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Characteristics of Board of Directors and Financial Distress: A Malaysian Case

(Ciri-ciri Lembaga Pengarah dan Masalah Kewangan: Kes di Malaysia)

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ABSTRACT

This paper examines the relationship between the characteristics of boards of directors and the financial distress of companies listed on Bursa Malaysia. The sample consists of 68 companies whose listing status on Bursa Malaysia was being suspended between 2005 and 2009, under the provision of Practice Note 17 (PN17) of the Bursa Malaysia Listing Requirements. The study develops a multinomial logit regression model to test three categories of PN17 listing statuses: re-listed on Bursa Malaysia, remain as PN17, and de-listed from Bursa Malaysia. The model relates the listing status to five characteristics of the boards of directors as independent variables, specifically leadership structure, equity ownership, board involvement, financial literacy and multiple directorships of board members; and four control variables, namely firm size, leverage, return on assets and audit quality. The study expects that the success of PN17 listing outcomes depends on the ability of the board of directors to establish and implement the restructuring plan. The results show that the re-listing of PN17companies is negatively related to financial literacy and equity ownership of the board of directors and positively related to the involvement of the board. The results imply that boards of directors with a lower ownership and financial literacy, but more actively involved, are more capable of overcoming financial difficulties.

ABSTRAK

Kajian ini memeriksa hubungan antara ciri-ciri lembaga pengarah dengan masalah kewangan syarikat tersenarai di Bursa Malaysia. Sampel terdiri daripada 68 buah syarikat yang digantung penyenaraiannya daripada Bursa Malaysia dari tahun 2005 hingga 2009 berdasarkan peruntukan Nota Amalan 17 (PN17), Keperluan Penyenaraian Bursa Malaysia. Kajian ini membangun model regresi logit multinomial untuk menguji tiga kategori status penyenaraian PN17 khususnya tersenarai semula di Bursa Malaysia, kekal di bawah PN17 dan dikeluarkan dari senarai daripada Bursa Malaysia. Model tersebut menghubungkan status penyenaraian PN17 dengan lima ciri lembaga pengarah iaitu struktur kepimpinan, keterlibatan, pemilikan ekuiti, keupayaan kewangan dan kepelbagaian keahlian lembaga pengarah, serta empat pemboleh ubah kawalan iaitu saiz firma, leveraj, pulangan aset dan kualiti audit. Kajian ini menjangka kejayaan penyenaraian semula syarikat PN17 bergantung kepada kebolehan lembaga pengarahnya membentuk dan melaksanakan pelan penstrukturan semula. Hasil kajian ini menunjukkan penyenaraian semula PN17 berhubung secara negatif dengan keupayaan kewangan dan pemilikan ekuiti lembaga pengarah dan berhubung secara positif dengan keterlibatan lembaga pengarah. Hasil kajian menggambarkan bahawa lembaga pengarah yang mempunyai pemilikan ekuiti dan keupayaan kewangan yang rendah tetapi mempunyai tahap keterlibatan yang tinggi lebih berjaya membantu syarikat PN17 mengatasi masalah kewangan.

Keywords: Financial Distress; Corporate Governance; Board of Directors; Financial Literacy; Equity Ownership; Board Involvement

INTRODUCTION

Prior studies relate financial distress to financial factors, such as leverage, profitability and assets turnover (e.g., Zulkarnain & Hasbullah 2009; Nur Adiana, Rohani & Abd Halim 2009), non-financial indicators (Jiming & Weiwei 2011), corporate governance characteristics (e.g., Johnson et al. 2000; Zong-Jun & Xiao-Lan 2006; Sengupta & Faccio 2011), and ownership structure of companies (e.g., Elloumi & Gueyie 2001; Shamsul 2006). Others believe that companies experience financial distress when they lack independent control and monitoring over the management resulting from CEO-duality practices or lower equity ownership among members of board of directors (BOD) (e.g. Mohd-Mohid, Iskandar & Salleh 2004; Mitton 2002). Thus, serious attention must be given to the characteristics of BOD to ensure companies attain good financial performance (Mohd-Mohid et al. 2004; Mitton 2002).

Companies with BODs possessing strong characteristics perform more effectively than companies with weaker BODs, particularly during the economic downturn (Mitton 2002). This is because BODs with appropriate characteristics are able to establish effective monitoring and control mechanisms to ensure decisions are made and financial activities are managed through a systematic process (e.g., Mohd-Mohid et al. 2004; FCCG 2001), while evading financial failures (e.g., Charan 1998; Laing & Weir 1999; Daily 1995; Mueller & Barker III 1997; Shamsul 2001). Characteristics of a BOD that are positively and significantly related to the company performance include leadership structure (e.g., Fama & Jensen 1983; Donaldson & Davis 1991), financial literacy (e.g., Rosenstein & Wyatt 1990; Lee et al. 1999), multiple directorships (e.g., Mace 1986; O'Neil & Thomas 1996), involvement (Lipton & Lorch 1992; Vafeas 1999), and equity ownership (e.g., Jensen & Meckling 1976; Coles et al. 2001). BODs with appropriate characteristics are expected to establish effective governance and device control mechanisms to prevent activities that do not maximize shareholders' wealth (Charan 1998; Wathne & Heide 2000).

Mitton (2002) and Mohd-Mohid et al. (2004) examine the relationships between board characteristics and performance of financially distressed companies using a cross sectional approach of a period of one year. The present study employs a cross sectional design covering a period of 5 years to examine characteristics of BOD that are able to protect companies from being de-listed from Bursa Malaysia Securities Bhd. (hereinafter referred to as Bursa Malaysia). The use of a longer period is expected to be more accurate in determining the ability of BODs to recover companies from financial difficulties or to help enhance company performance (Daily 1995; Mueller & Barker III 1997).

This study uses companies that are classified as PN17 under the provision of Practice Note No. 17/2005 of the Listing Requirements. In other words, this study uses the PN17 status as a proxy of financial distress. Public listed companies in Malaysia that do not meet any or all of the financial conditions and level of operations stipulated in Paragraph 8.14C(1) of the Bursa Malaysia Listing Requirements are classified as PN17 in order to be protected from an immediate de-listing. PN17 companies are given a temporary suspension period to undergo exercises to comply with the requirements of Bursa Malaysia and to develop a restructuring plan to regularize their financial problems. PN17 companies must submit the action plan to the relevant authorities within the stipulated timeframe for approval, together with details of implementation of the restructuring process of the plan to revive the company and sustain the listing status. The BOD is responsible to successfully submit and implement the plan to avoid the suspension of PN17 companies from the trading list securities; being de-listed from the market; or both. This explains empirical evidence which demonstrates that firms' ability to turn around the financial distress is often associated with BODs possessing good characteristics (Coles et al. 2001; Laing & Weir 1999; Mohd-Mohid et al. 2004; Ho & Williams 2003).

This study examines the relationships between the characteristics of BODs and their ability to turn the financially distressed companies around; regain their financial strength; and get re-instated (re-listed) to the Bursa Malaysia. Unlike previous studies, this study adopts the cross sectional time series approach for a period of 5 years in order to strengthen the results. Accordingly, the study aims to provide empirical evidence on the relationships between the recovery of company financial distress and certain characteristics of the BOD, specifically the leadership structure, level of financial literacy, multiple directorships, involvement, and equity ownership.

PRIOR STUDIES AND HYPOTHESIS DEVELOPMENT

The abilities of BOD to control and monitor the company operation; and to reduce agency costs have significant relationships with the characteristics of the BOD (Jensen & Meckling 1976). Jensen and Meckling (1976) argue that certain characteristics of BOD, such as ownership and reward structure, influence the financial position of a company. Previous studies identify characteristics of BOD related to company performance, including leadership structure, financial literacy, multiple directorships, involvement, and equity ownership.

LEADERSHIP STRUCTURE

The responsibility of managing a company rests on the shoulder of the BOD. The BOD is responsible to ensure that the top management, led by the CEO, acts in the interest of the shareholders to yield a maximum economic value of the company. The effort of the BOD to successfully carry out its responsibility is influenced by the leadership structure (Donaldson & Davis 1991; Fama & Jensen 1983). However, the optimal leadership structure of a company is still subject to considerable debate.

Leadership structure refers to the characteristic of the company's top management, whether it is in the form of joint leadership or separate leadership (Berg & Smith 1978). A joint leadership structure, often known as a chief executive officer (CEO) duality, exists when the CEO is also the chairman of BOD. On the other hand, a separate leadership structure exists when the roles of the CEO and chairman are assigned to two different individuals. Although there are two opposing views on the optimal leadership structure of a company, a number of studies agree that the management of a company is more effective if the positions of CEO and chairman are held by separate individuals (Fama & Jensen 1983). In a separate leadership environment, the CEO can focus on his/her responsibility to the shareholders represented by the BOD (Buang 1998). The chairman of BOD, on the other hand, focuses on monitoring the process of appointment, dismissal, evaluation and reward of the CEO (Briekley et al. 1997). The joint appointment of the CEO and chairman positions may, therefore, create an opportunity for the development of monopolistic behavior.

Previous studies (e.g., Finkelstein & D'Aveni 1994; Mueller & Barker III 1997) demonstrate that companies assign separate individuals to hold the positions of CEO and chairman in order for them to perform their functions effectively. Control of the top management actions by two separate individuals would be better and more effective because it helps overall monitoring and reduction in agency costs (Pi & Timme 1993; Rechner & Dalton 1991). A separate leadership structure enables the CEO to make decisions more independently. The separation of the two roles to two different individuals helps avoid the possibility that the management will make decisions in its own personal interest, rather than for the interests of the shareholders (Pi & Timme 1993).

However, there are also arguments in favor of a joint leadership structure (Donaldson & Davis 1991). When both the CEO and chairman positions are assigned to the same individual, the value of the firm increases due to a stronger and clearer leadership. A joint leadership structure promotes clearer and more transparent communication between the management and BOD (Brickley et al. 1997). The delegation of both the duties of the CEO and the duties of the chairman of board to the same individual may be appropriate when a powerful and influential position is needed, for instance in an environment of high uncertainty. The arguments for each leadership structure suggest that an optimal leadership structure may change in different contexts and time frames (Dahya & Travlos 2000).

In the context of company turn around, a quick decision is a critical factor and is necessary to solve problems which may be better achieved in a joint leadership structure (Mueller & Barker III 1997). Hence, the hypothesis of this study supports the notion that a joint leadership structure helps restructure the company through quick and appropriate decisions within the environment. The following hypothesis is formulated:

H_1: A joint leadership structure has a significant positive relationship with the re-listing of PN17 companies.

FINANCIAL LITERACY

From the perspectives of the stakeholders, such as the customers, banks, and government bodies (Nik Hasyudeen 2003), the financial literacy of the BOD is a significant factor that increases the credibility of company financial performance. Financially literate board members are expected to help the board gain respect from the society. More importantly, financially literate board members are also more capable of guiding the management to find sources of capital that is needed to overcome the financial problems (Lee et al. 1999).

In addressing the financial aspects of corporate governance, the Cadbury Committee (1992) emphasizes the importance of financial literacy with the argument that it can enhance the effectiveness of BOD. Empirically, financially literate board members are found to be more efficient and effective in carrying out their role (Pomeranz 1997; Libby & Luft 1993). Rosenstein and Wyatt (1990) and Lee et al. (1999) provide further evidence that financially literate non-executive directors are able to create an abnormal return and, hence, increase the economic value of the company.

Based on the above discussion, it is concluded that members of BOD are considered qualified if they possess the knowledge and experience in finance related areas. The existence of qualified board members enhances the integrity of the board in controlling and monitoring the company management. Qualified board members are wiser and able to provide leadership for the company. Their existence in the company instills more confidence among the capital providers (Daily 1995). The following hypothesis is therefore developed:

H_2: The financial literacy of board of directors has a significant positive relationship with the re-listing of PN17 companies.

MULTIPLE DIRECTORSHIPS

Multiple directorships refer to the number of directorship appointments in different companies held by members of the board (Mace 1986). Previous studies on the effect of multiple directorships on the company performance produce mixed results. Some (e.g., Lipton & Lorsch 1992; Core & Larcker 1998) believe that board members need to focus in order to monitor the company more effectively. The amount of time a director has for a company depends, to a certain extent, on the number of director positions he/she holds in different companies at any given time. An individual who holds too many director positions has limited time to carry out his/her duties and responsibilities to any particular company. As a result, he/she is less likely to be able to give the commitment that is needed of him/her and to contribute effectively and efficiently toward the organization's performance (Lipton & Lorsch 1992; Core & Larcker 1998).

Others believe that the number of director positions held by an individual reflects his/her competency and capability to provide an effective role of directors (Mace 1986). A board member who holds a number of director positions in different companies would benefit from his/her broad experience and exposures, hence, is more capable in carrying out the duties effectively (Mohd-Mohid et al. 2004). Multiple directorships are also expected to contribute to the company by creating a more competitive environment for the company to obtain a wider range of business opportunities, resources and information (O'Neil & Thomas 1996).

Based on the above discussion, it is argued that a BOD with higher multiple directorships is more able to help financially distressed companies recover from their financial difficulties. The experience gained through multiple directorships exposes members of the board to alternative ways of bringing the companies back on the listing of Bursa Malaysia. The success of getting the PN17 companies re-listed is expected to be higher among distressed companies with a high composition of board members having multiple directorships (Chaganti et al. 1985). Companies benefit from the industry networking developed by directors through multiple directorships. These discussions lead to the following hypothesis:

H_3: Multiple directorships have a significant relationship with the re-listing of PN17 companies.

INVOLVEMENT OF BOARD OF DIRECTORS

The level of involvement of the BOD can be reflected by the number of board meetings held in a year (Collier & Gregory 1999). Board meetings are held to discuss issues pertaining to the operation and management of the company. Accordingly, more frequent meetings would be expected to reduce information asymmetry and enhance effectiveness of monitoring by the BOD (Menon & Williams 1994). The board meetings provide a platform for board members to discuss and plan strategies to control and monitor the management of the company, as well as to improve the company business (Lipton & Lorch 1992). Infrequent meetings would deny board members the opportunity to interact and share information on current problems of the company (Lipton & Lorch 1992). Others (e.g., Menon & Williams 1994), however, argue that the frequency of board meeting does not guarantee the board effectiveness. The possible explanations are the limited time available to discuss various issues relating to the company's daily operation and the lack of assurance of the discussion quality during the meeting.

This study takes the position that frequent board meetings are advantageous. BODs that meet frequently are expected to be able to design strategic action plans for the company and to suggest improvements for the current unsatisfactory operating performance in order to achieve better results in the future (Vafeas 1999). The above discussions lead to the following hypothesis:

H_4: The level of involvement of the board of directors has a significant positive relationship with the re-listing of PN17 companies.

EQUITY OWNERSHIP

Another characteristic of an effective BOD is the equity ownership of board members. Equity ownership of the BOD members reduces agency costs resulting from a reduction in the gap between owners and the management (Jensen & Meckling 1976). BOD equity ownership establishes a controlling mechanism for the company's management to achieve a better financial and market performance (Jensen and Meckling 1976; Coles et al. 2001). When a director is also the owner of the company, he/she has a better access to information and a direct influence on decisions that affect his/her own wealth, both of which normally lead to an increase in the company's overall economic value.

The discussion above is in line with the underlying concept of the agency theory that equity ownership of BOD reduces the gap between the owner and management of the company. The smaller gap is expected to increase the ability, interest and willingness the BOD members to find solutions for their financially distressed companies. Based on the discussion above, the following hypothesis is developed:

H_5: The equity ownership of the board of directors has a significant positive relationship with the re-listing of PN17 companies.

METHODOLOGY

The study uses a cross sectional approach for the period from 2005 to 2009 to examine the relationships between the characteristics of the BOD and the success in recovering companies from financial difficulties during the provisional period given by the Bursa Malaysia. This approach is expected to give an objective reflection on the success of the BOD in the formulation and implementation of the company's financial restructuring plan in an attempt to overcome the company's financial agony and to regain its listing status on Bursa Malaysia. The BOD is responsible to ensure that companies are successfully reclassified from the PN17 category to the original sector of Bursa Malaysia listing.

The year 2005 is selected following the implementation of Practice Note 17 in 2005, which is the final year of reporting the company performance and its financial position before being classified as PN17. All companies that are identified as PN17 during the period under study are included in the sample. The classification of PN17 is based on the company's financial performance as per financial statements of the year, being the first year of admission during the period. Data on the characteristics of the BODs of selected companies are collected for the year during the period in which the company becomes a PN17. The 5-year period covered in this study is regarded as adequate time period in evaluating board performance, given the minimum time of 2 years for the submission of restructuring plan is 8 months after which point the implementation plan is monitored by Bursa Malaysia. For all PN17 companies, the success made in relation to the company to be taken out of PN17 status is observed until the mid of 2011 to allow an ample period of recovery for those companies. In this study, characteristics of BOD are identified at the time the companies become PN17. The ability of the BOD to discharge its responsibility in resolving the company's financial distress is determined based on the company recovery status during the selected period.

DEPENDENT VARIABLE

The dependent variable of this study measures the success of the company in preparing and implementing the restructuring plan, as required by Bursa Malaysia, to recover from financial distress. PN17 companies that fail to submit the plan, to obtain the approval of Bursa Malaysia or to implement the plan within a given time frame are de-listed from Bursa Malaysia. The outcome of the BOD's attempt to recover their companies from the PN17 status (i.e., from financial distress) is classified into three levels: re-listed on Bursa Malaysia during the given period; remain as PN17 companies until end of 2009; and de-listed from Bursa Malaysia during the period. Re-listing PN17 companies on Bursa Malaysia is considered a successful attempt in overcoming the financial difficulties, while de-listed PN17 companies are considered to be failures. Companies that remain as PN17 indicate that their BODs are not entirely successful in overcoming their financial distress. For the purpose of this study, the re-listing vs. de-listing status of PN17 companies reflects the effectiveness (or ineffectiveness) of the BOD. The successfully re-listed PN17 companies are coded 1, those remaining as PN17 companies are coded 2, while those companies de-listed from Bursa Malaysia are coded 3 (Roslina 2008). Thus, for the purpose of determining the success of the company in carrying out the restructuring plan, the matched pair principle applied by Mohd-Mohid, Takiah and Norman (2009) may not be appropriate.

INDEPENDENT VARIABLES

The independent variables of the study are selected characteristics of the BOD, including leadership structure, financial literacy, multiple directorships, involvement, and equity ownership.

Leadership structure (CEODUAL) refers to either joint leadership or separate leadership. A joint leadership exists when the posts of CEO and BOD chairman are held by the same individual. A separate leadership, on the other hand, exists when both positions are held by two separate individuals. Following Judge et al. (2003) and Dehaene et al. (2001), this study codes joint leadership as 1 and separate leadership as 0.

The financial literacy (FINLIT) of the BOD is measured based on the members' knowledge of accounting and finance, as well as the working experience in both areas (Collier 1993). The Malaysian Institute of Accountants (MIA) membership is used as the proxy of financial literacy (e.g., Mohd-Mohid et al. 2004; Nor Haizah et al. 2006; Ruzaidah & Takiah 2004). For the accounting and financial knowledge component, a score of 3 is assigned for directors who are members of MIA; a score of 2 is assigned for directors with experience in financial sector; and a score of 1 is assigned for directors who are not members of MIA, but with education in accounting and finance. For the experience component, a score 4 is assigned for experience of more than 30 years; a score of 3 is assigned for experience of 21-30 years; a score of 2 is assigned for experience of 10-20 years; and a score of 1 is assigned for less than 10 years of experience. Thus, the financial literacy of the BOD is the ratio of the financial literacy score of board members (score of knowledge + score of experience) to the possible maximum score for all board members.

Multiple directorships of BOD members (MULTIDIR) are the total number of outside directorship positions of all board members divided by the number of board members. This method of measuring multiple directorships is used by Shivdasami (1993), Song and Windram (2000) and Ruzaidah and Takiah (2004).

The total number of board meetings for the year measures the level of involvement of the BOD (INVOLVE). This approach has been used in previous studies (e.g., Menon & Williams 1994; Ruzaidah & Takiah 2004; Vafeas 1999; Mohd-Mohid et al. 2004).

In this study, equity ownership of the BOD (EQTYOWN) is the percentage of the total shares owned (directly and indirectly) by board members divided by the total shares issued by the company. The shares held by board members through subsidiary or nominee companies are not included. This method is consistent with that used by Joh (2003) and Mohd-Mohid et al. (2004).

CONTROL VARIABLES

This study includes four control variables: leverage, audit quality, size and performance of company. Quality of audit is measured based on the size of audit firms (DeAngelo 1981; Becker et al. 1998). The Big 4 represents high quality audit services and is coded 1. The non-Big 4 represents low quality audit services and is coded 0. Leverage is measured by the debt to total asset ratio (Mueller & Becker III 1997; Daily 1995). The size of the company is measured by the natural logarithm of the total assets of the company (Coles et al. 2001; Mohd-Mohid et al. 2004). Performance is determined using return on assets. The operationalization of the variables is summarized in Table 1.

TABLE 1. Operationalization of variables

Variables	Operationalization
Dependent variable	
• Financial distress	1 = Re-listed on Bursa Malaysia 2 = Remain as PN17 companies 3 = De-listed from Bursa Malaysia (Roslina 2008)
Independent variables	
• Leadership Structure	0 = Separate leadership 1 = Joint leadership (Judge et al. 2003; Dehaene et al. 2001)
• Financial literacy	Accounting and financial knowledge component: 1 = Directors with education in accounting and finance but not members of MIA. 2 = Directors with experience in financial sector. 3 = Directors who are members of MIA. Experience component: 1 = Directors with ≤ 10 years. 2 = Directors with > 10 years and ≤ 20 years. 3 = Directors with > 20 years and ≤ 30 years. 4 = Directors with > 30 years. Financial literacy = (Score of knowledge + Score of experience) / Possible maximum score for all board members (Collier 1993; Ruzaidah & Takiah 2004; Nor Haizah et al. 2006; Mohd-Mohid et al. 2004).
• Multiple Directorships	Total number of outside directorship positions of all board members / Number of board members (Shivdasami 1993; Song & Windram 2000; Ruzaidah & Takiah 2004).
• Involvement	Total number of board meetings for the year (Menon & Williams 1994; Ruzaidah & Takiah 2004; Vafeas 1999; Mohd-Mohid et al. 2004)
• Equity Ownership	Number of shares owned directly and indirectly by the board members (Joh 2003; Mohd-Mohid et al. 2004)
Control variables	
• Quality of audit	Size of audit firms (DeAngelo 1981; Becker et al. 1998) 0 = Non-Big 4. 1 = Big 4.
• Size of company	Natural logarithm of company's total assets (Coles et al. 2001; Mohd-Mohid et al. 2004).

SAMPLE

The sample consists of 68 companies classified as PN17 since the enforcement of the requirement in 2005. One company in the finance industry is excluded from the sample due to differences in the regulatory specifications governing the industry that may impact their corporate governance practices. Consistent with Zeghal and Ahmed (1990), this study obtains data on the characteristics of the BODs from the annual reports of the companies. Table 2 presents the selection and distribution of sample in relation to the re-listing status of the companies.

TABLE 2. Sample of the study

Items	No. of Companies	
Companies classified as PN17 in 2005 to 2009	86	
Less:		
• Companies without annual reports in its first year as PN17	(13)	
• A company in the finance industry	(1)	
Final sample –	68	
Segregated into 3 groups based status of PN17 companies	Number	Percentage
• Remain as PN17	9	13.2%
• De-listed from Bursa Malaysia	47	69.1%
• Re-listed on Bursa Malaysia	12	17.7%

The study divides the 68 PN17 companies into three groups according to their progress in complying with the Bursa Malaysia Listing Requirements during the period of 2005 to 2011. As reported in Table 2, 17.7 percent of PN17 companies are successfully re-listed to the respective industry on Bursa Malaysia. The remaining 13.2 percent of companies have not made enough progress and accordingly remain as PN17 companies. The majority of the companies (69.1%) obviously fail to make the required progress and subsequently get de-listed from the stock exchange.

RESULTS

DESCRIPTIVE STATISTICS

Table 3 presents the descriptive statistics of all variables in this study. For the purposes of comparison, the descriptive statistics are segregated by the categories of PN17: re-listed; remain as PN17; and de-listed. The table shows that more de-listed PN17 companies practice CEO duality i.e., .38) than those companies that remain as PN17 (i.e., .22) or are subsequently re-listed on the Bursa Malaysia (i.e., .25). About 32 percent of the board members of de-listed PN17 companies are financially literate, while 37 percent of board members in companies remaining as PN17 are financially literate and 28 percent of the board members of re-listed companies are financially literate. Table 3 also shows that board members hold, on average, .93 outside directorship positions for de-listed PN17 companies; .82 for those companies remaining as PN17; and 1.16 for the re-listed PN17 companies. In terms of the level of involvement of board members, de-listed PN17 companies hold 5.32 meetings a year as opposed to 6.22 meetings for those companies remaining as PN17 and 7.17 meetings for the re-listed PN17 companies. The results indicate that the equity ownership of board members differs between the three categories of PN17 (i.e., 17% for de-listed PN17 companies, 26% for those remaining as PN17 companies, and 11% for the re-listed PN17 companies).

TABLE 3. Descriptive statistics

Category	Variables	Min	Max	Mean	Skewness	Kurtosis
De-listed (N = 47)	CEODUAL	0.00	1.00	0.38	0.50	-1.83
	FINLIT	0.00	0.68	0.32	0.18	-0.62
	MULTIDIR	0.00	3.80	0.93	1.42	1.54
	INVOLVE	2.00	16.00	5.32	3.19	11.82
	EQTYOWN	0.00	0.59	0.17	0.81	-0.57
	BIG4	0.00	1.00	0.45	0.22	-2.04
	LEV	-21.59	47.15	2.91	1.45	4.05
	FIRMSIZE	13.99	21.96	18.81	-0.54	1.20
	ROA	-5.47	0.24	-0.60	-3.14	10.26
Remain as PN17 (N = 9)	CEODUAL	0.00	1.00	0.22	1.62	0.73
	FINLIT	0.19	0.76	0.37	0.95	-0.21
	MULTIDIR	0.00	3.00	0.82	1.66	3.32
	INVOLVE	4.00	16.00	6.22	2.63	7.27
	EQTYOWN	0.00	0.54	0.26	0.01	0.09
	BIG4	0.00	1.00	0.33	0.86	-1.71
	LEV	-1.16	15.07	5.44	0.75	-1.45
	FIRMSIZE	17.30	19.70	18.46	0.25	-1.51
	ROA	-3.02	0.05	-0.42	-2.90	8.52
Re-listed (N = 12)	CEODUAL	0.00	1.00	0.25	1.33	-0.33
	FINLIT	0.11	0.74	0.28	2.00	4.94
	MULTIDIR	0.00	3.17	1.16	0.54	-0.92
	INVOLVE	4.00	11.00	7.17	0.36	-1.03
	EQTYOWN	0.00	0.35	0.11	1.10	-0.57
	BIG4	0.00	1.00	0.50	0.00	-2.44
	LEV	-15.87	29.07	2.92	1.15	4.67
	FIRMSIZE	17.11	21.90	18.88	0.56	-1.39
	ROA	-0.46	0.36	-0.08	0.38	2.29
All PN17 companies (N = 68)	CEODUAL	0.00	1.00	0.34	0.70	-1.56
	FINLIT	0.00	0.76	0.32	0.60	-0.08
	MULTIDIR	0.00	3.80	0.96	1.19	0.69
	INVOLVE	2.00	16.00	5.76	2.45	6.78
	EQTYOWN	0.00	0.59	0.17	0.73	-0.65
	BIG4	0.00	1.00	0.44	0.24	-2.00
	LEV	-21.59	47.15	3.25	1.37	4.31
	FIRMSIZE	13.99	21.96	18.78	-0.19	0.64
	ROA	-5.47	0.36	-0.49	-3.41	12.46

Notes: CEODUAL = Leadership structure, FINLIT = Financial literacy, MULTIDIR = Multiple directorships, INVOLVE = Involvement of board of directors, EQTYOWN = Equity ownership of board of directors, BIG4 = Audit quality, LEV = Leverage, FIRMSIZE = Size of companies, and ROA = Performance of company

TEST OF DATA

A test of normality is carried out to see whether data is normally distributed before performing parametric statistics (Coakes & Steed 2001). Based on the low values of skewness and kurtosis in Table 3, the data is normally distributed. The results of multi-collinearity tests in Table 4 demonstrate coefficients of correlation between independent variables ranging between 0.238 and 0.439. This indicates that multi-collinearity may not be a problem in this study. Multi-collinearity problems should be a concern only if the value of correlation exceeds 0.80 (Cooper & Schindler 2001) or 0.90 (Tabachnick & Fidell 2001).

TABLE 4. Correlation coefficient between variables

	1	2	3	4	5	6	7	8	9
1. CEODUAL	1.000								
2. FINLIT	-.093	1.000							
3. MULTIDIR	.024	.300	1.000						
4. INVOLVE	-.109	-.034	.015	1.000					
5. EQTYOWN	-.039	-.170	-.095	-.139	1.000				
6. BIG4	.053	.077	.257	-.126	.068	1.000			
7. LEV	.063	-.050	.175	-.035	-.049	.250	1.000		
8. FIRMSIZE	-.132	-.059	.282	.012	.216	.121	.254	1.000	
9. ROA	-.143	-.083	.147	-.238	.156	.177	.439	.309	1.000

RESULTS OF HYPOTHESIS TESTING

Using the multinomial logistic regression, the study finds that three independent variables are significantly related to the re-listing of PN17 companies: financial literacy, equity ownership and the level of involvement of the board. The remaining two independent variables, CEO duality and multiple directorships, have no significant relationships with the re-listing of PN17 companies. Table 5 summarizes the results. The table provides the natural log odds ratios from the multinomial logistic regression model. Panel A of Table 5 reports natural log odds ratios that demonstrate the likelihood of PN17 companies to be de-listed sooner than re-listed on Bursa Malaysia. The result indicates that the likelihood of PN17 companies being de-listed, instead of re-listed, has positive significant relationships with financial literacy (FINLIT) and equity ownership (EQTYOWN), both at $p < .05$. The result suggests that the more board members who are financially literate, the higher the likelihood that the PN17 companies get de-listed from Bursa Malaysia. Similarly, the likelihood of PN17 companies to be delisted is higher when the board members have greater shareholdings. The results, however, show that the delisting of PN17 companies has a significant negative relationship with level of involvement of the BOD (INVOLVE) at $p < .01$. The result indicates that PN17 companies are more likely to be re-listed when BOD members are more involved in dealing with the company financial problems by holding more frequent meetings.

Panel B of Table 5 reports natural log odds ratios that show the likelihood of the companies to remain as PN17 instead of being re-listed. The result shows that the likelihood of companies to remain as PN17 companies, instead of being re-listed, has positive significant relationships with financial literacy (FINLIT) and equity ownership (EQTYOWN), at $p < .01$. The results indicate that PN17 companies are more likely to remain as PN17 companies, instead of being re-listed, when more board members are financially literate or when they hold more equity in the companies. The result also shows that companies with the likelihood to remain as PN17 companies have negative significant relationships with the level of involvement of the BOD (INVOLVE) at $p < .10$. The result indicates that a high involvement of board members of PN17 companies helps the companies get re-listed on Bursa Malaysia.

The results discussed above do not provide support for hypotheses H2 and H5. H2 hypothesizes a positive significant relationship between the financial literacy of BOD and the re-listing of PN17 companies. On the contrary, the results show the significant relationship between financial literacy of BOD and the re-listing of a PN17 company is in the opposite direction. Similarly, H5 hypothesizes a significant positive relationship between the equity ownership of the board and re-listing of PN17 companies. The study finds the significant relationship in the direction opposite to the hypothesis. This study finds that the higher equity ownership of board members is associated with less likelihood for a PN17 company to be successfully re-listed. These results suggest that companies whose board members own larger equities are more likely to be delisted or remain as PN17.

The study finds evidence that supports hypothesis H4, which suggests a significant positive relationship between involvement of board directors and re-listing of PN17 companies. The results indicate that the involvement of board members of PN17 companies helps re-list the companies on Bursa Malaysia, instead of de-list or remain

TABLE 5. Results of multinomial logistic regression on listing status of PN17

Variables	β(Ln of odds ratio)	SE	p-value
Panel A: Delisted *vs* Re-Listed			
Intercept	-6.037	6.815	0.376
CEODUAL	0.873	1.010	0.388
FINLIT	0.076**	0.037	0.043
MULTIDIR	-0.144	0.513	0.779
INVOLVE	-0.571***	0.199	0.004
EQTYOWN	0.093**	0.043	0.032
BIG4	-0.722	1.011	0.475
LEV	0.096	0.061	0.115
FIRMSIZE	0.318	0.347	0.359
ROA	-0.095***	0.036	0.009
Panel B: Remain PN17 *vs* Re-Listed			
Intercept	8.437	10.178	0.407
CEODUAL	-0.485	1.527	0.751
FINLIT	0.122***	0.045	0.007
MULTIDIR	-0.208	0.757	0.784
INVOLVE	-0.425*	0.228	0.063
EQTYOWN	0.166***	0.051	0.001
BIG4	-2.803	1.521	0.065
LEV	0.205***	0.080	0.01
FIRMSIZE	-0.707	0.574	0.218
ROA	-0.088***	0.037	0.017
Pseudo R-Squared			
Cox and Snell	0.448		
Nagelkerke	0.554		

Notes: *significant level at 10%, ** significant level at 5%, *** significant level at 1%

as PN17 status. For two other independent variables, leader structure (CEODUAL) and multiple directorships (MULTIDIR), the results in Table 5 show no significant relationships with the re-listing of PN17 companies. Thus, H1 and H3 are not supported.

With regard to the control variables, the results in Table 5 show that only company performance has a significant negative relationship with both the likelihood of a PN17 company being de-listed, instead of re-listed (at $p < .01$), and remaining as a PN17 company instead of being re-listed (at $p < .05$). The result suggests that PN17 companies with poorer performance are very likely to be de-listed, instead of being re-listed or remaining as PN17 companies. This finding is consistent with the argument that stronger companies have more resources to be potentially used in the recovery plan of the company. Three other control variables (i.e., audit quality, leverage, and size of companies) show no significant relationships with the re-listing of PN17 companies.

DISCUSSIONS

The results suggest that the financial literacy of the BOD does not play a significant role in getting the PN17 companies re-listed on Bursa Malaysia. PN17 companies with a higher proportion of financially literate board members are more likely to be either de-listed from Bursa Malaysia or remain as PN17 companies. The results imply that the financial literacy of the board members is not likely to help PN17 companies overcome financial problems. The results contradict some previous studies (e.g., Cheo et al. 2003; Lee et al. 1999; Rosenstein & Wyatt 1990), which indicate that the appointment of directors with expertise in accounting and finance significantly increases the financial performance of companies. However, the finding of this study is consistent with that of Mohd-Mohid et al. (2004), which suggests no significant difference in the financial literacy of members of BOD of companies with financial difficulties as opposed to those without financial difficulties. The insignificant results of this study support the argument that the appointment of BOD members with financial literacy is a legal requirement which must be complied with, irrespective of whether or not the re-listing of a PN17 company has been successful. Hence, the presence of financially literate board members does not reflect the company's capability to improve performance, but merely represents a fulfillment of the regulatory requirements for listing purposes. In the situation of financial distress, expertise in areas other than finance and accounting may also be needed in developing and executing the plans to revive the PN17 companies.

Similarly, the equity ownership of board members does not seem to contribute towards offering solutions to the financial difficulties on PN17 companies. This finding contradicts the alignment effect of the agency theory, which suggests that a higher equity ownership keeps the interests of managers and shareholders more aligned (Jensen & Meckling 1983). The critical role demonstrated in equity ownership is inconsistent with other previous studies, such as Joh (2003), Coles et al. (2001) and Daily (1995, and Tosi et al. (2003) which agree that corporate governance crisis can be addressed by bringing in shareholders or stakeholders with a direct interest to be in the board. The contradictory results in this study may be due to the entrenchment effect, whereby the board members controlling a large component of shares in the company may expropriate the company's wealth or invest in less profitable activities at the expense of the minority shareholders. This argument is not in line with the notion on the gap between the management and stakeholders, where the conflict of interest can be reduced through the appointment of managers among shareholders or by increasing the shareholding of the board members.

However, the results show that the level of involvement by BOD members is necessary to turn around the PN17 companies and get them re-listed on Bursa Malaysia. The likelihood of PN17 companies being re-listed, instead of being de-listed or remaining as PN17 companies, increases as the frequency of board meetings increases. The involvement of the BOD through frequent meetings expedites the recovery process. More frequent BOD meetings allow the directors to address issues quickly; offer valuable inputs for the preparation of plan before giving consent to submit the plan to the Securities Commission; and address issues arising when executing the plan. Timely decision making and plan execution are crucial because PN17 companies are given a certain period of time to recover from their financial difficulties and submit re-listing assessments to the Securities Commission. The results of this study are consistent with Vafeas (1999), who finds that the company achievement increases significantly with the increase in the number of board meetings.

This study finds that leadership structure (CEODUAL) does not have a significant relationship with re-listing of PN17 companies. This finding is inconsistent with Muller and Baker III (1997), who claim that a joint leadership structure enables decisions be made as quickly as possible to remedy the situation.

This study also finds no significant relationships between re-listing of PN17 companies and multiple directorships (MULTIDIR). The result is not consistent with the notion that directors with multiple directorships are very useful for companies in enhancing performance because of their industry networking and exposures. Overall, an active involvement of board members is most important for developing the strategic plan, regardless of the company leadership structure. Also, even though members of BOD who are more experienced and financially literate may be invited to become directors of other companies (Mace 1986), it is their serious commitment and involvement that are most important in ensuring the success of PN17 companies in recovering from financial distress.

CONCLUSIONS

This study examines whether BODs play significant roles in turning around PN17 companies and regain their listing status on Bursa Malaysia. The effort of re-listing a PN17 company is a challenge, particularly to the BOD, because, as specified in the codes of good corporate governance, the BOD is expected to help companies recover from the financial distress. In this study, the ability of the BOD to recover the listing status of PN17 companies represents its effectiveness.

This study identifies and tests 5 characteristics of BOD which are deemed to represent good corporate governance practices. These characteristics are leadership structure, financial literacy, multiple directorships, level of involvement, and the equity ownership of the BOD. Information on the 5 characteristics of the PN17 companies from 2005 to 2009 is collected and set as pooled data.

Highly experienced and committed individuals are argued to strengthen the corporate governance and to ensure a better future for the company. The enhancement of the knowledge, experience and exposure of the board members to the sources of influence and business networking gained through multiple directorships are expected to be important for the PN17 companies in finding ways to resolve their financial problems (Mace 1986; Kaplan & Reishus 1990). This study, however, finds that the level of involvement of the BOD is the most important characteristic in efforts to recover the PN17 companies from the financial distress and help them get the re-listing status. Contrary to the prediction, both the financial literacy and the equity ownership of the BOD members seem to significantly contribute to companies' failure to get re-listed. In brief, BOD members can be highly qualified and own a substantial interest in the PN17 companies, but it is their commitment to be actively and directly involved in the restructuring process that makes the difference. As expected, PN17 companies that manage to report profitability are also more likely to get re-listed on Bursa Malaysia. Overall, the results suggest that particular attention must be given to the importance of the personality of the BOD members. Companies need directors who are committed to the company to ensure the sustainability of the company.

The use of financially distressed companies (i.e., PN17 status) poses at least one limitation in term of the generalizability of the results. In order to address this limitation, future studies should include non-distressed companies (i.e., non-PN17 status) in the sample. By including non-distressed or healthy companies, future studies can re-examine whether or not the same BOD characteristics are significant in contributing toward better performance. Such studies can address whether or not the relationships between the BOD characteristics and performance remain significant in the absence of enforcement pressure from the regulator, i.e., risk of getting de-listed from Bursa Malaysia.

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