−0.50995	0.709148
Bind	1.0858	0.8221	1.32	0.094	−0.52545	2.697141
Bsiz	−0.0024	0.0744	−0.03	0.487	−0.14832	0.143431
FSiz	2.9419	0.5765	5.10	0.000	1.81204	4.071825
Constant	−14.0792	2.8646	−4.91	0.000	−19.6936	−8.46476

Notes: $R^2 = 0.0579$, Wald χ^2 (5) = 29.44, prob. > $\chi^2 = 0.00$, $T = 2$ years, $n = 150$, total observations = 300 (150 × 2). SP, share market price; SL, separate leadership; IC, independent chair of the board; Bind, the proportion of independent directors on the board; BSiz, board size; FSiz, firms' size

Table VIII. GLS random effect robust results – 2013-2014 (post)

Variables	Coef.	SE	z	$P > z$	95% conf.	Interval
SL	0.3537	0.1710	2.07	0.020	0.018587	0.688778
IC	−0.2312	0.1434	−1.61	0.054	−0.51227	0.049886
Bind	1.4141	0.5787	2.44	0.008	0.27991	2.548382
Bsiz	0.0331	0.0401	0.83	0.205	−0.04553	0.111716
FSiz	1.2505	0.2735	4.57	0.000	0.714413	1.786525
Constant	−5.4477	1.4059	−3.87	0.000	−8.2032	−2.69219

Notes: $R^2 = 0.1660$, Wald χ^2 (5) = 27.09, prob. > $\chi^2 = 0.001$, $T = 2$ years, $n = 150$, total observations = 300 (150 × 2). SP, share market price; SL, separate leadership; IC, independent chair of the board; Bind, the proportion of independent directors on the board; BSiz, board size; FSiz, firms' size variables, board size (BSiz) has an insignificant while firms' size (FSiz) has a significant positive relation with share market price as shown in Table VIII. Overall, the findings reported in Tables VII and VIII achieved the second objective of the study.

Discussion and explanation

The GLS RE robust analyses showed an insignificant positive relationship between SL structure and firms' market performance measured by share market price in pre-context of the code (Table VII). The findings which reject *H1a* of the study changed from insignificant to significant positive after enactment of the code (Table VIII). The improvement in relationship might have a plausible explanation that sample firms increased the separation of two roles from 70.60 percent in pre to 82 percent in post-context of the code (Table I). The findings in post-context of the code which accept *H1b* of the study also endorse the postulations of agency theory (Table VIII). The theory posits that SL strengthens independence of the board which protects shareholders' interests (Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976). Therefore, shareholders express confidence in improving compliance to SL structure as evidenced by an increase in share market price. The findings are similar to Hassan (2014) who found that insignificant relationships between CG attributes and firms' market performance are changed to significant positive by the introduction of CG codes. The findings are also consistent with many other previous empirical studies (Jackling and Johl, 2009; Kajola, 2008; Tham *et al.*, 2012).

Table VII shows that IC of the board has an insignificant relation with share market price before enactment of the code (Table VII). However, increase in compliance to an IC of the board from 35 percent in before to 47 percent in after the enactment of the code (Table I) turned its insignificant positive relation into significant negative with share market price (Table VIII). The findings in pre-context (Table VII) and post-context of the code (Table VIII) which do not support *H2a,b* of the study also oppose the postulations of agency theory (Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976). However, both the findings show consistency with Saat and Kallamu (2014) who argued that IC of the board has no significant positive association with firms' performance in Malaysia. The significant negative coefficient of an IC of the board after enactment of the code might be an outcome of its newness that first proposed in July 2011 and included in MCCG (2012) in March 2012. Consistent with previous literature, the significant negative findings can also be explained that regulatory pressure for establishing an IC of the board increased firms' compliance costs after enactment of the code (Bello, 2016; Crina, 2016; Tariq and Abbas, 2013).

The statistics reported in Table VII show that the proportion of independent directors on the board (Bind) has a weakly significant and positive relation with share market price before enactment of the code. However, the improvement in compliance to the proportion of independent directors (Table I) from 45 percent in pre-context to 47 percent in post-context of the code strengthened statistical significance of its positive relation with share market price (Table VIII). The findings which support *H3a,b* of the study also endorse the postulations of agency theory. The theory posits that increase in the proportion of independent directors improves capabilities of the board with respect to guiding and monitoring of the management (Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976). Accordingly, shareholders express confidence in strengthening independence of the board. The findings are also consistent with many previous empirical studies (Heenetigala, 2011; Malik, 2012). However, the findings show inconsistency with Shukeri *et al.* (2012) in Malaysia. The inconsistency in findings might be due to the difference in sample, duration, statistical techniques or timing of the studies. Among control variables, board size (BSiz) has an insignificant negative association with share market price before enactment of the code. However, the relationship changed to insignificant positive after enactment of the code. This might be due to a slight decrease in the average size of the board (Table I) in post-context of the code. Firms' size showed a significant positive association with share market price before and after enactment of the code. Consistent with previous literature, the findings indicate that shareholders express confidence in large firms due to their potential for showing resistance to economic and financial turbulent (Hahn and Lasfer, 2015; Lama *et al.*, 2012; Oladipupo and Okafor, 2005).

Conclusions and policy recommendations

The significant positive findings for SL and independent directors on the board (Bind) after enactment of the code (Table VIII) explain the confidence of shareholders in independence of the Malaysian boards. The findings endorse the postulations of agency theory that intensity of agency conflict between management and shareholders can be reduced by augmenting independence of the board. Besides this, the findings also provide support for MCCG (2012) that reinforced the separation of two influential roles of CEO and chairman of the board and increase in the proportion of independent directors on the board (Bind). Based on findings, this paper recommends that regulators and policy makers should further improve compliance to the recommendations of SL and proportion of independent directors (Bind). It is due to the fact that SL has an average of 82 percent whilst Bind represents 48 percent of the corporate boards (Table I). Independent directors are yet to get a majority on Malaysian boards. Regarding board IC, this study proposes that Malaysian firms should strive to nominate experienced or retired CEOs as independent chairperson (Spencer Stuart, 2011). Among control variables, the insignificant findings for board size indicate that most of the Malaysian firms have an average of fewer than eight members on their boards (Table I) as recommended by previous studies (Randøy *et al.*, 2006). Therefore, it could not capture any statistical significance in the regression estimation (Gujarati, 1995; Tariq and Abbas, 2013). Regarding firms' size, the findings indicate that shareholders express more confidence in large firms (Hahn and Lasfer, 2015; Lama *et al.*, 2012; Oladipupo and Okafor, 2005). Besides contributing to the scarce and incongruent literature in pre-context and post-context of CG regulations (Owusu *et al.*, 2012), the findings of the study also provide important insights for further improvement of the policy and practice in emerging markets like Malaysia. The findings update the regulators, policy makers, banks, Bursa Malaysia, Securities Commission of Malaysia and all other stakeholders including shareholders who were interested to know the impact of the new code.

Directions for further research

Besides considering some other recommendations of MCCG (2012) such as boardroom diversity, the study also suggests increasing the size of the sample for further verification of the derived conclusions in future. Consistent with Babones (2013), other studies might also employ the alternate methodology by using the regression estimator like OLS with panel-corrected standard errors for controlling the evident heteroscedasticity in data. Based on the market for corporate control of agency theory, the studies in future may also look into the mediating effect of firms' financial performance measured by accounting measures in the relationship between CG attributes and shareholders' confidence.

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