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Board of Directors' Tenure and Firm Performance: Evidence from Malaysia
(Tempoh Pengarah Lembaga dan Prestasi Firma: Bukti dari Malaysia)

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ABSTRACT

Considering the prevalence of government-linked and family-owned firms in Malaysia, as well as recent financial scandals, understanding how board directors' tenure affects firm governance and performance is crucial. Therefore, this paper examined the impact of director tenure on firm performance in Malaysia, focusing on four types of directors: chairman, executive director, independent director, and affiliated director. Drawing on Agency Theory and Resource Dependence Theory, we analyzed data from the top 300 non-financial firms listed on the Main Board of Bursa Malaysia from 2017 to 2019, using ROE, ROA, and Tobin's Q as indicators of performance. Our findings show a significant positive association between chairman tenure and all three firm performance measures. In contrast, the tenure of independent and affiliated directors is negatively associated with Tobin's Q, while executive directors' tenure is not statistically significant for any performance measure. These findings highlight the varying effects of director tenure on governance and firm outcomes. This study offers important insights for academics, policymakers, and practitioners, particularly regarding the need for regulatory reforms. We recommend that regulators, such as Bursa Malaysia and Securities Commission Malaysia, reassess and tighten the definitions and tenure limits for independent and affiliated directors to strengthen board independence and enhance governance quality.

Keywords: Directors' tenure; firm performance; chairman; executive directors; independent directors; affiliated directors.

ABSTRAK

Memandangkan kelaziman firma pautan kerajaan dan firma milik keluarga di Malaysia, serta skandal kewangan baru-baru ini, pemahaman tentang bagaimana tempoh perkhidmatan pengarah lembaga mempengaruhi tadbir urus dan prestasi firma adalah mustahak. Oleh itu, kajian ini meneliti kesan tempoh perkhidmatan pengarah terhadap prestasi firma di Malaysia, dengan bertumpu pada empat jenis pengarah: pengerusi, pengarah eksekutif, pengarah bebas, dan pengarah bersekutu. Berpandukan Teori Agensi dan Teori Pergantungan Sumber, data daripada 300 firma bukan kewangan yang tersenarai di Papan Utama Bursa Malaysia bagi tempoh 2017 hingga 2019 telah dianalisis, menggunakan ROE, ROA, dan Tobin's Q sebagai indikator prestasi. Dapatan kajian menunjukkan hubungan positif yang signifikan antara tempoh pengerusi dengan ketiga-tiga ukuran prestasi firma. Sebaliknya, tempoh pengarah bebas dan pengarah bersekutu menunjukkan hubungan negatif dengan Tobin's Q, manakala tempoh pengarah eksekutif tidak menunjukkan hubungan yang signifikan dengan mana-mana ukuran prestasi. Penemuan ini menyerlahkan kesan berbeza tempoh perkhidmatan pengarah terhadap tadbir urus dan hasil firma. Kajian ini menawarkan pandangan yang penting kepada ahli akademik, pembuat dasar, dan pengamal industri, khususnya berkenaan keperluan reformasi peraturan. Kami mencadangkan agar pihak berkuasa seperti Bursa Malaysia dan Suruhanjaya Sekuriti Malaysia menilai semula dan mengetatkan definisi serta had tempoh perkhidmatan bagi pengarah bebas dan bersekutu bagi memperkukuh kebebasan lembaga dan meningkatkan kualiti tadbir urus.

Kata kunci: Tempoh pengarah; prestasi firma; pengerusi; pengarah eksekutif; pengarah bebas; pengarah bersekutu.

INTRODUCTION

The phrases *director tenure*, *board refreshment*, and *board entrenchment* have become central to corporate governance discussions, particularly in light of statistics showing that 46% of independent directors in Malaysian listed firms serve lengthy tenures—some exceeding two decades (Kang 2021; Libit & Freier 2015; Huang & Hilary 2018; Wertheim et al. 2016). Concurrently, high-profile corporate scandals involving Malaysian Airline System Berhad (MAS), MEMS Technology Berhad (MEMS), and Transmile Group Berhad (Transmile) highlight governance failures linked to entrenched directors, emphasizing the need to balance board experience with board independence (SCM 2011; Yim 2019; Timothy Achariam 2021). This phenomenon motivated the objective of this study: to examine the link between corporate board directors' tenure and firm performance in Malaysia.

The Malaysian Code of Corporate Governance (MCCG), established by the Securities Commission Malaysia (SCM), was developed to strengthen governance standards across the country's capital market. Malaysian companies predominantly operate under a one-tier board system that brings together executive and non-executive directors within a unified decision-making body (Chandren et al. 2021). The MCCG 2000 and its 2007 revision recommended that at least one-third of the board be composed of independent directors—a guideline supported by evidence linking board independence to improved firm performance (Johl et al. 2015; Mura 2007). Subsequently, the MCCG 2017 introduced a nine-year tenure cap for independent directors, while the 2021 update allows those who exceed this limit to continue as affiliated directors (SCM 2021). The MCCG 2017 also mandates that the roles of chairman and CEO be held by separate individuals and addresses concerns over short chair tenures (Chandren et al. 2021). While longer director tenures can support governance continuity, they also raise entrenchment risks and conflicts of interest (Vafeas 2003; Liew et al. 2017). These considerations underscore the need to empirically assess how the tenures of different types of board directors influence firm performance in Malaysia. Accordingly, we developed the following research question: *How does the tenure of chairmen, executive directors, independent directors, and affiliated directors influence firm performance?*

Institutional investors generally advocate for board renewal mechanisms, such as tenure and age limits, to enhance board effectiveness and diversity. Nevertheless, empirical studies continue to yield mixed results on the effects of extended director tenure (Essenmacher 2023). Proponents argue that long-serving directors contribute valuable industry experience and demonstrate greater commitment to board responsibilities (Wertheim et al. 2016; Bonini et al. 2022; Dou et al. 2015). In contrast, critics contend that extended tenure may lead to director entrenchment and weaken their alignment with shareholder interests (Clements et al. 2018; Kim et al. 2023). The absence of consensus on an optimal tenure period reflects the ongoing challenge of balancing board expertise with independence (Elms & Pugliese 2023; James & Wang 2021). Furthermore, much of the existing literature has been narrow in scope, concentrating only on independent directors while neglecting the various roles and individual differences among other board members (Dalton & Dalton 2011; Johnson et al. 2013). We address this gap by leveraging insights from Agency Theory and Resource Dependence Theory to examine how the tenure of chairmen, executive directors, independent directors, and affiliated directors influences firm performance in Malaysia, particularly in terms of monitoring and advisory capacities.

Our findings reveal that long-tenured chairmen positively influence firm performance, while long tenures of independent and affiliated directors are generally associated with adverse performance outcomes. On the other hand, the influence of long-serving executive directors is positive but statistically insignificant. These results imply that it is imperative for Malaysian regulators and policymakers to revisit and refine board director tenure policies under the MCCG, with a focus on differentiated guidelines tailored to specific director roles. Lastly, this study uncovers a potential loophole in Bursa Malaysia's definition of independent directors: reclassification of directors can be used to bypass tenure limits. This raises concerns about tenure reset practices and their implications for board effectiveness in achieving performance goals.

LITERATURE REVIEW

This study utilized Agency Theory as its primary theoretical foundation, complemented by Resource Dependence Theory, to examine the relationship between director tenure and firm performance. According to Agency Theory, the board's duty involves monitoring management to reduce tensions and conflicts of interest between company owners and managers. This is typically achieved through board independence, board size, and board tenure (Fama & Jensen 1983; Livnat et al. 2021; Kamardin et al. 2014; Iskandar et al. 2017; Iskandar et al. 2012). On the other hand, Resource Dependence Theory emphasizes the board's strategic role in accessing external networks, acquiring resources, and providing specialized advice and guidance (Pfeffer & Salancik 1978; Joh & Jung 2018; Hillman et al. 2000). Both theories are instrumental in strengthening corporate governance and shaping firm performance (Al-Absy 2020), thus laying a suitable foundation for examining the association between different directors' tenure (i.e., chairmen, executive directors, independent directors, and affiliated directors) and firm performance in Malaysia.

The chairman of the board occupies a key leadership position on Malaysian corporate boards, which also comprise executive directors, independent directors, and affiliated directors. While global and Malaysian regulatory frameworks impose tenure limits on independent directors, comparatively less attention has been given to chairman tenure (Withers & Fitza 2017). The MCCG underscores the importance of board independence, recommending that large companies maintain a board composition in which independent directors constitute the majority, exceeding 50% of total board membership (Al-Absy 2020). Nevertheless, appointing an independent chairman remains optional under the MCCG.

Prior research has yielded inconsistent findings on the impact of chairman tenure on firm outcomes (Waelchli & Zeller 2013; Al-Matari 2022; Chandren et al. 2021; Livnat et al. 2021). Chandren et al. (2021) found that long-tenured chairmen can negatively impact firm performance due to over-alignment with management, while Waelchli and Zeller (2013) observed no conclusive link. Based on Resource Dependence Theory, however, longer-tenured chairmen would possess superior expertise, a deeper understanding of the business, and greater commitment to achieving corporate objectives (Hossain & Oon 2022; Vafeas 2003; Zahra 1996). Consequently, empirical studies suggest that extended chairman tenure is associated with enhanced firm performance and higher market valuation (Al-Matari 2022; Livnat et al. 2021). Taken together, our first hypothesis is as follows:

H_1 Chairman tenure is positively related to firm performance.

Executive directors are board members who hold senior management positions and contribute to corporate governance through their expertise and oversight within a company (Masulis & Mobbs 2011; Fama & Jensen 1983). While non-executive directors dominate most boards, executive directors—excluding the CEO—constitute only about 9% of board members (Cavaco et al. 2017). Consequently, studies examining the impact of executive directors' tenure on firm performance remain relatively scarce despite this cohort's importance. Long-tenured executive directors may contribute positively to firm outcomes due to their in-depth knowledge of organizational processes, which enhances decision-making quality (Masulis & Mobbs 2011). Their tenure can also strengthen stakeholder relationships and align managerial actions with shareholder interests. However, concerns persist regarding their independence, as executive directors rely on the CEO for compensation and career advancement, potentially compromising their ability to critically assess management decisions (Masulis & Mobbs 2011; Fee & Hadlock 2004; Helmich 1974). Over time, they may become overly aligned with the CEO, threatening board effectiveness in monitoring and governance (Masulis & Mobbs 2011).

Research on executive directors' tenure thus yields mixed findings. Some studies suggest that long-serving executive directors heighten financial performance by fostering stability, strategic risk-taking, and stakeholder trust (Zhang 2008; Simsek 2007; Brockmann & Anthony 2002; Simsek et al. 2005; Gulati & Westphal 1999). Others caution that executive directors become susceptible to entrenchment and resistance to change over time, negatively impacting firm performance (Leonard-Barton 1992; McClelland et al. 2012; Henderson et al. 2006). Prior studies even suggest a U-shaped relationship, where firm performance initially improves with executive directors' tenure but deteriorates beyond a certain threshold (Brochet et al. 2021; Miller 1991). Referring to Resource Dependence Theory, executive directors are able to leverage their established stakeholder networks and operational knowledge, leading this study to hypothesize that long-tenured executive directors enhance firm performance. Our second hypothesis is as follows:

H_2 The tenure of executive directors is positively related to firm performance.

Independent directors are regarded in Agency Theory as the most effective supervisors of management (Hillman & Dalziel 2003; Jensen & Meckling 1976; Fama & Jensen 1983). They are sources of specialized knowledge, valuable networks, and impartiality, thereby mitigating opportunistic behaviours (Joh & Jung 2018; Ahmad et al. 2015; Fama & Jensen 1983) while reinforcing corporate governance and strategic decision-making (Reguera-Alvarado & Bravo 2017; Ishak & Yusof 2015). From this perspective, longer tenure allows independent directors to gain deeper knowledge of the firm, which minimizes information asymmetry and improves oversight (Vafeas 2003; Beasley 1996).

Nonetheless, there are mixed findings on the impact of long-tenured independent directors (James & Wang 2021). On the one hand, empirical studies suggest that independent directors with extended tenure develop stronger advisory and oversight capabilities, enabling them to contribute to better financial performance, fewer corporate scandals, and lower CEO compensation (Dou et al. 2015; Bonini et al. 2017; Patro et al. 2018). On the other hand, some research indicates potential negative consequences of their long tenure (Clements et al. 2018; Niu & Berberich 2015; Kim et al. 2023). Over time, independent directors may become less effective in challenging existing practices and policies and may form overly amicable relationships with management, which could compromise their independence (Wertheim et al. 2016; Clements et al. 2018; Gao & Huang 2023). This risk is particularly pronounced in developing economies characterized by concentrated ownership and family-controlled firms, where major shareholders often influence the selection of independent directors (Kim et al. 2023; Kamardin et al. 2014; Iskandar et al. 2017). In Malaysia, empirical studies have found a negative association between independent directors' tenure and firm outcomes (Liew et al. 2017), leading to the third hypothesis:

H_3 The tenure of independent directors is negatively related to firm performance.

Affiliated directors, also referred to as "grey directors" (Yermack 1996) or "non-independent non-executive directors" (Ameer et al. 2010), are typically individuals who have previously held the roles of chairman, CEO, executive director, or other within a firm or its affiliates. Despite their potential strategic importance, the literature examining the performance implications of affiliated director tenure is relatively sparse (Joh & Jung 2017; Hossain & Oon 2022). These directors can contribute valuable resources by leveraging their specialized knowledge for business strategy (Westphal 1999) and facilitating strategic integration through their network connections (Hillman & Dalziel 2003; Carpenter & Westphal 2001; Cavaco et al. 2017). However, their resource-provision role may at times clash with their duty to monitor management (Clements et al. 2018; Hossain & Oon 2022). Rooted in Agency Theory, close business or personal ties to the firm may compromise affiliated directors' impartiality and oversight effectiveness, leading them to prioritize management's interests over those of shareholders (Chou et al. 2018; Kim et al. 2023; Niu & Berberich 2015). This susceptibility to managerial influence increases the likelihood of conflicts of interest, inflated CEO salary, and fraudulent activities, which ultimately manifest as poor firm performance (Joh & Jung 2018; Baysinger & Butler 1985; Beasley 1996). Correspondingly, empirical research indicates that long tenures may diminish affiliated directors' independence and effectiveness (Chou et al. 2018; Gao & Huang 2023; Wertheim et al. 2016; Clements et al. 2018), underpinning our fourth hypothesis:

H_4 The tenure of affiliated directors is negatively related to firm performance.

METHODOLOGY

This study adopted a quantitative methodology, utilizing a longitudinal dataset of the top 300 Malaysian public listed companies from Bursa Malaysia's Main Board. By exclusively analyzing Malaysian firms, we controlled for country-specific factors (Dalziel et al. 2011). Following similar studies (Kamal & Deegan 2011; Yatim & Yusoff 2014), companies were selected in accordance with market capitalization to ensure a representative sample of large and complex firms (Reguera-Alvarado & Bravo 2017). The observation period covered three years, from 2017 to 2019, deliberately excluding the years 2020 and 2021 due to COVID-19's impact on firms' financial stability (Khatib & Nour 2021). This 2017-2019 timeframe also aligns with revisions to the MCCG in 2017, as well as Bursa Malaysia's Listing Requirements regarding independent director tenure.

Data collection relied on secondary sources known for high-quality financial data, namely company annual reports and the OSIRIS database (Sur et al. 2013; Rao & Tilt 2016). Director tenure data was manually extracted from annual reports to ensure accuracy. Following Lanis et al. (2021), firms in the financial sector and those with incomplete data were excluded, yielding a final sample of 900 firm-year observations. OSIRIS 4-digit SIC codes were mapped to Fama-French (FF) industry classifications to achieve comprehensive industry representation (Samudhram et al. 2014). The sample was distributed across 40 Fama-French industry categories, with no single industry dominating the dataset (see Table 1).

TABLE 1. FAMA french industry specifications

FF Codes	FF Groups	Firms	%
1	Agriculture	17	5.670
2	Food Products	13	4.330
3	Candy & Soda	5	1.670
4	Beer & Liquor	2	0.670
5	Tobacco Products	1	0.330
7	Entertainment	2	0.670
8	Printing and Publishing	1	0.330
9	Consumer Goods	8	2.670
10	Apparel	1	0.330
11	Healthcare	3	1.000
13	Pharmaceutical Products	7	2.330
14	Chemicals	5	1.670
15	Rubber and Plastic Products	9	3.000
16	Textiles	2	0.670
17	Construction Materials	19	6.330
18	Construction	26	8.670
19	Steel Works Etc	10	3.330
20	Fabricated Products	1	0.330
21	Machinery	9	3.000
23	Automobiles and Trucks	4	1.330
25	Shipbuilding, Railroad Equipment	1	0.330
28	Non-Metallic and Industrial Metal Mining	1	0.330
30	Petroleum and Natural Gas	9	3.000
31	Utilities	5	1.670
32	Communication	9	3.000
33	Personal Services	1	0.330
34	Business Services	14	4.670
35	Computers	2	0.670
36	Electronic Equipment	14	4.670
37	Measuring and Control Equipment	2	0.670
38	Business Supplies	8	2.670
39	Shipping Containers	3	1.000
40	Transportation	15	5.000
41	Wholesale	6	2.000
42	Retail	11	3.670
43	Restaurants, Hotels, Motels	7	2.330
45	Insurance	1	0.330
46	Real Estate	24	8.000
47	Trading	20	6.670
48	Other	2	0.670
Totals		300	100

This research utilized Pooled Ordinary Least Squares (OLS) regression, a widely accepted method for analyzing short-panel data (Karim et al. 2022; Liew et al. 2017; Baltagi et al. 2008). The Breusch-Pagan Lagrange Multiplier (LM) test ($p > 0.05$) showed no significant variance across firms, supporting the use of pooled OLS rather than the fixed effects model. Industry and year dummy variables were incorporated to control for temporal and sector-specific influences (Lindstaedt et al. 2011; Bermig & Frick 2010; Reguera-Alvarado 2017). All variables were winsorized at the 1st and 99th percentiles to mitigate the influence of outliers, and STATA software version 16 was used for all analyses.

The regression analysis was conducted using the following equations:

$$ROA_{it} = \beta_0 + \beta_1 ChairmanTenure_{it} + \beta_2 ExecutiveDirectorTenure_{it} + \beta_3 IndependentDirectorTenure_{it} + \beta_4 AffiliatedDirectorTenure_{it} + \beta_n Controls_{it} + \mu_{it} \quad (1)$$

$$ROE_{it} = \beta_0 + \beta_1 ChairmanTenure_{it} + \beta_2 ExecutiveDirectorTenure_{it} + \beta_3 IndependentDirectorTenure_{it} + \beta_4 AffiliatedDirectorTenure_{it} + \beta_n Controls_{it} + \mu_{it} \quad (2)$$

$$Q_{it} = \beta_0 + \beta_1 ChairmanTenure_{it} + \beta_2 ExecutiveDirectorTenure_{it} + \beta_3 IndependentDirectorTenure_{it} + \beta_4 AffiliatedDirectorTenure_{it} + \beta_n Controls_{it} + \mu_{it} \quad (3)$$

MEASUREMENT OF VARIABLES

This study tested firm performance as the dependent variable, encapsulating the importance of effective management practices (e.g., inventory control, cost management, liquidity, and sales growth) in sustaining competitiveness and operational success (Chandren et al. 2019). Prior studies emphasize that corporate governance mechanisms, particularly ownership structure and board composition, play a critical role in aligning management decisions with shareholder interests to attain high firm performance (Agyei-Mensah 2021; Al Farooque et al. 2019; Ongore 2011; Chandren et al. 2017). Firm performance can be evaluated using both market-based and accounting-based metrics (Bennouri et al. 2018; Nicholson & Kiel 2003; Liew et al. 2017; Bhagat & Black 2002). Market-based indicators, such as Tobin's Q, capture investor expectations of a firm's future value (Muth & Donaldson 1998; Nicholson & Kiel 2003). Conversely, accounting-based indicators, such as Return on Equity (ROE) and Return on Assets (ROA), use historical financial data to reflect firms' past profitability and operational efficiency (Bennouri et al. 2018). In line with established methodologies, this study adopted Tobin's Q, ROE, and ROA to thoroughly measure firm performance and ensure a balanced view that accounts for both internal financial outcomes and external market perceptions.

The independent variable in this study, i.e., director tenure, was measured as average tenure rather than individual tenure, aligning with the firm-level nature of the analysis. Average tenure also provides a coherent, interpretable measure of board experience within each director category per firm-year. While this method may overlook intra-board heterogeneity, it serves as a practical and widely accepted proxy that facilitates cross-firm comparisons. Following prior studies (Patro et al. 2018; Reguera-Alvarado & Bravo 2017; Liew et al. 2017; Kim et al. 2014), tenure was determined by subtracting the year a director commenced service from the current year and adding one to account for the start year (Patro et al. 2018). For instance, a director who joined in 2017 would have a tenure of three years by 2019. If no end date was stated for current board members, tenure was assumed to continue until 2019. Then, the average tenure for each director type was calculated for each firm-year and divided by the total number directors in each category (Kim et al. 2014). For example, if Firm A in 2017 had three independent directors with tenures of 11, eight, and six years, the average tenure would be 8.33 years. All tenure data were manually extracted from annual reports, along with relevant details such as director age, board membership status, and tenure end date.

Following past corporate governance studies, our analysis also controlled for several firm-level and board-level variables. At the firm level, the controls were firm size, leverage, and firm age (Karim et al. 2022; Liew et al. 2017). Firm size ensures normalization and accounts for operational scale, as larger firms typically possess more resources and market influence. Leverage addresses financial structure and debt reliance, which can signal both risk and return potential (Karim et al. 2022; Liew et al. 2017). Firm age captures the maturity and experience of a firm; older firms may benefit from market stability, whereas younger firms may be more dynamic but less stable (Hossain & Oon 2022). At the board level, control variables included board independence, director age, and board size (Karim et al. 2022; Liew et al. 2017; Patro et al. 2018). Board independence enhances governance effectiveness by providing unbiased oversight., with higher levels of independence linked to better firm performance (Ishak & Yusof 2015; Iskandar et al. 2017). Director age distinguishes between firm-specific knowledge gained through tenure and general expertise acquired over time, as age can influence decision-making styles and governance effectiveness (Kamardin et al. 2014; Iskandar et al. 2012). Finally, board size matters because larger boards may bring diverse expertise, but can also face coordination challenges (Karim et al. 2022; Patro et al. 2018).

Table 2 presents comprehensive definitions and computational methods for all variables, ensuring clarity, consistency, and reliability in measurement. This rigorous methodological approach strengthens the study's validity and facilitates a more nuanced analysis of the complex link between corporate governance and firm performance.

TABLE 2. Measurement of variables

Variable	Proxy	Measure	References
Panel A: Dependent variables			
Tobin's Q	Q_{it}	The sum of the book value of liabilities and the market value of equity divided by total assets	Karim et al. 2022; Bennouri et al. 2018
Return on assets (ROA)	ROA_{it}	Net income to total assets	Karim et al. 2022; Bennouri et al. 2018
Return on equity (ROE)	ROE_{it}	Net income to total equity	Bennouri et al. 2018
Panel B: Independent variables			
Chairman Tenure	$CTENURE_{it}$	The average number of years that the chairman spends on a specific board	Patro et al. 2018; Liew et al. 2017; Reguera-Alvarado & Bravo 2017
Executive Director Tenure	$ETENURE_{it}$	The average number of years that executive directors spend on a specific board	Patro et al. 2018; Liew et al. 2017; Reguera-Alvarado & Bravo 2017
Independent Director Tenure	$ITENURE_{it}$	The average number of years that independent directors spend on a specific board	Patro et al. 2018; Liew et al. 2017; Reguera-Alvarado & Bravo 2017

Affiliated Director Tenure	$ATENURE_{it}$	The average number of years that affiliated directors spend on a specific board	Patro et al. 2018; Liew et al. 2017; Reguera-Alvarado & Bravo 2017
Panel C: Control Variables			
Firm Size	$FSIZE_{it}$	Natural logarithm of total assets	Karim et al. 2022; Patro et al. 2018
Firm Age	$FAGE_{it}$	Number of years in corporation	Karim et al. 2022; Hossain & Oon 2022
Leverage	LEV_{it}	Total liabilities to total assets	Karim et al. 2022; Patro et al. 2018; Hossain & Oon 2022
Board Size	$BSIZE_{it}$	Total number of company's boards of directors	Karim et al. 2022; Patro et al. 2018
Board Independence	$BIND_{it}$	The proportion of independent directors to all board members	Karim et al. 2022; Patro et al. 2018
Director Age	$DAGE_{it}$	The average age of directors	Patro et al. 2018; Hossain & Oon 2022

RESULTS

DESCRIPTIVE STATISTICS AND CORRELATION ANALYSIS

The descriptive statistics based on 900 firm-year observations (see Table 3) indicate limited variation in returns, with mean values for ROA, ROE, and Tobin's Q at 0.06%, 0.11%, and 1.02%, respectively. The standard deviation values are relatively consistent around these means. Chairman tenure averages 9.67 years, aligning with corporate governance best practices. However, extreme cases of zero and 40 years highlight concerns over prolonged leadership and succession planning. Executive directors serve an average of 10.63 years, often with minimal board changes; in some cases, there is a complete absence of executive directors (Cavaco et al. 2017). Independent director tenure averages 7.99 years, generally adhering to regulatory limits; nonetheless, some cases exceed 20 years, raising concerns about independence. The sub-nine-year average suggests that most Malaysian listed companies comply with the Bursa Malaysia Main Board's requirements and the revised MCCG 2017 guidelines recommending a nine-year tenure cap for independent directors. Lastly, affiliated directors serve an average of 7.43 years, with some extending up to 34 years, potentially compromising their objectivity.

The control variables indicate an average board size of eight directors, consistent with governance recommendations (Jensen 1993; Haniffa & Hudaib 2006). Independent directors constitute 48% of boards, meeting MCCG 2007 standards (Al-Absy 2020), though some firms fall short. The average age of directors is 61.22 years, with the oldest recorded at 72. Although the statutory age limit for directors was 70 under the Companies Act 1965, this restriction was removed following the enactment of the Companies Act 2016, meaning there is no maximum age limit for directorship in Malaysia at present (Thien 2019). Firm-specific characteristics show a large average firm size of 12.91, consistent with the sample being the top 300 firms on the Bursa Malaysia Main Board. The average firm age is 29.07 years, balancing organizational experience with adaptability. The average leverage ratio is 40.6%, raising concerns of financial risk.

TABLE 3. Descriptive statistics

VARIABLES	(1) N	(2) Mean	(3) SD	(4) Min	(5) Max
ROA	882	0.061	0.077	-0.242	0.405
ROE	882	0.107	0.182	-0.537	1.478
Q	882	1.023	1.273	0.076	9.356
CTENURE	891	9.674	7.835	0.000	40.000
ETENURE	893	10.630	7.512	0.000	32.000
ITENURE	885	7.990	3.979	2.000	21.330
ATENURE	891	7.428	7.383	0.000	34.000
FSIZE	882	12.910	1.277	10.200	16.660
FAGE	884	29.070	17.490	4.000	99.000
LEV	882	0.406	0.180	0.065	0.868
BSIZE	885	7.995	1.907	5.000	13.000
BIND	891	0.480	0.114	0.250	0.833
DAGE	882	61.220	4.649	48.670	72.000

The correlation matrix in Table 4 reveals strong positive correlations among the firm performance measures. ROA and ROE show a correlation exceeding 0.7, while Tobin's Q exhibits moderate positive correlations with ROA (0.63) and ROE (0.57). Among the independent variables, chairman tenure, executive director tenure, independent director tenure, and affiliated director tenure all demonstrated intercorrelation values below 0.5. Regarding firm performance, chairman tenure has positive but insignificant correlations with ROA (0.047) and ROE (0.009), and a negative yet insignificant correlation with Tobin's Q (-0.012); this supports prior findings on experienced chairmen improving financial oversight. Executive director tenure has a significant negative correlation with Tobin's Q (-0.075) and ROE (-0.038), and an insignificant positive correlation with ROA (0.028), suggesting mixed effects over the short sample period. Independent director tenure demonstrates insignificant negative correlations with ROE (-0.022) and Tobin's Q (-0.03), but a small positive correlation with ROA (0.047), reflecting investor concerns over long-tenured independent directors. Finally, affiliated director tenure has negative correlations with all three performance indicators, yet only its correlation with Tobin's Q (-0.082) is significant, supporting the argument that long-tenured affiliated directors may compromise governance effectiveness.

TABLE 4. Correlation matrix

	ROA	ROE	Q	CTENURE	ETENURE	ITENURE	ATENURE	FSIZE	FAGE	LEV	BSIZE	BIND	DAGE
ROA	1.000												
ROE	0.837***	1.000											
Q	0.630***	0.572***	1.000										
CTENURE	0.047	0.009	-0.012	1.000									
ETENURE	0.028	-0.038	-0.075**	0.430***	1.000								
ITENURE	0.047	-0.022	-0.030	0.371***	0.402***	1.000							
ATENURE	-0.003	-0.007	-0.082**	0.307***	0.184***	0.233***	1.000						
FSIZE	-0.216***	-0.107***	-0.219***	0.024	-0.105***	-0.192***	-0.007	1.000					
FAGE	-0.038	0.009	-0.106***	0.220***	0.126***	0.139***	0.268***	0.178***	1.000				
LEV	-0.256***	0.046	-0.190***	-0.079**	-0.136***	-0.131***	-0.085**	0.328***	0.093***	1.000			
BSIZE	0.000	0.020	0.032	-0.008	-0.012	-0.077**	-0.008	0.294***	-0.042	0.082**	1.000		
BIND	-0.048	0.022	0.005	-0.044	-0.133***	-0.178***	-0.111***	0.160***	0.106***	0.110***	-0.193***	1.000	
DAGE	-0.081**	-0.041	-0.088***	0.296***	0.201***	0.233***	0.169***	0.188***	0.161***	0.017	0.007	0.165***	1.000
VIF				1.450	1.380	1.410	1.190	1.540	1.170	1.200	1.220	1.180	1.190

Among the control variables, firm age, leverage, and firm size generally show significant negative correlations with the firm performance indicators, as expected, though some correlations are statistically insignificant. Board size, board independence, and director age exhibit expected correlations as well. DAGE, in particular, shows significant negative correlations with ROA (-0.081) and Tobin's Q (-0.088), underscoring possible concerns about older directors' impact on firm performance.

We initially assessed multicollinearity using a correlation matrix, applying a 0.7 threshold to identify severe cases (Cooper & Schindler 2014). To further validate the findings, variance inflation factor (VIF) analysis was conducted to obtain more definitive results. As shown in Table 4, all VIF values are below 10 (Hair et al. 2010), confirming that multicollinearity is not a concern. Additionally, the un-tabulated Spearman's correlation matrix reinforced that the independent variables pose no multicollinearity issues. Heteroscedasticity was further assessed using the Breusch-Pagan test, which examines whether error variances are constant. A p-value below 0.05 indicates heteroscedasticity (Breusch & Pagan 1979). The unreported results of the Breusch-Pagan test confirmed its presence, suggesting potential issues with variance consistency in the dataset.

POOLED OLS REGRESSION RESULTS

A pooled OLS regression with robust standard errors was employed to address heteroscedasticity in examining the influence of director tenure on firm performance. As reported in Table 5, all models exhibit high R^2 values, indicating the model's robust explanatory power regarding firm performance. Notably, strong and statistically significant associations can be observed among the variables.

Consistent with Resource Dependence Theory and supporting H_1, chairman tenure demonstrates a significant positive effect across all three metrics of performance: ROA ($p < 0.05$) in Model 5, ROE ($p < 0.01$) in Model 10, and Tobin's Q ($p < 0.1$) in Model 15. These findings contrast with those of Chandren et al. (2021), who documented a negative effect of chairman tenure on Malaysian firms, but align with studies by Al-Matari (2022) and Koufopoulos et al. (2008). Long-serving chairmen are often perceived as experienced leaders with deep firm-specific knowledge and strategic oversight capabilities. Their extended tenure facilitates effective succession planning, board cohesion, and the implementation of long-term strategies (Withers & Fitza 2017). This contributes to improved internal performance (ROA and ROE) while also instilling confidence among market investors, as reflected in the positive association with Tobin's Q. Thus, we do not recommend the imposition of a nine-year maximum tenure limit for chairmen. Instead, the results support a board effectiveness benchmark of nine years for the chairman, with an average tenure of 9.67 years still yielding positive performance. This range aligns with prior research indicating performance benefits for up to 12 years of service (Reguera-Alvarado & Bravo 2017; Brochet et al. 2021).

The regression results also verify that executive director tenure has no significant impact on any firm performance metric, as all p-values exceed 0.1. Thus, H_2 is not supported. A similar finding was reported by Cavaco et al. (2017), who noted the relatively scarce presence of executive directors on boards. Some boards have remained unchanged for decades, and certain Malaysian firms lack executive directors altogether. Despite the lack of statistical significance, the positive coefficient for executive director tenure's impact on Tobin's Q suggests that investors may perceive long-serving executive directors favourably. As supported by Resource Dependence Theory, these directors may be recognized for their institutional knowledge and operational expertise, which are valuable for strategic decision-making.

Next, independent director tenure is significantly and negatively associated with Tobin's Q in Model 15 ($p < 0.05$), but exhibits an insignificant negative relationship with ROA and ROE. This partially supports H_3 and aligns with Agency Theory, which posits that while building experience, prolonged tenure may lead to entrenchment and diminish its benefits (Wertheim et al. 2016; Vafeas 2003). As mentioned earlier, the average independent director tenure of 7.99 years is within regulatory limits, but this finding reinforces concerns raised by prior Malaysian studies about the negative impact of independent director tenure on firm performance, particularly within concentrated ownership settings and family-controlled firms (Veltrop et al. 2018; Morck & Yeung 2003; Liew et al. 2017). Hence, our results support the rationale behind the nine-year tenure cap for independent directors, introduced by the MCCG 2017 and 2021 to safeguard board independence and governance quality.

TABLE 5. Pooled OLS regression models

VARIABLES	(1) ROA	(2) ROA	(3) ROA	(4) ROA	(5) ROA	(6) ROE	(7) ROE	(8) ROE	(9) ROE	(10) ROE	(11) Q	(12) Q	(13) Q	(14) Q	(15) Q
CTENURE	0.001*				0.001**	0.002**				0.002***	0.007				0.011*
	(1.950)				(2.110)	(2.560)				(2.650)	(1.530)				(1.940)
ETENURE		0.000			0.000		0.001			0.000		0.001			0.005
		(0.740)			(0.370)		(1.000)			(0.330)		(0.300)			(0.840)
ITENURE			-0.000		-0.001			-0.001		-0.003			-0.012		-0.018**
			(-0.430)		(-0.930)			(-0.870)		(-1.640)			(-1.440)		(-2.160)
ATENURE				-0.000	-0.000				0.000	-0.000				-0.012**	-0.015***
				(-0.620)	(-0.710)				(0.120)	(-0.040)				(-2.320)	(-2.620)
FSIZE	-0.009***	-0.009***	-0.008***	-0.008***	-0.009***	-0.014**	-0.014**	-0.014***	-0.013**	-0.016***	-0.142***	-0.141***	-0.135***	-0.137***	-0.149***
	(-2.830)	(-2.800)	(-2.790)	(-2.730)	(-2.990)	(-2.570)	(-2.500)	(-2.590)	(-2.470)	(-2.780)	(-4.120)	(-4.060)	(-3.950)	(-4.000)	(-4.170)
FAGE	0.000	0.000	0.000	0.000	0.000	-0.000	-0.000	0.000	0.000	-0.000	-0.006***	-0.006***	-0.005***	-0.004**	-0.004***
	(0.120)	(0.290)	(0.480)	(0.610)	(0.320)	(-0.440)	(-0.150)	(0.010)	(0.000)	(-0.380)	(-3.660)	(-3.560)	(-3.300)	(-2.580)	(-2.590)
LEV	-0.100***	-0.098***	-0.101***	-0.101***	-0.099***	0.018	0.018	0.016	0.014	0.021	-1.339***	-1.333***	-1.377***	-1.354***	-1.331***
	(-5.140)	(-5.060)	(-5.120)	(-5.180)	(-5.020)	(0.330)	(0.340)	(0.290)	(0.250)	(0.390)	(-5.150)	(-5.140)	(-5.180)	(-5.200)	(-5.060)
BSIZE	0.003**	0.003*	0.003*	0.003*	0.003*	0.005*	0.005*	0.005	0.005*	0.005*	0.070***	0.068***	0.060***	0.066***	0.065***
	(1.980)	(1.900)	(1.730)	(1.830)	(1.830)	(1.830)	(1.820)	(1.640)	(1.730)	(1.660)	(3.430)	(3.370)	(2.880)	(3.220)	(3.060)
BIND	0.032	0.030	0.017	0.026	0.016	0.071	0.066	0.036	0.062	0.043	1.081***	1.044***	0.864***	0.943***	0.762**
	(1.170)	(1.130)	(0.640)	(0.950)	(0.590)	(1.300)	(1.220)	(0.670)	(1.090)	(0.760)	(3.530)	(3.470)	(2.810)	(3.100)	(2.380)
DAGE	-0.001	-0.000	-0.000	-0.000	-0.000	-0.001	-0.000	0.000	-0.000	-0.000	-0.003	-0.000	0.004	0.004	0.005
	(-0.870)	(-0.590)	(-0.370)	(-0.380)	(-0.570)	(-0.600)	(-0.200)	(0.090)	(-0.060)	(-0.260)	(-0.310)	(-0.020)	(0.460)	(0.480)	(0.500)
Constant	0.199***	0.187***	0.196***	0.188***	0.199***	0.226**	0.199*	0.218**	0.200*	0.227**	2.611***	2.492***	2.468***	2.407***	2.424***
	(4.090)	(3.890)	(4.090)	(3.790)	(4.010)	(2.110)	(1.850)	(2.050)	(1.810)	(2.120)	(4.100)	(3.950)	(3.920)	(3.670)	(3.790)
Observations	790	793	783	791	767	791	794	784	792	768	789	792	782	790	766
R-squared	0.259	0.257	0.258	0.254	0.271	0.355	0.354	0.360	0.351	0.370	0.483	0.482	0.488	0.490	0.506
Firm Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Robust t-statistics in parentheses
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Affiliated director tenure shows a significant negative association with Tobin's Q in Model 15 ($p < 0.01$). Although its associations with ROA and ROE are not statistically significant ($p > 0.1$), they are also negative, offering partial support for H_4. These findings, grounded in Agency Theory, suggest that long-tenured affiliated directors (averaging 7.43 years) may compromise their objectivity upon building close personal or business ties with management, undermining their monitoring role (Joh & Jung 2018; Chou et al. 2018; Clements et al. 2018). Notably, affiliated directors' tenure primarily affects market-based performance (Tobin's Q), reflecting investors' concerns about board independence in emerging markets such as Malaysia. Market participants may interpret long tenure as a sign of entrenchment or diminished objectivity, negatively impacting investor confidence even if adverse effects are not immediately evident in the firm's financial performance. Therefore, this result highlights the need for policy interventions on tenure limitations to mitigate entrenchment risks and bolster investor confidence.

ROBUSTNESS CHECKS

To strengthen the robustness of the analyses and confirm the consistency of the findings, several supplementary tests were conducted as robustness checks. First, the OLS regression models were re-estimated using various dependent variables as proxies for firm performance, incorporating both market-based measures and accounting-based indicators. Second, the tenures of each category of board of directors were initially examined individually in separate regressions, before being analyzed in a regression combining all tenure variables. The results remained robust across all model specifications, further confirming the validity of the original findings.

MANAGERIAL IMPLICATIONS

This research fills a critical gap in corporate governance literature by being among the first to empirically differentiate the impact of tenure across four distinct director roles—chairman, executive directors, independent directors, and affiliated directors—within the Malaysian post-MCCG 2017 governance landscape. Previous research has often treated director tenure homogeneously or focused on a single director category (Johnson et al. 2013; Dalton & Dalton 2011). In contrast, this study offers a detailed, role-specific examination that sharpens theoretical clarity and deepens insights into how tenure interacts with director responsibilities to shape firm performance. By integrating Agency Theory and Resource Dependence Theory, our findings demonstrate that tenure influences firm outcomes through dual mechanisms—monitoring (agency-based) and advising (resource-based). Specifically, chairman tenure is positively linked to firm performance, consistent with Resource Dependence Theory, while extended tenure among independent and affiliated directors is negatively associated with market performance, supporting Agency Theory's entrenchment concerns in settings with concentrated ownership like Malaysia.

This study offers meaningful implications for industry practitioners, policymakers, and regulatory bodies, such as Bursa Malaysia and the SCM, to revisit and refine director tenure policies. Notably, our results support the continuation of the nine-year tenure cap for independent and affiliated directors under the MCCG framework, as longer tenures may be perceived by investors as compromising board independence, even if such concerns are not yet reflected in financial metrics. For the chairman of the board, however, the results suggest that imposing similar tenure limits is unwarranted, as an average tenure of 9.67 years still yields positive firm performance. Indeed, prior research indicates performance benefits up to 12 years of service (Brochet et al. 2021; Reguera-Alvarado & Bravo 2017).

Our study also offers impactful implications for corporate governance professionals and investors by positioning director tenure, particularly that of independent and affiliated directors, as a critical signal of board effectiveness and entrenchment risk. Investors may employ tenure data to evaluate governance quality more accurately, while stewardship institutions are encouraged to engage with firms for succession planning and board renewal strategies. The findings further advocate for the importance of role-specific tenure policies and governance practices that balance director experience with the need to maintain objectivity and accountability. Essentially, aligning tenure regulations with performance implications can enhance overall board effectiveness and contribute to sustainable firm value creation.

Interestingly, this study uncovers a potential loophole in the regulatory classification of directors, whereby some firms appear to strategically reclassify directors—transitioning them from executive to affiliated roles, and subsequently to independent directorships—to bypass tenure limits. Titles such as "senior independent director" are also employed to extend a board director's presence beyond the intended regulatory threshold (Kumar 2023). These practices raise critical concerns regarding whether the tenure period should be reset with each reclassification, suggesting the need for stronger classification standards and centralized tenure tracking frameworks—irrespective of changes in director designation. Such disclosure requirements and stricter oversight mechanisms can close this loophole and bolster governance transparency and effectiveness.

Overall, this research advances the discourse on board tenure by laying a groundwork for future research and policy development towards better governance quality and investor confidence in emerging markets.

CONCLUSION

This study advances the corporate governance literature through the combined application of Agency Theory and Resource Dependence Theory to assess how the tenure of four types of board directors—chairman, executive, independent, and affiliated—influences firm performance. The findings reveal a nuanced trade-off between the benefits of accumulated experience and the risks of entrenchment, with tenure effects varying by director type. Chairman tenure demonstrates a significant positive association with both financial and market-based firm performance, affirming H_1 and emphasizing the importance of accumulated experience and firm-specific expertise in improving board effectiveness. While executive director tenure shows no significant impact on performance metrics, rejecting H_2, the positive coefficient suggests that executive directors' operational expertise still contributes to governance. In contrast, prolonged tenure among independent and affiliated directors is associated with lower market performance, likely due to diminished board independence and weakened oversight. Partially supporting H_3 and H_4, these results justify the tenure caps imposed under the MCCG 2017 and 2021 and highlight the need for stricter limits on independent and affiliated directors. Our study concludes that while tenure can enhance director effectiveness in some roles, it may compromise independence in others, offering important implications for policymaking and research on optimal tenure structures in emerging market contexts.

Notwithstanding this research's valuable contributions, we acknowledge several limitations that may impact the broader applicability and interpretation of its results. First, the analysis was confined to the top 300 non-financial firms listed on Bursa Malaysia's Main Market between 2017 and 2019, limiting its ability to capture long-term trends and to generalize the findings to private firms, charitable organizations, or companies outside Malaysia. Malaysia's corporate landscape, dominated by government-linked and family-owned firms, presents unique governance challenges, including the potential erosion of board independence due to politically-driven or family-influenced director appointments. Moreover, the focus on a one-tier board structure restricts the study's applicability to countries with two-tier or hybrid board structures, where board responsibilities and oversight mechanisms differ. The exclusive reliance on archival data further impedes this investigation's ability to analyze dynamic board interactions or evolving tenure effects. Lastly, we did not account for unobserved variables that may influence governance outcomes, such as director motivation, cultural context, or gender diversity.

These limitations suggest several promising directions for future research. Extending the study period and incorporating extensive longitudinal data would permit a deeper evaluation of long-term trends in board dynamics and firm performance. Further exploration of ownership structures—especially in family-controlled firms and government-linked companies—could shed light on how board composition influences governance effectiveness as well. Additionally, expanding the sample to include private and non-profit firms across different countries would enhance the generalizability of the results. Future studies also should go beyond tenure metrics to examine individual-level director attributes (e.g., expertise, motivation, and independence) and the quality of CEO-board relationships. Assessing the impact of multiple directorships, social identity, and director power dynamics may yield deeper insights into how tenure influences board functions. Finally, the role of cognitive and functional diversity—beyond demographic representation—should be further investigated to understand how diversity shapes board decision-making and strategic effectiveness in varied governance contexts.

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