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TECHNICAL INEFFICIENCY EFFECTS OF CORPORATE GOVERNANCE ON GOVERNMENT LINKED COMPANIES IN MALAYSIA

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ABSTRACT

Voluminous studies have examined corporate governance mechanisms and their effects on firms' performance. However, studies on their nexus with productive efficiency are still minimal. Our study uses the stochastic frontier analysis (SFA) with technical inefficiency effects model to examine ownership, board structure and independence, and directors' incentive, with technical efficiency. We use a panel dataset of 31 listed Malaysian government linked companies (GLCs) covering a period from year 2001 through 2012. The findings highlighted a gradual but slow improvement on the firm efficiency levels, while exhibiting a labor-congested and capital-saving output generation. While incorporating corporate governance variables into the inefficiency effects model, and controlling for firm sector and size, the results reveal government ownership, board remuneration, board change, board size and independence, and independence of the audit committee tend to significantly influence efficiency. Thus, this study recommends further investigation on the government continual stake, remuneration package and the effective role of the board to address the long-term economic growth of the GLCs.

Keywords: Corporate governance; Technical efficiency; Government-linked companies; Stochastic Frontier Analysis

1. INTRODUCTION

Modern business and investment require corporate governance to check and balance the way the company is run. In the case of privatizing public entities, the alleged argument is to enhance their efficiency (Arocena & Oliveros, 2012). Privatization policies attempt to justify the sale of public entities to private owners since state owned entities are assumed to perform poorer than their private counterparts. However, studies have shown governments, particularly those in the Asian countries, did not totally relinquish their control (Boubakri, Cosset & Guedhami, 2004). Ownership

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