Independent Directors, Moving Forward in Exercising Dominant Role: A Case of Malaysian Firms

Michael Tinggi[1], Abu Hassan bin Md Isa[1], Shaharudin Jakpar[1], Sharifah Sabrina Syed Ali[1] & Salawati Sahari[1]

[1] Faculty of Economics and Business, University Malaysia Sarawak, Malaysia

Correspondence: Michael Tinggi, Department of Finance and Accounting, Faculty of Economics and Business, University Malaysia Sarawak, Kota Samarahan, 94300, Sarawak, Malaysia. Tel: 60-3-584-443. E-mail: tmichael@feb.unimas.my

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Abstract

Engaging independent directors at the board room is nothing new. The unexpected downfall of Enron and World Com in the 2000 has raised many eyebrows. Tasking internal and external auditors alone seems no longer sufficient to monitor firms' daily operating processes, procedural and reporting compliance and if not address may deteriorate firms performance. The independent directors' presence at the board level is increasingly and markedly felt. Many firms continue to move forward in order to make the audience of independent directors more meaningful. The findings from the board structure exploratory content analysis among an estimated panel of 381 Malaysian firms from 2001 to 2009, seems to suggest that increasing majority of independent directors at board room enable them to exercise a more dominant role towards profit orientation.

Keywords: dominant role, independent directors, profit orientation

1. Introduction

1.1 Background

The needs for the independent directors at the board room of public limited companies (plc) have raised many eyebrows. Interestingly we have observed more development on the appointment of independent directors' presence at board level. Surely there is much expectation that inviting these directors at the board-room is to bring about better and independent judgment to business decisions. Hopefully it may contribute to a more efficacious boards' deliberation and decision making process. An effective board may, among others bring about efficient audit committee which may influence quality financial reporting and statutory audit's work (Beasley et al., 2009; Cohen et al., 2004; Turley and Zaman, 2007 and Zaman et al., 2011). As oppose to full-time paid directors, the independent and non-executive directors are not compensated on fixed basis. Time spent with the company is constrained and privilege to information may be limited, thus making it more difficult for independent directors to exercise diligent judgment. The role is more or less acting as a monitoring agent at the board level particularly overseeing the activities of the organizational management and the auditing activities. Over the years the role of monitoring function in firms has been vested on the shoulder of both internal and external auditors. While the former focuses on internal control the latter emphasizes compliance in financial preparation and reporting. When so much money has been spent on the auditing fees, firms are now tasked with engaging independent directors to play another monitoring responsibility. This appointment is nonetheless come along not without cost.

Other rationale for appointing independent director is to perform the duty of its oversight role that is distinct from the management, impartial and being objective for the evaluation of the managerial performance of the organization's top executive. Even though, there is no legal requirement for statutory compliance, the codes of best practice of corporate governance recommend that at least some independent directors are required to be present in order to exercise independent judgment and are more likely to display indifference and without biasness in the decision-making process than the members of the top management, comprising the CEO and the other executive directors.

The outbreak of financial turmoil, such as the 1997's Asian financial crisis, has predominantly affecting countries such as Indonesia, Thailand, Philippines and South Korea. The weakness of their financial structures was badly