DOES CHAIRMAN INDEPENDENCE MATTER?

Hafiza Aishah Hashim*, S. Susela Devi**

Abstract

This paper examines the relationship between the role of non-executive (independent) chairman and the quality of reported earnings. Recent corporate governance reforms recommend firms to appoint an independent leader to ensure the success of a split leadership structure (The Combined Code on corporate Governance, 2006; Higgs Report, 2003). Research on leadership structure to date has tended to focus solely on role duality and find weak or insignificance relationship between role duality and financial reporting quality. Although separating the roles of the chairman and the CEO seems appropriate, researcher argue that it would not necessarily lead to independence of the board if the chairman is not independent. Consistent with recent recommendations to strengthen board leadership by appointing an independent chair, this study evidences a positive and significant association between non-executive chairman and earnings quality in Malaysia. The study suggests that the non-executive status of the chairman is an important mechanism in enhancing the board's independence, thus improving earnings quality.

Keywords: Corporate governance, leadership structure, CEO duality, earnings quality

*PhD, Lecturer, Faculty of Management and Economics, Universiti Malaysia Terengganu, 21030 Kuala Terengganu, Malaysia
Email: hafizaaishah@umt.edu.my
** PhD, Associate Professor, Faculty of Business and Accountancy, Universiti Malaya, 50603 Kuala Lumpur, Malaysia
Email: susela@um.edu.my

1. Introduction

The Asian financial crisis in 1997/1998 compounded the importance of good corporate governance practices to help restore investors' confidence in the East Asian emerging market. The financial crisis together with highly publicised scandals in the United States (US) revealed the critical need for firms in both developed and developing countries to improve corporate governance practices and regain investors' confidence in the integrity of accounting numbers. Erosion in financial reporting quality has raised troubling questions about the implementation of various aspects of corporate governance practices.

The 1997/98 crisis, however, highlighted fundamental issues that encompass good governance practices in East Asian emerging markets. The promotion of good corporate governance practices is seen as a necessary step to promote the development of local equity markets as well as to provide a higher level of foreign investor confidence in the Asian capital market (Cheung and Chan, 2004). Many countries in East Asian emerging markets, including Malaysia, have taken proactive action to reform their code on corporate governance that address the basic governance issues of board effectiveness and accountability [18]. Following the issuance of the Finance Committee's Report on Corporate Governance, the Finance Committee in Malaysia issued the Malaysian Code on Corporate Governance (MCCG) in March 2000. Given the historical connection between Malaysia and the UK, the Malaysian Code was basically modelled after the UK Combined Code on Corporate Governance. The Malaysian Code came into full effect in January 2001 with an amendment to the listing requirements of the Bursa Malaysia. Among the recommendations in the Code include the separation of functions and roles between the chairman and the chief executive officer (CEO) to avoid the considerable concentration of power where the same person performs both roles. The separation of the position of CEO and Chairman provides an essential check and balance of the management's performance. However in the case of CEO duality [19], the Code recommends that strong independence elements must be induced (MCCG, 2000).

[18] Malaysian Code on Corporate Governance 2000, Singapore Code of Corporate Governance 2001, Thailand Code for Best Practice for Directors of Listed Companies 2002, Hong Kong Corporate Governance Code 2004 at http://www.micg.net/code.htm

[19] CEO duality occurs when the chairman of the board is also the CEO of the firm.

Although the corporate governance models in the UK and the US share many similarities, the models exhibit a stark difference when it comes to separating the roles of the chairman and the CEO. While most companies in the United Kingdoms (UK) (95 percent) adhere to the splitting role between the chairman and the CEO, the majority of S&P 500 companies (80 percent) in the US combine the roles of chairman and CEO (Coombes and Wong, 2004). The idea of separating the role between the chairman and the CEO in UK corporations is because both roles are considered to be different and potentially conflicting. If the CEO runs the company and the chairman runs the boards, it is hoped that the chairman as well as the board will be able to monitor and criticise the CEO or to express independent opinions. Furthermore a separate role is argued to probe and encourage debate at board meetings thereby building a more effective board. The independent chairman can help the board focus on longer-term perspectives while the CEO focuses more on the running the business (Coombes and Wong, 2004). However, separating the role may also create confusion about who is doing what (Coombes and Wong, 2004). There are issues of accountability and the chairman might even attempt to usurp the CEO's functions. In the US, there is no specific recommendation to split the roles of chairman and the CEO. However, it is noted that US companies are increasingly separating the roles of the chairman and the CEO (Felton and Wong, 2004). But, the switch is not an easy process as it requires careful planning and time-consuming to execute smoothly.

As for Malaysia, following the UK practice, most companies (89.2 percent) have split the chairman and the CEO role (Hashim and Susela, 2008b). While lessons can be learnt from the models of corporate governance in developed economies, there does seem to be a general agreement that the new Western corporate governance laws and codes are deficient, to some extent, in meeting the requirements of users in Asian developing countries with particular ownership structures, business practices, enforcement capabilities and cultural values (Barton *et al.*, 2004). The question that surfaces is whether the corporate governance reforms adopted by Asian developing countries are appropriate or effective for those countries (Cheung and Chan, 2004). Contrary to the conflict of interest between outside shareholders and managers in a diffused ownership structure, such as that commonly found in the UK and the US, the agency problem centres around conflicts between the controlling owners and minority shareholders in Asia, where ownership concentration is prevalent (Claessens and Fan, 2002).

Unlike western economies, many companies in East Asian countries are family owned and family managed or directed with the major shareholders often also directors and managers (Ng, 1998; Ball *et al.*, 2003). As reported by The World Bank (2005), about 85 percent of companies in Malaysia have owner-managers; the post of CEO, chairman of the board or vice-chairman belongs to a member of the controlling family or a nominee; and large shareholders typically owning more than 60 percent of shares. To some extent, these structures raise questions of whether it is better to combine the duties of the chairman and the CEO or whether it is better to split the positions. Furthermore, one most frequently asked question that exhibits a growing debate is 'whether the chairman is independent and does it matter'? In seeking a plausible answer to this question, this paper examines the relationship between the role of chairman and CEO and the quality of reported earnings focusing on role duality and the presence of non-executive chairman on board. The remainder of this paper is organized as follows. Section 2 discusses the relevant literature to develop research hypotheses. Section 3 outlines and explains the sample selection, research method and variable measurement. Section 4 analyses and discusses the research results. Finally, the conclusions and suggestions for future research are considered in Section 5.

2. Literature review and hypotheses development

There are two points of view on the issue of the separation of powers between the chairman and the CEO, based on the agency theory and the stewardship theory (Lin, 2005; Kim *et al.*, 2009; Elsayed, 2010). The supporters of role separation between the chairman and CEO believe that combining the two positions compromises a board's independence and impairs the board's oversight and governance roles (Coombes and Wong, 2004; Davidson III *et al.*, 2004; Gul and Leung, 2004; Elsayed, 2010). They contend that the board's principal role is to oversee the company's management and the role of the CEO is to manage the company well, thus protecting the shareholders' interest. Furthermore, the separation of the two roles is crucial for the monitoring of the effectiveness of the board over management, by providing cross checking evidence against the possibility of over-ambitious plans by the CEO (Gul and Leung, 2004). Because, when the same person is holding two important positions, they are likely to pursue strategies that advance their own personal interests over those of the company. It is argued that vesting the power of the CEO and the chairman in a single person could severely impair the board's effectiveness (Gul and Leung, 2004). In the absence of a clear separation between the chairman and the CEO, the board is regarded as ineffective due to the lack of independence when the CEO is in the position of monitoring his own decisions and activities (Bliss *et al.*, 2007). Petra (2005) argues that it is unreasonable to believe that the CEO/chairman will evaluate himself objectively. This is well supported in the agency theory, which suggests that splitting the

two jobs is desirable to make the board more independent (Fama and Jensen, 1983).

In contrast, proponents of the stewardship theory believe that the combination of the two roles enhances the decision making process and allows a CEO with strategic vision to guide the board to implement a company's objectives with the minimum of interference from the board. Under the stewardship theory, it is believed that the CEO view themselves as stewards of the organisation; allowing a cooperative relationship to exist between the CEO and the chairman, and the board of directors (Lin, 2005; Elsayed, 2010). As a steward of the firm, his or her actions are likely to achieve organisational rather than self-serving objectives. The combination of the two roles facilitates decision-making and helps a board stay better informed about company matters without the confusion of accountability (Coombes and Wong, 2004). Furthermore, combining the two positions gives the executive greater authority to make critical decisions (Harris and Helfat, 1998) and be more aware of every decision needed to improve the firm's performance (Elsayed, 2010).

While arguments for separating the roles between the chairman and the CEO roles are persuasive, existing empirical analyses yield mixed results of the impact of role duality on financial reporting quality. Kao and Chen (2004), Xie *et al.* (2003), Davidson *et al.* (2005) and Abdul Rahman and Mohamed Ali (2006) do not find an association between CEO duality and earnings management activity. As the board is already independent from the management, Davidson *et al.* (2005) argue that it might be limited evidence on the additional oversight provided by a non-executive chairperson. Furthermore, Petra (2005) raises the issue of the capability of outside directors as a chairperson to influence the management decisions when the ultimate control is still in the hands of the CEO.

However, Abdul Rahman and Haniffa (2005) reveal significant relationship between role duality and performance and report that companies with a duality function did not perform as well as their counterparts for the Malaysian sample. Similarly, a study by Norman *et al.* (2005) reports greater earnings management associated with firms that combine the roles of chairman and CEO that support agency theory predictions of increase agency problems associated with dual governance structure. Based on both arguments, the study proposes the following testable hypothesis:

H_1: There is an association between role duality and earnings quality.

Felton and Wong (2004) suggest that an ideal chairman should come from a company's current non-executive directors. The best candidate for the chairman post is an independent director who has served on the board for several years (Coombes and Wong, 2004), has a good knowledge of the industry (Carrot, 2008) and has the time available to properly discharge their duties (Condit and Hess, 2003). Nonetheless, it is preferable for a non-executive chairman not to be the former CEO of the firm to avoid conflict in defining the role (Conger and Riggio, 2007; Carrott, 2008).

While findings from the study by Haniffa and Cooke (2002) suggest that a non-executive chairperson in Malaysia obtains greater utility by keeping private information secret, the relationship between a non-executive chairperson and earnings quality is not known. Therefore, the study proposes the following testable hypothesis:

H_2: There is an association between non-executive chairman and earnings quality.

3. Sample description and variable measurement

3.1 Sample selection

The sample examined in this study was selected from the Main Board of Bursa Malaysia for the period 1998 to 2006. At the end of 2006, there were 649 financial and non-financial companies listed on Bursa Malaysia's Main Board. Due to different statutory requirements and materially different types of operations, all banks, insurance and unit trust companies as well as utilities companies were excluded from the population of interest (Davidson *et al.*, 2005; Peasnell *et al.*, 2005; Abdul Rahman and Mohamed Ali, 2006. There are strict data requirements for the accrual quality estimation that requires at least five year's residual value (Dechow and Dichev, 2002; Francis *et al.* 2005). For a sample of three years period, nine years complete accounting data, t = 1998-2006 is required to estimate accrual quality. For that reason, the number of data observations is further reduced to non-financial companies with complete financial data from 1998 to 2006 for current assets, current liabilities, cash, change in debt in current liabilities, cash flow from operations, revenues and property, plant and equipment. After eliminating industries with less than eight firms (Davidson *et al.*, 2005; Abdul Rahman and Mohamed Ali, 2006; Hashim and Susela, 2008b) and complete corporate governance data, the final sample consist of 277 non-financial companies listed on Bursa Malaysia's Main Board from 2003 to 2005. This gives a total of 831 firm-year observations with complete data for dependent and independent variables.

Table 1. Derivation of Sample, 1998 to 2006

	Total
Total number of companies listed on the Main Board of Bursa Malaysia as at 31st December 2006	649
Less:	
Banks, insurance and unit trusts	55
Utility companies	2
Companies that exist after year 1998	168
Companies with less than 8 observations	8
Companies with incomplete data (unavailable 2006 annual report, de-listed companies within years 1998-2006 and unavailable financial and corporate governance data)	139
Final sample	277

3.2 Regression model

We use a linear multiple regression analysis to test the association between the dependent variable of earnings quality and the independent variables of role duality and the presence of non-executive chairman on board. The following multiple regression model was utilised to determine the extent of the influence of each of the variables in the study on the earnings quality:

$$EQ = \beta_0 + \beta_1\ CEODUAL + \beta_2\ NEDCHAIR + \beta_3\ BIND + \beta_4\ CROSS + \beta_5\ TENURE + \beta_6\ OUTOWNS + \beta_7 + \beta_8 FAMCONTROL + \beta_9\ INSTITUTIONAL + \beta_{10}\ LNSALES + \beta_{11}\ LEV + \beta_{12}\ ROA + \beta_{13}\ BDSIZE + \beta_{14}\ DUM_YR04 + \beta_{15}\ DUM_YR05 + \varepsilon \quad (1)$$

The dependent variable is earnings quality *(EQ)* measured by standard deviation of accrual quality residuals. The independent variables consist of CEO duality *(CEODUAL)* and the presence of non-executive chairman on board *(NEDCHAIR)*. Consistent with prior studies (Peasnell *et al.*,2000; 2005; Bedard *et al.*, 2004; Abdul Rahman and Mohamed Ali, 2006; Hashim and Susela, 2008a,b; Jaggi *et al.*, 2009), we include board independence (*BIND)*, directors' cross directorships (*CROSS)*, directors' average tenure *(TENURE)*, independent directors' ownership *(OUTOWNS)*, family control on board *(FAMCONTROL)*, institutional ownership *(INSTITUTIONAL)*, firm size *(LNSALES)*, leverage *(LEV)*, return on assets *(ROA)*, board size *(BDSIZE)* and years dummies *(DUM_YR)* as control variables in the regression model. Earnings quality accounting data was extracted from financial databases such as the DataStream and the Perfect Analysis. Any missing financial data from the databases was obtained manually from the respective annual reports. Information pertaining to independent and controlled variables was manually-collected by examining the disclosures made in annual reports available on the Bursa Malaysia website (www.bursamalaysia.com).

Table 2. Summary of the Operationalisation of the Research Variables

Variables	Acronym	Operationalisation
Dependent Variable:		
Earnings Quality	EQ	The standard deviation of the firm *j*'s estimated residuals, from years *t-4* to *t* from annual cross-sectional estimations of the Dechow and Dichev (2002) accrual quality model (Note: the standard deviation score is multiplied by -1 so that a higher score indicates higher earnings quality)
Independent Variables:		
CEO Duality	CEODUAL	Dichotomous with 1 if the roles of the chairman and CEO are combined and 0 otherwise
Non- Executive Chairman	NEDCHAIR	Dichotomous with 1 if the chairman of the board is a non-executive directors and 0 otherwise

Table 2 continued

Controlled Variables:		
Board Independence	BIND	The proportion of independent non-executive directors to the total number of directors on the board of the company
Directors' Cross Directorship	CROSS	The proportion of directors on the board with directorships in other companies to the total number of directors on the board of the company
Directors' Average Tenure	TENURE	The average number of years of board service of independent non-executive directors on the board of the company
Independent Directors' Ownership	OUTOWNS	The percentage of shares held by independent non-executive directors to total number of shares issued
Family Control on Corporate Board	FAMCONTROL	The ratio of family members on the board to the total number of directors on the board of company
Institutional Ownership	INSTITUTIONAL	The percentage of shares owned by the five largest institutional investors to total number of shares issued
Size	LNSALES	Natural log of total sales
Leverage	LEV	The ratio of total liabilities to total assets
Return on Assets	ROA	The ratio of net income to total assets
Board Size	BDSIZE	Total number of directors on the board of the company

3.3 Dependent variable

To measure earnings quality, we adopt Dechow and Dichev (2002) accrual quality model, which has recently been considered as a better proxy for earnings quality (Jaggi *et al.*, 2009). This measure is based on the observation that accruals map into cash flow realizations and regardless of managerial intent, accrual quality is affected by the measurement errors in accruals. The nature of accruals that are frequently based on the assumptions and estimates create estimation errors that need to be corrected in the future. In the Dechow and Dichev (2002) study, the estimated residuals from firm specific regressions of working capital accruals, on past, present, and future cash flow from operation, captures the total accruals estimation error by management and are viewed as an inverse measure of earnings quality. The Dechow and Dichev (2002) model is measured by estimating the following regression (all variables are scaled by average assets):

$$\Delta TCA_{j,t} = \varphi_{0,j} + \varphi_{1,j}\, CFO_{j,t-1} + \varphi_{2,j}\, CFO_{j,t} + \varphi_{3,j}\, CFO_{j,t+1} + v_{j,t} \qquad (2)$$

Where, $\Delta TCA_{j,t}$ is the firm j's total current accruals in year t, $= (\Delta CA_{j,t} - \Delta CL_{j,t} - \Delta Cash_{j,t} + \Delta STDEBT_{j,t})$; $\Delta CA_{j,t}$ the firm j's change in current assets between year $t-1$ and year t; $\Delta CL_{j,t}$ the firm j's change in current liabilities between year $t-1$ and year t; $\Delta Cash_{j,t}$ the firm j's change in cash between year $t-1$ and year t; $\Delta STDEBT_{j,t}$ the firm j's change in debt in current liabilities between year $t-1$ and year t; $Assets_{j,t}$ the firm j's average total assets in year t and $t-1$; and $CFO_{j,t}$ the firm j's net cash flow from operation in year t.

For each firm-year, equation 3.2 is estimated cross-sectionally for all firms (minimum of eight firms within each industry group) using rolling 7-year windows. These estimations yield five firm- and year-specific residuals, $v_{j,t}$, $t = t\text{-}4,\ldots t$, which form the basis for the accrual metric. Accrual Quality$_{j,t} = \sigma(v_{j,t})$, is equal to the standard deviation of the firm j's estimated residuals. Larger standard deviations of residuals correspond to poorer accrual quality and vice versa. The standard deviation score is multiplied by -1 so that a higher score indicates higher earnings quality (EQ) (DeFond *et al.*, 2007).

4. Results and discussions

4.1 Descriptive statistics

Table 3. Descriptive Statistics for Independent Variables

	All N=831		*2003 N=277*		*2004 N=277*		*2005 N=277*	
Dichotomous Variables	*1*	*0*	*1*	*0*	*1*	*0*	*1*	*0*
CEO Duality (CEODUAL)	109 (13.1%)	722 (86.9%)	37 (13.4%)	240 (86.6%)	36 (13%)	241 (87%)	36 (13%)	241 (87%)
Non-executive Chairman (NEDCHAIR)	617 (74.2%)	214 (25.8%)	208 (75.1%)	69 (24.9%)	208 (75.1%)	69 (24.9%)	201 (72.6%)	76 (27.4%)

As depicted in Table 4.1, the number of companies with role duality is relatively small with the mean for the entire three-year period being 13.1 percent, indicating that role duality is not common in Malaysian corporations. This suggests that the recommendation contained in the MCCG 2000 for the separation of the CEO and the Chairman role were complied with by most Malaysian corporations. In terms of the presence of non-executive chairman on board, 74.2 percent of companies have an independent leader chairing the board. It can be seen that the percentages of the presence of non-executive chairman on the board has increased from 72.6 percent in 2003 to 75.1 percent in 2004 and 2005. In addition, the mean and median values of earnings quality variable are -0.765 and -0.580, respectively. The maximum value and the standard deviations of residuals for the earnings quality variable are -0.040 and -0.040, respectively.

With respect to correlation among variables, the correlation matrix tested in the study confirms that no multicollinearity exists between the variable since none of the variables correlates above 0.80 or 0.90.

4.2 Multivariate analysis

Table 4. Regression Results

White Heteroskedasticity-Consistent Standard Errors & Covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.912	0.369	-5.188	0.000***
CEODUAL	0.047	0.077	0.610	0.542
NEDCHAIR	0.137	0.069	2.000	0.046**
BIND	-0.561	0.303	-1.849	0.065*
CROSS	0.301	0.095	3.163	0.002***
TENURE	0.018	0.005	3.693	0.000***
OUTOWNS	0.032	0.017	1.927	0.054*
FAMCONTROL	0.731	0.119	6.124	0.000***
INSTITUTIONAL	0.005	0.003	1.736	0.083*
LNSALES	0.051	0.020	2.544	0.011**
LEV	-0.037	0.047	-0.788	0.431
ROA	-0.252	0.273	-0.924	0.356
BDSIZE	-0.016	0.014	-1.169	0.243
DUM_YR04	-0.001	0.056	-0.026	0.980
DUM_YR05	-0.039	0.054	-0.726	0.468
R-squared	0.119			
Adjusted R-squared	0.104			
F-statistic	7.901			
Prob(F-statistic)	**0.000**			

Notes:
The reported t-statistics are white-adjusted values to control for heteroscedasticity.
***Significant at 0.01 level; **Significant at 0.05 level; *Significant at 0.1 level.

Although separating the roles of the chairman and the CEO seem appropriate, it would not necessarily lead to independence of the board as the chairman without a commitment is not likely to put independence to good use (Coombes and Wong, 2004). As reported in Table 4.2, this study does not find any significant association between CEO duality (CEODUAL) and earnings quality. The result suggests that the separation of roles as predicted by the agency theory is not supported in this study. Felton and Wong (2004) state that experience in the UK suggests that splitting the roles of chairman and CEO to follow the recommendation of the Cadbury Report is not workable when chairmen-CEOs give up the CEOs job but stay on as chairman or a chairman-CEO gives up the chairmanship but continues to serve as CEO. It appears in this study that about one third of the chairmen are also an executive director of the company, which possibly contributes to the insignificant relationship between no role duality and earnings quality. Furthermore, the data gathered in this study suggests that some chairmen are former CEOs of the firm (as well as also being the founder of the firm) and became chairman when their son took over as the new CEO of the firm, raising concerns about independent management.

Another apparent reason that contributes to the insignificant findings of this study is attributed to the chairman's lack of independence and lack of knowledge of company affairs. For making the split work, it is important for the boards to distinguish between the roles of the chairman and the CEO – the chairman runs the board while the CEO manages the company (Felton and Wong, 2004). As suggested by Coombes and Wong (2004), in order for the separation of roles to be effective, a dynamic boardroom culture is needed where the chairman must be able to challenge the CEO without fear of giving offence. An ideal chairman (ideally independent directors) is one that has enough time to devote to the job, has a good knowledge of the industry, has served on the board for several years and should not be the current CEO, or another executive, in order to be more objective of the policies and the strategies of the company (Coombes and Wong, 2004).

Interestingly, it appears in this study that the presence of a non-executive chairman (NEDCHAIR) on the board has a positive impact on earnings quality. Carrott (2008, p.12) states that *'the creation of the separate role of chairman must be right not just for the company but for the person'*. It is important for the non-executive chairman to have strong leadership capabilities to encourage the board's oversight and advisory roles as well as to gain the respect of both senior management and employees (Condit and Hess, 2003). Our findings suggest that a non-executive director as a chairman is important in enhancing the board's independence, thus improving earnings quality.

Out of twelve control variables included in the models, seven were found to be significant. The coefficients on board cross directorships (CROSS), board tenure (TENURE) and family control on board (FAMCONTROL) are positive and significant at the 1 percent level. The coefficient on size (LNSIZE) is positive and significant at the 5 percent level and the coefficient for independent directors' ownership (OUTOWN) and institutional ownership (INSTITUTIONAL) are positive and significant at 10 percent level. The coefficient for board independence (BIND), however, is negative and significant at 10 percent level. The results may imply that firms with expert board members, highly concentrated and large firms are associated with higher earnings quality.

5. Summary and conclusion

As proposed by Felton and Wong (2004), the main contributor to the success of the split-leadership structure is the appointment of an appropriate person for the chairman and the CEO post. It is important for the chairman to be independent from operational roles and have integrity and leadership ability to effectively monitor the CEO. The effect of role duality shows insignificant finding in the regression model tested in this study. Though not significant, the finding is consistent with most prior studies in developed countries (e.g. Xie *et al.*, 2003; Davidson *et al.*, 2005) and developing countries (e.g. Kao and Chen, 2004; Abdul Rahman and Mohamed Ali, 2006; Che Haat, 2006). As the board is already independent from the management it is suggested that role duality has no substantial impact on financial reporting quality, especially in Malaysian corporations where role duality is uncommon.

Further, this study documents that the presence of non-executive chairman on the board has a positive impact on earnings quality, thus, supporting the role of an independent chairperson. As predicted, the coefficient for non-executive chairman is found to be positive and significant. The results indicate that companies with such a chairman are associated with higher earnings quality than companies with a chairman who is an executive director. The findings are consistent with recent recommendations by various policy groups to strengthen board leadership by appointing an independent chair. For example, a Conference Board Commission and a Blue Ribbon Commission on the National Association of Corporate Directors in the US recommended that all boards appoint an independent leader of the board (Bertsch, 2006). Similarly, the UK Combined Code states that a chairman should be independent at the time of appointment to ensure the success of a split-leadership structure (Felton and Wong, 2004).

The findings of this study cast doubts on the appropriateness of the MCCG 2000 recommendation for role separation. As suggested by Coombes and Wong (2004), it is important for companies to have

ideal chairmen to function more effectively. If the board is able to find an ideal candidate who is independent and has enough time to devote to the job, the separation of the role between the chairman and the CEO will be more effective. Perhaps, for making the split work, Malaysian boards should follow the UK Combined Code that requires the chairman to be independent at the time of appointment.

References

1. Abdul Rahman, R. and Mohamed Ali, F.H. (2006). Board, audit committee, culture and earnings management: Malaysian evidence. *Managerial Auditing Journal*. 21 (7). 783-804
2. Abdul Rahman, R. and Haniffa, R.M. (2005). The effect of role duality on corporate performance in Malaysia. *Corporate Ownership and Control*. 2 (2). 40-47
3. Ball, R., Robin, A. and Wu, J.S. (2003). Incentive versus standards: Properties of accounting income in four East Asian countries. *Journal of Accounting and Economics*. 36. 235-270
4. Barton, D., Coombes, P. and Wong, S.C.Y. (2004). Asia's governance challenge. *The McKinsey Quarterly*. 2. 55-61.
5. Bedard, J., Chtourou, S.M. and Courteau, L. (2004). The effects of audit committee expertise, independence and activity on aggressive earnings management. *Auditing: A Journal of Practice & Theory*. 23 (2). 13-35
6. Bertsch, K. (2006). Trends for non-executive chairs and lead directors. *The Corporate Board*. 27 (161). 5-9
7. Bliss, M.A., Muniandy, B. and Majid, A. (2007). CEO duality, audit committee effectiveness and audit risks: A study of the Malaysian market. *Managerial Auditing Journal*. 22 (7). 716 - 728
8. Cadbury Committee Report (1992). *The Financial Aspects of Corporate Governance*. Gee and Co. Ltd. London.
9. Carrott, G.T. (2008). The task of board chairmanship. *The Corporate Board*. 29 (172). 12-16
10. Che Haat, M.H. (2006). *The effect of corporate governance on transparency and performance of Malaysian companies*. Unpublished PhD Dissertation. Universiti Teknologi Mara, Malaysia.
11. Cheung, S.Y.L. and Chan, B.Y. (2004). Corporate governance in Asia. *Asia-Pacific Development Journal*. 11(2). 1-31
12. Claessens, S. and Fan, J.P.H. (2002). Corporate governance in Asia: A survey. *International Review of Finance*. 3 (2). 71-103
13. Combined Code on Corporate Governance. (1999). *The combined code on corporate governance*. Financial Reporting Council, London.
14. Condit, M.B. and Hess, E.D. (2003). Is it time for the non-executive chairman? *The Corporate Board*. 24 (138). 7-10
15. Conger, J.A. and Riggio, R.E. (2007). Best practices in boardroom leadership. *The Corporate Board*. 28 (162). 16-21
16. Coombes, P. and Wong, S.C.Y. (2004). Chairman and CEO – One job or two? *The McKinsey Quarterly*. 43-47
17. Davidson, R., Goodwin-Stewart, J. and Kent, P. (2005). Internal governance structures and earnings management. *Accounting and Finance*. 1-27
18. Davidson III, W.N., Jiraporn, P., Kim, Y.S. and Nemec, C. (2004). Earnings management following duality-creating successions: Ethnostatistics, impression management and agency theory. *Academy of Management Journal*. 47 (2). 267-275
19. Dechow, P.M. and Dichev, I.D. (2002). The quality of accruals and earnings: The role of accrual estimation errors. *The Accounting Review*. Supplement. 77. 35-59
20. DeFond, M., Hung, M. and Trezevant, R. (2007) Investor protection and the information content of annual earnings announcements: International evidence. *Journal of Accounting and Economics*. 43. 37-67
21. Elsayed, K. (2010). A multi-theory perspective of board leadership structure: What does the Egyptian corporate governance context tell us? *British Journal of Management*. 21. 80-99
22. Fama, E. and Jensen, M. (1983). Separation of ownership and control. *Journal of Law and Economics*. 26 (2). 301-325
23. Felton, R.F. and Wong, S.C.Y. (2004). How to separate the roles of chairman and CEO. *The McKinsey Quarterly*. 59-69
24. Francis, J., LaFond, R., Olsson, P.M. and Schipper, K. (2005). The market pricing of accrual quality. *Journal of Accounting and Economics*. 39 (2). 295-327
25. Gul, F.A. and Leung, S. (2004). Board leadership, outside directors' expertise and voluntary disclosures. *Journal of Accounting and Public Policy*. 23. 351-379
26. Haniffa, R.M. and Cooke, T.E. (2002). Culture, corporate governance and disclosure in Malaysian corporations. *ABACUS*. 38 (3). 317-349
27. Harris, D. and Helfat, C.E. (1998). CEO duality, succession, capabilities and agency theory: Commentary and research agenda. *Strategic Management Journal*. 19 (9). 901-904
28. Hashim, H.A. and Susela, D. (2008a). Board characteristics, ownership structure and earnings quality: Malaysian evidence. *Research in Accounting in Emerging Economies*. 8. 97-123. ISSN: 1479-3563 /doi:10.1016/S1479-3563(08)08004-3
29. Hashim, H.A. and Susela, D. (2008b). Board independence, CEO duality and accrual management. *Asian Journal of Business and Accounting*. 1(1). 27-46. ISSN: 1985-4064
30. Higgs Report. (2003). *Good practice suggestions from the Higgs Report*. Financial Reporting Council, London.
31. Jaggi, B., Leung, S. and Gul, F.A. (2009). Family control, board independence, and earnings management: Evidence based on Hong Kong firms. *Journal of Accounting and Public Policy*. 28 (4). 281-300
32. Kao, L. and Chen, A. (2004). The effects of board characteristics on earnings management. *Corporate Ownership & Control*. 1 (3). 96-107
33. Kim, K.H, Al-Shammari,H.A., Kim, B. And Lee, S.H. (2009). CEO duality leadership and corporate

diversification behaviour. Journal of Business Research. 62. 1173-1180
34. Lin, Y.F. (2005). Corporate governance, leadership structure and CEO compensation: Evidence from Taiwan. *Corporate Governance*. 13(6). 824-835
35. Malaysian Code on Corporate Governance (2000). Finance Committee on Corporate Governance, Securities Commission, Kuala Lumpur.
36. Malaysian Institute of Corporate Governance website. Retrieved July 26, 2005, from http://www.micg.net/
37. Ng, K.C. (1998). *Models of corporate governance and transparency*. Paper presented at the seminar 'Global Lessons in Banking Crisis Resolution in East Asia', Singapore. May 12-13
38. Norman, M.S., Takiah, M.I. and Mohid, R. (2005). Earnings management and board characteristics: Evidence from Malaysia. *Jurnal Pengurusan*. 24. 77-103
39. Peasnell, K.V., Pope, P.F. and Young, S. (2000). Accrual management to meet earnings targets: UK evidence pre and post Cadbury. *British Accounting Review*. 32. 415-445
40. Peasnell, K.V., Pope, P.F. and Young, S. (2005). Board monitoring and earnings management: Do outside directors influence abnormal accruals? *Journal of Business Finance & Accounting*. 32 (7) & (8). 1311-1346
41. Petra, S.T. (2005). Do outside independent directors strengthen corporate board? *Corporate Governance*. 5 (1). 55-64
42. Revised Malaysian Code on Corporate Governance (2007). Available online at http://www.micg.net/brochure/cg2007.pdf
43. The World Bank Report. (2005). *Report on the Observance of Standards and Codes (ROSC) – Corporate Governance Country Assessment Malaysia*. June. 1-38. Retrieved April 15, 2007, from http://www.worldbank.org/ifa/rosc_cg.html
44. Xie, B., Davidson III, W.N. and DaDalt, P.J. (2003). Earnings management and corporate governance: The role of the board and the audit committee. *Journal of Corporate Finance*. 9. 295-316