



THE ROLE OF THE INDEPENDENT DIRECTORS AND
THEIR APPOINTMENT PROCESS

BY

ANIS UR RAHMAN

A dissertation submitted in fulfilment of the requirement for
the degree of Master of Science (Accounting)

Kulliyyah of Economics and Management Sciences
International Islamic University Malaysia

SEPTEMBER 2015

ABSTRACT

The issue of appointing independent directors arose due to larger/controlling shareholders dominating the board and ignoring the rights of the minority shareholders. The revised Malaysian Code of Corporate Governance 2012 emphasizes the importance of independent directors and their independence at the workplace. Independent directors have the desired qualities that may help the board discharge its duties effectively whilst improving the effectiveness of the boardroom. This study explores the roles of the independent directors and their appointment process among PLCs in Malaysia. To this end, semi-structured interviews were conducted to understand the role of independent directors and their appointment process in PLCs under Bursa Malaysia. This study finds that independent directors play two significant roles. The first is a monitoring role in line with agency theory. The second one is an advisory role which in line with resource dependency theory. Thus, it may conclude that monitoring and advising are indispensable roles that independent directors are supposed to play effectively. The findings of the study revealed independent directors are pivotal in monitoring top management, major/controlling shareholders, reducing conflict of interest, protect shareholders wealth, and executing independent judgment for all shareholders. In terms of appointment process, this study found that the personal qualities of the candidates are very important. The board desires experience, expertise, professionally qualified, and reputable persons who can commit to their tasks. In terms of re-appointment, boards consider the contribution of the independent director rather than their tenure. The board does not consider race, religion, and gender as selection criteria. Based on the result of the study, all have the opportunity to sit on the board if he/she is qualified. As such, the role of the nomination committee is indispensable to select and propose the new independent director; however the board will make the final decision for appointing the new independent director.

خلاصة البحث

ظهرت مسألة تعيين المدراء المستقلين نتيجة لهيمنة المساهمين المسيطرين على المجلس وتجاهل حقوق المساهمين الثانويين. القانون الماليزي لحوكمة الشركات المنقح في 2012 يؤكد على أهمية المدراء المستقلين وعلى استقلالهم في مكان العمل. المدراء المستقلون لديهم الصفات المطلوبة التي قد تساعد المجلس بالقيام بواجباته على نحو فعال مع تحسين فعالية الإدارة. تستكشف هذه الدراسة دور المدراء المستقلين وعملية تعيينهم من بين الشركات المحدودة وعملية تعيينهم في الشركات العامة المحدودة العاملة في بورصة ماليزيا. وجدت هذه الدراسة أن المدراء المستقلين لهم دورين مهمين. الأول هو دور رقابي تماشيا مع نظرية الوكالة. والثاني هو دور استشاري تماشيا مع نظرية تبعية الموارد. لذا، يمكن الاستنتاج أن الرقابة وتقدم المشورة هي أدوار لا غنى عنها والتي من المفروض على المدراء المستقلين تطبيقها على نحو فعال. وكشفت نتائج الدراسة أن المدراء المستقلين يقومون بدور محوري في مراقبة الإدارة العليا اضافة الى السيطرة على المساهمين، الحد من تضارب المصالح، حماية ثروة المساهمين، وتنفيذ حكم مستقل لجميع المساهمين. من حيث عملية التعيين، وجدت هذه الدراسة أن الصفات الشخصية للمرشحين مهمة جدا. حيث يرغب المجلس في من تتوفر لديهم الخبرة، المؤهلين مهنيا، والأشخاص ذوي السمعة الذين يمكنهم الالتزام بمهامهم. من حيث إعادة تعيين، تأخذ المجالس بعين الاعتبار مساهمة المدراء المستقلين بدلا من مدة خدمتهم. المجلس لا يأخذ بعين الاعتبار العرق، الدين، والجنس كمعايير اختيار. وبناء على نتائج الدراسة، الجميع لديه الفرصة للتعين في المجلس إذا كان/كانت مؤهلة. على هذا النحو، دور لجنة الترشيحات أمر لا غنى عنه لتحديد واقتراح المدير المستقل الجديد؛ إلا أن القرار النهائي لتعيين مدير مستقل جديد يتوقف على مجلس الإدارة.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting.

Shamsul Nahar Abdullah
Supervisor

Nor Hafizah Zainal Abidin
Co-Supervisor

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting.

Maslina Ahmad
Examiner

Zamzulaila Zakaria
Examiner

This dissertation was submitted to the Department of Accounting and is accepted as a fulfilment of the requirement for the degree of Master of Science in Accounting.

Noraini Mohd Ariffin
Head, Department of Accounting

This dissertation was submitted to the Kulliyah of Economic and Management Sciences and is accepted as a fulfilment of the requirement for the degree of Master of Science in Accounting.

Maliah Sulaiman
Dean, Kulliyah of Economics and
Management Sciences

DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Anis Ur Rahman

Signature

Date

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

**DECLARATION OF COPYRIGHT AND AFFIRMATION OF
FAIR USE OF UNPUBLISHED RESEARCH**

**THE ROLE OF THE INDEPENDENT DIRECTORS AND THEIR
APPOINTMENT PROCESS**

I declare that the copyright holder of this dissertation is Anis Ur Rahman.

Copyright © 2015 by Anis Ur Rahman. All rights reserved.

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below.

1. Any material contained in or derived from this unpublished research may only be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieval system and supply copies of this unpublished research if requested by other universities and research libraries.

Affirmed by Anis Ur Rahman

.....

Signature

.....

Date

This dissertation is dedicated to my beloved parents Haji Ahsan Uddin Ahamed and late Papia Yesmin, my beloved wife Nor Farhana Anis, my adored daughter Ariana Maryam and my family members.

May Allah shower His blessings and mercy upon all Muslims.

ACKNOWLEDGEMENTS

All praise to Allah (SWT), the One and Only God of the Universe. He is the Most Gracious, Sustainer, Protector, Cherisher, Nourisher and Merciful who has bestowed upon me the guidance, strength and ability to complete this research. Peace and blessing upon prophet Muhammad (PBUH) and the entire Muslim ummah.

I wish to express my utmost gratitude to those who have directly or indirectly assisted me in completing this dissertation. I am very grateful to my two supervisors, Professor Dr. Shamsul Nahar Abdullah and Assistant Professor Dr. Nor Hafizah Zainal Abidin for their sincere support, guidance, inestimable comments, advice, and suggestions during the preparation and completion of this dissertation. I would also like to thank my two examiners, Assistant Professor Dr. Maslina Ahmad and Assistant Professor Dr. Zamzulaila Zakaria for their guidance and advice. My utmost gratitude goes to all my lecturers who have assisted me in acquiring precious knowledge. Many thanks to the Ministry of Education (MOE) Malaysia and International Islamic University Malaysia (IIUM) for their financial support and assistance throughout the process of completing this research (ERGS13-015-0048).

I would like to express my personal gratitude to my beloved parents for their prayers, moral support and encouragement. My special thanks to two of my siblings, Dr. Afroja Sultana Lina and Mohammed Asif, for their understanding, and endless love and support who were always there through good and bad times. Last but not least, I would like to acknowledge the support, patience, love and comradeship of my wife Nor Farhana Anis. She has sacrificed her valuable time to assist me over the years by reading and making comments on the issues related to the study. These few lines can in no way encompass my appreciation for her love and support. It is but a tribute.

My gratitude also goes to all participants (chairmen and members of the nomination committee) from the PLCs under Bursa Malaysia. Without their help and kind assistance, this study would not have been possible.

TABLE OF CONTENTS

Abstract	ii
Abstract in Arabic	iii
Approval Page	iv
Declaration	v
Copyright	vi
Dedication	vii
Acknowledgements	viii
List of Tables	xii
List of Abbreviations	xiii
CHAPTER ONE: INTRODUCTION	1
1.1 Introduction	1
1.2 Background of the Study	1
1.1 Problem Statement.....	5
1.2 Research Objectives and Research Questions	7
1.3 Motivation of the Study.....	8
1.4 Significance of the Study.....	9
1.5 Structure of the Study	10
1.6 Summary of the Chapter.....	11
CHAPTER TWO: LITERATURE REVIEW	12
2.1 Introduction	12
2.2 Roles and Responsibilities of the Independent Director	12
2.2.1 Monitoring Role.....	14
2.2.2 Advisory Role	15
2.3 Appointment Process of the Directors.....	16
2.4 Role of the Nomination Committee	19
2.5 Selection Criteria of the Independent Directors	20
2.6 Literature Gap.....	22
2.7 Summary of the Chapter.....	23
CHAPTER THREE: THEORIES ON INDEPENDENT DIRECTORS	25
3.1 Introduction	25
3.2 Agency Theory	25
3.3 Resource Dependency Theory.....	28
3.4 Summary of the Chapter.....	30
CHAPTER FOUR: RESEARCH METHODOLOGY	32
4.1 Introduction	32
4.2 Research Design	32
4.3 Population of the Study	33
4.4 Data Collection.....	34
4.5 Interview Process.....	36
4.6 Data Analysis.....	39
4.7 Summary of the Chapter.....	41

CHAPTER FIVE: ROLES AND APPOINTMENT PROCESS OF INDEPENDENT DIRECTORS IN MALAYSIA	42
5.1 Introduction	42
5.2 Determination of Coding and Themes	42
5.3 Data Analysis and Data Display	49
5.4 Roles of the Independent Director	49
5.4.1 Monitoring Role	51
5.4.2 Advisory Role	53
5.5 Appointment Process of the Independent Directors	55
5.5.1 Personal Qualities	57
5.5.1.1 Expertise	57
5.5.1.2 Professional Qualification	59
5.5.1.3 Reputation	60
5.5.1.4 Number of Directorships	62
5.5.1.5 Age	63
5.5.1.6 Reappointment	65
5.5.2 Sources of the Independent Directors	66
5.5.2.1 Proposal from the Board Of Directors	66
5.5.2.2 Proposal from Controlling Shareholders	67
5.5.2.3 Hand Picking Selection Process by Top Management ..	69
5.5.2.4 Supplementary Sources (Advertisement/Headhunting/Networking)	70
5.5.3 Screening the Potential Candidates	72
5.5.4 Decision on Appointing New Directors	72
5.6 Summary of the Chapter	75
 CHAPTER SIX: DISCUSSION.....	 76
6.1 Introduction	76
6.2 Roles of Independent Director	76
6.2.1 Monitoring	76
6.2.1.1 Agency Theory and Monitoring Role	78
6.2.2 Advisory	80
6.2.2.1 Resource Dependency Theory and Advisory Role	82
6.3 Appointment Process	83
6.3.1 Expertise as Fundamental Selection Criteria	83
6.3.2 Professional Background in a Specific Area	85
6.3.3 Reputation for Business Network	87
6.3.4 Number of Directorships and Availability	88
6.3.5 Diversity in Age Group	90
6.4 Sources of Candidates	91
6.4.1 Internal Source	91
6.4.2 External Sources	94
6.5 Screening Process	95
6.6 Finalising Appointment Decisions	96
6.7 Summary of the Chapter	99
 CHAPTER SEVEN: CONCLUSION	 100
7.0 Introduction	100
7.1 Summary of the Main Findings	100

7.2 Contribution of the Study	104
7.2.1 New Findings, Implication for Extending Knowledge and Theory.....	104
7.2.2 Implication for Practitioners and Regulators.....	106
7.3 Limitations of the Study and Recommendations.....	108
7.4 Summary of the Chapter.....	108
REFERENCES.....	110
APPENDIX A: INTERVIEW QUESTIONS	117
APPENDIX B: INTERVIEW REQUEST LETTER.....	119

LIST OF TABLES

<u>Table No.</u>		<u>Page No.</u>
4.1	Details of the Conducted Interviews	37
5.1	Profile of the All Participants	44
5.2	Summary of Six Themes from the Semi-structured Interview	47
5.3	Data Matrix Analysis from Semi-Structured Interviews (Roles of the Independent Directors)	50
5.4	Data Matrix Analysis from Semi-Structured Interviews (Appointment Process of the Independent Director)	56

LIST OF ABBREVIATIONS

AGM	Annual General Meeting
BOD	Board of Directors
CEO	Chief Executive Officer
CFO	Chief Finance Officer
GLC	Government Linked Company
MCCG	Malaysian Code on Corporate Governance
PLC	Public Listed Company
SC	Securities Commission

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This chapter introduces the study beginning with the background of the study, followed by an articulation of the problem statement, research objectives, research questions, and motivation for the study. Subsequently, the significance of the study is discussed. This chapter ends with an outline of the research structure and concluding remarks.

1.2 BACKGROUND OF THE STUDY

The massive collapses of major corporations have emphasises the global need to restructure and improve corporate governance (Solomon, 2007). The collapse of Enron, Tyco, WorldCom and Shell demonstrated the ineffectiveness of corporate governance. Corporate failures negatively affect investors, shareholders, and the national economy. Thus, effective corporate governance is crucial to help ensure the security of shareholders' investments.

The issue of corporate governance in South-East Asia came to the fore of academic and economic interests after the 1997-1998 Asian financial crisis (Claessens, Djankov and Lang, 2000; Haniffa and Hudaib, 2006). Khor (1998) and Griffith-Jones, Cailloux and Pfaffenzeller (1998) stated the Asian economic crisis occurred due to weak domestic policies, unique ownership structure, and poor corporate governance. The economic crisis was first triggered in Thailand, when foreign investors started withdrawing capital due to the currency devaluation, which affected neighbouring countries like Malaysia, Indonesia, Philippines and so on.

Malaysia was significantly affected by the 1997-1998 crisis resulting in currency devaluation, increased interest rates, as well as credit contraction (Griffith-Jones et al., 1998). As a result, corporate profitability declined with a huge drop in equity prices. The most affected sectors were banking and real estate. The real estate sector underwent a sharp decline due to high interest rates and financial instability. As for the banks, they were highly exposed to the real estate and construction sectors. Darani (2012) explained that the financial crisis saw the Kuala Lumpur Composite Index (KLCI) decline by 72% in June 1997 - August 1998. This massive decline in the KLCI badly affected the Malaysian capital market.

Resulting from the crisis, East Asian nations started strengthening their corporate governance. Government regulators started to focus on their weaknesses and sought to strengthen them through effective policies (Ho and Wong, 2001). This led the Securities Commission (SC) to launch of the Malaysian Code on Corporate Governance (MCCG) in 2000 with the main objectives of establishing a code of corporate governance to enhance accountability and transparency together with greater standards of disclosure. Following this, the MCCG was revised in 2007 to strengthen board performance and overcome earlier weaknesses. The Code emphasised the requirement of one-third of the board should comprise independent non-executive directors (MCCG, 2007). The Code underwent another revision in 2012, which among other amendments sought to reinforce the importance of independence criteria. It recommended that the board should undertake an assessment of its independent directors annually and the tenure of an independent director should not exceed a cumulative term of nine years (MCCG, 2012).

It asserted that the board of directors should consist of persons of calibre, credibility, and possess the skills and experience necessary to bring an independent

judgment to bear on the issues of strategy, performance and resources, including key appointments and standards of conduct (Carver and Oliver, 2002; Claessens, Djankov and Lang, 1999; Ponnu, 2008). The board of directors add value by leading in initiating the strategic direction, providing expert advice, and expanding the business network (Carver and Oliver, 2002).

Kamardin and Haron (2011) highlighted that the significant roles of the independent directors are monitoring, serving the CEO and evaluating performance of the board of directors annually. Among their major roles is to support executive directors by advising, monitoring, and protecting shareholders right, particularly the rights of the minority shareholders (Claessens et al., 2000; Kamardin and Haron, 2011). This highlights the important role played by independent directors for effective monitoring and advising the top management.

Past and present global corporate collapses have underscored the role and effectiveness of the independent directors in public listed companies (PLCs). Fama and Jensen (1983) asserted that independent directors play a significant role in the board as they are experts with relevant skills in their respective fields. A board becomes a powerful and effective governance mechanism with expertise, legal power, and independence (Byrd and Hickman, 1992).

However, board effectiveness is boosted when independent directors work with executives to assist them by employing their expertise and experience (Beasley, 1996; Byrd and Hickman, 1992; Fama and Jensen, 1983). Fama and Jensen (1983) explained most of the independent directors have vast experience in their professional areas and are experienced decision makers. Therefore, they can sit on other boards to contribute as an effective member (Carver and Oliver, 2002; Claessens et al., 1999; Ponnu, 2008).

However, issues of independent director's appointment arise due to the ownership structure, domination of larger shareholders and ignoring the rights of the minority shareholders (Claessens et al., 1999; Claessens et al., 2000; Ponnu, 2008; Amran, 2011). From Malaysian perspective, Amran (2011) and Amran and Ahmad (2010) pointed out that two thirds of the PLCs are family owned. Abdullah (2013) found an average of two family directors on each board thereby influencing the appointment of independent directors from their family members and relatives. Companies dominated by larger shareholders tend to hire directors that favour the interest of the larger shareholders (Amran and Ahmad, 2010; Gutierrez Urtiaga and SaezLacave, 2012). If independent directors are appointed by any particular group, they may not perform their job independently (Gutierrez Urtiaga and SaezLacave, 2012). They may tend to look after the interest of that particular group only (Gutierrez Urtiaga and SaezLacave, 2012). As a consequence, the rights of the minority shareholders may be not protected causing to question the independence of the independent directors.

In the Malaysian context, studies on independent directors are limited (see Annuar, 2012, Annuar, 2013; Annuar 2014; Tinggi, Isa, Jakpar, Ali and Sahari, 2014). Past studies pointed out that independent directors have a vital role in the boardroom to maximise board and firm performance. Tinggi et al. (2014) highlighted that increasing the number of independent directors on the boardroom allows them to exercise more dominant role towards profit orientation. On the other hand, Annuar (2012) pointed out that independent directors have less power, limited time to spend on board meetings, and limited access to internal information in certain circumstances. Besides that, independent directors face problems due to cultural barrier, ethnical background, and firm size (Annuar, 2012; Annuar, 2013). Similarly, Annuar (2014)

remarked that the presence of independent directors on the boardroom is very important despite indication of power distance between executives and independent directors. Nevertheless, previous studies in Malaysia did not clearly highlight the roles independent directors should play. This study attempts to fill this lacuna in the literature by focusing on the specific roles of independent directors and their appointment process among Malaysian PLCs.

1.1 PROBLEM STATEMENT

In Malaysia, issues pertaining to the appointment of independent directors arise due to the unique ownership structure, larger shareholders dominating and ignoring the rights of the minority shareholders. There are three types of ownership structure: family ownership, government Linked Companies (GLCs), and ownership by financial institutions (such as bank and insurance). In the Malaysian perspective, two thirds of the public listed companies are family owned (Amran, 2011; Amran and Ahmad, 2010). As such, family owned companies prefer to select directors from their family members, relatives, or those close to them. As for companies dominated by larger or institutional shareholders, they tend to appoint directors that favour the interest of the larger shareholders (Amran and Ahmad, 2010; Gutierrez Urtiaga and SaezLacave, 2012). Once independent directors are appointed by a particular group, they tend to look after the interest of that particular group only (Gutierrez Urtiaga & SaezLacave, 2012). As a result, the rights of the minority shareholders may be not protected.

As for GLCs, many researchers argue that the government has political and social goals rather than profit maximisation. Thus, the government prefers to appoint directors who are very close to them regardless of their experience and quality (Claessens et al., 2000; Haniffa and Hudaib, 2006; Saleh, Rahman, and Hassan, 2009).

As a result they may not perform well. Such political interests and influence exists in Malaysia (Johnson and Mitton, 2003). As ownership structure influences board structure and the appointment of the independent directors, their performance is questionable in terms of performing their fiduciary duty, monitoring role, and protecting minority shareholders' rights (Amran and Ahmad, 2010; Saleh et al., 2009).

Independent directors are appointed to the board in order to protect the interests of the all shareholders. They must ensure that the rights of minority shareholders are protected, perform their monitoring roles, expand the business network, and work on the board with other directors to add value to the company (Carver and Oliver, 2002). Therefore, the nomination process and appointment of independent directors should be fair.

Claessens et al. (2000) showed that 35% of the top 20 Malaysian listed companies, and 84% for the smallest 50 listed companies are controlled by families. In an earlier survey, Claessens et al. (1999) found that one-fourth of the Malaysian corporate sector is controlled by 10 families. Similarly, Abdullah (2013) found that on average there are two family directors on each board in Malaysia. Given this nature of ownership structure, the effectiveness of the board is constrained by the domination of the larger owners (or controlling owners) who control the board. As a result, the board does not effectively protect all shareholders' rights, particularly right of the minority shareholders, as the interest of minority shareholders lies in the hands of independent directors (MCCG 2007). Hence, it is important to have independent directors in the board. This is because independent directors can monitor the majority shareholders, the decision making process of the company, and protect all shareholders' right equally.

To date, most research on independent directors were conducted based on the perspectives of developed nations such as Germany, UK, USA, and Australia. The findings of the developed nations indicate that independent directors play effective monitoring and advisory roles that enhance firm performance (Balsmeier, Buchwald, and Stiebale, 2014; McCabe and Nowak, 2008; Nottage and Aoun, 2015; Petra, 2005). The above studies pointed out that introducing independent directors into the board improves its effectiveness, maximizes firm performance, improves disclosure in financial reporting, and fosters greater compliance with regulatory requirements.

Nevertheless, previous studies have identified roles of the independent directors in general rather than specify clearly main roles of the independent directors in Malaysian PLCs. Furthermore, previous studies did not identify the appointment process of the independent directors in PLCs. However, with the recent changes in independent directors' requirements in MCCG, this study investigates the current roles of the independent directors as well as their appointment process in PLCs. It intends to understand and identify the specific roles discharged by independent directors and their appointment process among Malaysian PLCs.

1.2 RESEARCH OBJECTIVES AND RESEARCH QUESTIONS

The primary objectives of this study are to explore and understand the roles of the independent directors and their appointment process in Malaysian PLCs. Thus, there are two research questions have developed to achieve the research objectives. The first research question is what are the major roles of the independent directors in PLCs? The second research question is what is the appointment process of the independent directors in PLCs?

The first research question examines the major roles of the independent directors when they sit on a board of PLCs in Malaysia. Prior studies in Australia, Germany, UK and USA found that independent directors are supposed to advise top management, monitor performance of the company and management, evaluate performance of the directors, and assist in the appointment of new independent directors (Balsmeier et al., 2014; McCabe and Nowak, 2008; Nottage and Aoun, 2015; Petra, 2005; Saladi, 2006). However, this study examines specific roles of the independent directors in Malaysian PLCs. This is to identify whether independent directors in Malaysia play similar roles or not as developed nations. By examining specific roles, it would be easier to determine whether independent directors are proactively performing their roles or just sit on the board as rubber stamp for the controlling shareholders and maintain regulatory requirements only.

The second research question examines the appointment process of the independent directors in PLCs. It examines significant selection criteria to be considered during the appointment of independent directors. This research question will assist in better understanding independent directors' appointment process among Malaysian PLCs.

1.3 MOTIVATION OF THE STUDY

Many prior studies showed the impact of the independent director on the financial performance of the company. However, most of the research on independent directors was conducted based on the perspectives of developed nations, especially Germany, the UK, USA, and Australia. Besides that, few studies have focused on the specific roles discharged by independent directors in PLCs. This means that previous studies have yet to clearly explain and justify the roles of independent directors on the board.

Likewise, only few studies were conducted in Malaysia concerning independent directors. Most of the studies focused on particular issues related to independent directors while ignoring the specific roles of independent directors among Malaysian PLCs. Due to that, this study focuses on the roles of independent directors and their appointment process from the perception of developing nations. Therefore, the objective of the current study is to identify the major roles discharged by independent directors and to examine the appointment process of independent directors from the Malaysian perspective.

1.4 SIGNIFICANCE OF THE STUDY

The findings of the study will contribute toward better understanding the major roles played by independent directors in PLCs. This study focuses on boards that dominate the nomination process and who has the final say in selecting new independent directors. This research provides valuable insights as to the role of the nomination committee in the selection of new directors. Given that the primary role of independent directors is to protect the rights of minority shareholders so that the majority shareholders cannot influence the decision making process for their self-interests, their appointment should be subjected to the proper checks and balances to ensure that the best person is selected for the position.

Theoretically, this study will extend the literature on issues pertaining to the roles played by independent directors and their appointment process. This finding may help policymakers and regulators on the issues of independent directors' appointment and further improvement of the MCCG. Furthermore, the nomination committee can benefit from the findings by developing better guidelines for the appointment of

independent directors towards ensuring the most suitable candidate is selected for the position.

1.5 STRUCTURE OF THE STUDY

The thesis has seven chapters, starting with this introductory chapter. Chapter two focuses on past literature about the major roles of independent directors, introduces issues surrounding the appointment of independent directors, their selection criteria, and role of the nomination committees. Through a review of the literature, the chapter highlights the research gap and the room for research contribution.

Chapter three focuses on agency theory and resource dependency theory. According to agency theory board plays a pivotal role in ensuring that managers act in the best interests of the shareholders. However, resource dependency theory considers the board of directors as the boundary spanner of the company. Therefore, the appointment of the independent directors can be considered a means to expand a firm's boundary to benefit the firm.

Chapter four explains the research methodology of the study. This chapter articulates the research design of the study and population of the study. This chapter also explains data collection process, way of conducting semi-structured interviews with chairman of the nomination committees and data analysis methods.

Chapter five identifies the themes and their explanation together with the findings of the current study based on the semi-structured interviews with the participants. This chapter shows findings of the study in to two sections. First section explains roles of the independent directors and second sections focus on appointment process of the independent directors in Malaysian PLCs.

Chapter six discusses the findings of the current study together with past literatures. This chapter discusses the role of the independent directors and their appointment process based on the findings of the current study together with past literature and two theories, namely agency theory and resource dependency theory.

Chapter seven concludes the study. This chapter highlights summary of the main findings and contributions of the study. In addition, limitations of the study and recommendations of the future research in the field of independent directors and their appointment process are also highlighted.

1.6 SUMMARY OF THE CHAPTER

This study extends literature on the role of independent directors and their appointment process in Malaysian PLCs. Independent directors are expected to protect the interest of shareholders and to add to the firm's value. There has been a tendency for executives to appoint directors who best suit their interests, which may not be the interests of all shareholders, especially the minority shareholders. Thus, undermines the quality of corporate governance. Accordingly, the revised Malaysian Code of Corporate Governance 2012 emphasises the importance of independent criteria. In line with this regulation, independent directors should have the desired qualities that will help the board to discharge its duties more effectively.