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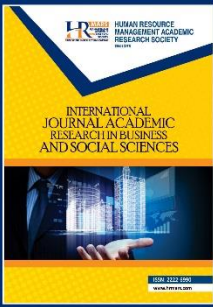
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Board Characteristics and Firm Performance: Malaysia's Government-Linked Companies (GLCS) Compliance to Green Book

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ABSTRACT

The Government-Linked Companies Transformation (GLCT) Programme was introduced in 2005 as the Malaysia Government efforts to improve the performance of government-linked companies (GLCs) under its control. One of the main policy thrusts in this framework is the need to upgrade the effectiveness of GLCs boards which led to the launching of the Green Book on April 2006. Focusing on the Green Book structuring high-performing board guidelines, this study tries to examine whether compliance to its recommended board characteristics of size, independence and remuneration has any effect on GLCs performance. Thus, GLCs financial performance for three years before (2004, 2005 and 2006) and three years after (2007, 2008 and 2009) the guidelines became mandatory effective on 1 January 2007 are analyzed and compared. The results show that the Green Book is a successful tool to increase board effectiveness in its monitoring function. However, compliance to board characteristics of size, independence and remuneration do not affect GLCs performance. Thus, it can be concluded that the influence of the Green Book as corporate governance factor is insufficient to explain the variations in GLCs performance.

Keywords: Green Book, Board Characteristics, Firm Performance, Government-Linked Companies Transformation

INTRODUCTION

The Malaysia GLCs play a major role in helping to develop the economy of the country. However, due to the impact of 1997/1998 Asian Financial Crisis, the GLCs performance had been weak over the years (Ministry of Finance, 2007). Malaysian Government reacted to this by introducing a ten-year plan known as the Government Linked Company Transformation (GLCT) Program in year 2005. This program is supported by Ten Initiatives represented by ten different