

Board Industry Expertise and Performance of Government-Linked Companies in Malaysia

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Abstract

This study is motivated by the current debate on the lack of qualified directors on the corporate boards of government-linked companies (GLCs) in Malaysia, which is believed to have caused these companies to perform relatively poorly. Accordingly, we examine whether GLCs have significantly less board industry expertise relative to non-GLCs; and if they do, the extent to which this latter phenomenon contributes to their alleged poor performance. Using 27 matched-pairs of GLCs and non-GLCs listed on Bursa Malaysia from 2010 through 2017, we find that GLCs have a significantly lower *proportion* of industry expert directors compared to non-GLCs. Furthermore, we find that GLC status is significantly and negatively associated with accounting-based and market-based firm performance. However, the negative association between GLC status and firm performance is transformed into positive association with the *presence* of industry experts on the corporate boards. The findings of this study provide empirical support for the concern on the deficiency of qualified directors on the corporate boards of Malaysian GLCs. More importantly, the results of this study suggest, *ceteris paribus*, the performance of GLCs is moderated by industry expertise residing on their corporate boards. Overall, our findings suggest that government intervention per se may not be problematic, but the problem would arise if government misuses their power to make sub-optimal decisions in the GLCs such as appointing unqualified or unskilled directors. Following from this, the implication of the findings of this study is that GLCs in Malaysia may need to review their board composition and appoint more industry expert directors in order to improve their performance.

Keywords: Board expertise, government-linked companies, firm performance.