

A Propitious Approach towards Independent Directors in Malaysian Firms' Board Committee

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Abstract

Independent directors at board committee have never taken a center stage, until when the world economy faced a global financial crisis stretching from the late 1990s to the late 2000s. Corporate governance ultimately calls for more controls and checks to be exercised at the board and committee level. Monitoring by independent directors of the top level management, is now viewed with more propitiation, complementing existing auditing activities, nominating and evaluating compensation to executive directors. The propitious approach is being interpreted as accepting independent directors favorably by increasing their representation at the board room and committee, which may be translated towards profit generation. A panel white standard error from an estimated 30 percent of the total Malaysian firms for period of 10 years suggests that nomination and remuneration committee gear the company towards generating profit.

Keywords: propitious approach, independent directors, board committee, corporate governance and profit generation

1. Introduction

1.1 Background

A board room with independent directors' audience has been exercised as early as mid 1980s in United States and Europe. In the Asian region or Malaysia in particular, prior to the Asian financial fallout it has not taking up the center stage of the management attention. Without doubt questions are raised, as to the amount of cost in obtaining and engaging the service of independent directors. Over the years, it is observed that there has been much development as to the appointment of independent directors both at board level and audit committee. Particularly in Malaysia, the firms are seen to have viewed independent directors more propitiously, with increased composition of independent directors at the board room and board committee. These directors sitting at the board-room and board committee are anticipated to bring about more independent and meaningful judgment to business decisions. Subsequently it may contribute to a more effective boards' deliberation and decision making process (Tinggi et al., 2014). An effective board room and board committee may help to drive the organization to achieve better quality decision, a more open financial reporting and subsequently expected to improve audit process and output (Beasley et al., 2009; Turley & Zaman, 2007; Zaman et al., 2011). Independent or outside directors in the organization are not on full time basis. Their audience can only be felt when they come for board meeting or carrying out the monitoring activities of the board committee, and certainly are not privilege to a fixed compensation. The amount of time spent with the company is limited and access to information is certainly constrained. Consequently, it will be more difficult for independent directors to exercise diligent judgment. Being assigned as monitoring agent at the board room and committee level in order to oversee the activities of the senior management is indeed a daunting task to independent directors. Firms are more familiar with the commonly prescribed role of both internal and external auditors, who are engaged to ensure that internal control is taking place and that compliance in the preparation and reporting of financial statement is accomplished effectively. While firms are obliged to pay hefty normal auditing fees, those firms are now equally instituted to pay monitoring fees to independent directors who are expected to assume the responsibility of a monitoring agent, this time round, both at the top or strategic management level. Independent directors would perform the duty of their oversight role which is distinct from the role assigned to the senior management