

# Corporate Governance: Asian Boards of Directors

Richard Heaney  
MCFS grant, 17/2005

# Introduction

- Focus on board of directors
  - Size and
  - Composition
- Range of countries include:
  - Malaysia,
  - Singapore and
  - Hong Kong
  - with some reference to other countries in Asia.

# Introduction

- Project still in progress.
  - Data collected for 2003 and 2004 for Singapore and Hong Kong though still some way to go for Malaysia
  - While MCFS provided support for research assistance for data entry, there has been problems with access to OSIRIS which ceased mid-2006.
  - Project currently focusing on Singapore, Hong Kong and Malaysia

# Literature

- Recent literature
  - Board composition - Rosenstein and Wyatt (1997)
    - Adding insiders to the board will increase value if incentive compatible (they hold sufficient shares in the company)
  - Size and composition endogenous to the firm - Hermalin and Weisback (2003)
    - unlikely that one board size or board composition is best for all firms

# Literature

- Basic problem facing the firm
- Choose board size and board composition that is optimal for the firm
- Harris and Raviv (2005) and Raheja (2005) highlight the importance of information asymmetry and agency costs
  - Information asymmetry existing between managers and owners and
  - Equity agency costs, agency costs existing between managers and owners

# Literature

- Different levels of Information Asymmetry
  - Low, owners know what the managers are doing and act accordingly
    - close supervision of managers with large independent director controlled board
  - High, firm managers know more about the firm than the owners
    - Manager controlled as their decisions better informed, lead to small executive controlled boards
    - Owner control, if severe enough

# Literature

- Different levels of Equity Agency costs
  - Vary with the closeness of firm owners to firm
    - Owner/manager (no equity agency costs)
    - Separate manager (equity agency costs exist)
  - Costs include perquisite consumption, “empire” building, excessive bureaucracy, negative NPV investment decisions, ...

# Literature

- Recent Empirical Tests
  - Boone, Field, Karpoff and Raheja (2004)
    - Study of USA boards of directors from IPO in the period 1988 to 1992 through 10 years of trading.
  - Lehn, Patro, and Zhao (2003)
    - Study of USA board of directors for 81 USA firms that survived from 1935 through to 2000

# Data Collection Progress

- Singapore, Malaysia and Hong Kong annual reports downloaded for 2003 and 2004
- Data entered into spread sheets for Singapore and Hong Kong, Data entry is still required for Malaysia.

# Board Size - Singapore

	1999	2000	2001	2002	2003	2004	Overall
Mean	8.53	8.03	7.89	7.93	8.01	7.93	8.00
Median	8	8	8	8	8	8	8
Std. Dev.	2.06	2.08	2.12	2.08	2.12	2.16	2.11
Maximum	13	13	16	15	15	15	16
Minimum	2	1	4	4	4	4	1
Count	70	117	156	159	166	166	834

# Board Composition - Singapore

## % Executive directors

	1999	2000	2001	2002	2003	2004	Overall
Mean	32.62	37.84	37.44	36.13	34.26	33.45	35.42
Median	28.57	33.33	37.50	33.33	33.33	33.33	33.33
Std. Dev.	19.10	21.53	19.46	18.32	16.97	16.70	18.56
Maximum	75.00	100.00	77.78	80.00	72.73	70.00	100.00
Minimum	8.33	8.33	7.69	6.67	6.67	6.67	6.67
Count	66	112	149	154	158	159	798

# Board Composition - Singapore % with Exec/Chairman

1999	0.29
2000	0.29
2001	0.34
2002	0.34
2003	0.33
2004	0.32
Average	0.32

# Board Size - Hong Kong

	1999	2000	2001	2002	2003	2004	Overall
Mean	8.02	9.09	9.93	9.78	10.06	10.39	9.55
Median	7	9	9	9	9	10	9
Std. Dev.	4.06	3.99	3.82	3.65	3.72	3.65	3.89
Maximum	19	19	19	19	25	23	25
Minimum	1	1	1	2	3	3	1
Count	165	165	165	165	165	165	990

# Board Composition – Hong Kong % Executive directors

	1999	2000	2001	2002	2003	2004	Overall
Mean	47.59	49.25	48.81	48.27	50.80	47.16	48.73
Median	45.80	50.00	50.00	50.00	51.47	50.00	50.00
Std. Dev.	21.56	20.41	19.79	19.85	18.58	17.20	19.29
Maximum	84.62	84.62	88.89	100.00	100.00	81.82	100.00
Minimum	5.88	5.88	6.25	6.25	6.67	6.67	5.88
Count	68	107	141	145	156	157	774

# Board Composition – Hong Kong % with Exec/Chairman

1999	0.43
2000	0.45
2001	0.44
2002	0.46
2003	0.41
2004	0.40
Average	0.43

# Future Analysis

- Full panel tests of the theories of size and composition of Boards of Directors.
- Enlarged data set will allow analysis of:
  - impact of new governance codes
  - Impact of directors who are politicians and
  - Government investment in private corporations

# Completed

- One paper completed dealing with size and composition of boards for the period 2000 to 2002 (Currently under review)