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Alias N., Yaacob M.H., Jaffar N.

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GOVERNANCE STRUCTURE, CORPORATE RESTRUCTURING AND PERFORMANCE

Alias N., Yaacob M.H., Jaffar N. [*]

Abstract: The common form of corporate restructuring is the divestitures of firm's tangible and operating assets such as plant and equipment for several motives. Furthermore, company characteristics and use of divestiture proceeds have also influence corporate performance. This study examines the effects governance structure namely board of directors structure and ownership structure specifically subsequent to completed asset restructuring scheme on firm performance for the period 2004 to 2013 of Malaysian firms.

Key words: board structure, ownership structure, asset restructuring, Malaysian firms

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Introduction

There are several reasons for undertaking restructuring exercise i.e. due to poor and declining profits, low-performing division (Ravenscraft and Scherer, 1991; Hoskisson and Turk,1990; Kiymaz and College, 2006), financial distress (Wruck, 1990; Ofek,1993); to increase market share, realign corporate strategy (Markides, 1992), reduce financial burden and generate cash proceed (Gibbs,1993). Some firms restructure to improve poor corporate performance due to overdiversified, unprofitable capital investment, poor corporate governance and overleveraging (Markides and Singh, 1997).
In this context, a firm top management and board of directors act as an agent of the shareholders and have influence on the firm's financial and operating policies. In other words, the firm's characteristics such as board structure, ownership structure, level of diversification and debt level may have influence on the firm's decision to restructure and firm's performance subsequent to corporate restructuring. In relation to governance pattern or structure, board structure and ownership structure are the important governance mechanisms suggested in the Malaysian Code of Corporate Governance 2012.

[*] **Norazlan Alias,** Associate Professor, School of Management, Faculty of Economics and Management, Universiti Kebangsaan, Malaysia; **Mohd Hasimi Yaacob,** Senior Lecturer, School of Management, Faculty of Economics and Management, Universiti Kebangsaan Malaysia; **Nahariah Jaffar,** Associate Professor, Faculty of Management, Multimedia University, Malaysia
✉ Corresponding author: norazlan@ukm.edu.my
✉ mhasimi@ukm.edu.my; nahariah@mmu.edu.my

Objectives of the Study

Fewer studies explore simultaneously the influence of board of directors' structure and ownership structure on firm performance subsequent to corporate restructuring in the form of asset restructuring. Firm performance subsequent to corporate restructuring is also being influenced by firm's financing policy and operating policy as discussed in the literature. Therefore, this study examines the influence of governance structure as depicted by board of directors' structure and ownership structure subsequent to operating asset disposal as part of asset restructuring scheme on firm performance and the influence of board of directors structure and ownership structure on capital structure policy as depicted by debt level and operating policy as depicted by diversification level subsequent to asset disposal. This study also examines the firm's characteristics as mentioned above prior to asset disposal's years to allow for comparison on the effect of those characteristics prior and subsequent to corporate restructuring. Therefore, this study will document the link between governance structure, corporate policies and performance.

Literature Review

Board of Directors (BOD) Governance

According to the agency theory, firms set up an appropriate monitoring system and rely on board of directors to effectively supervise managers with the aim to reduce agency cost (Fama and Jensen, 1983; Bryd and Hickman, 1992). There are studies that attempt to highlight the role of board of directors' structure which emphasize on composition of external or independent directors and board size as a governance mechanism that influence corporate strategic decisions and performance. Rosenstein and Wyatt (1990) document positive effect on stock market subsequent to the appointment of additional outside directors (Kiel and Nicholson, 2003; Haniffa and Hudaib, 2006). Canyon and Peck (1998) document negative effect of certain number of board size while Kiel and Nicholson (2003) and Haniffa and Hudaib (2006) document positive effect of small board size. In relation to independent directors' role in governance and performance, Haron et al. (2008) document an inverse significant correlation between independent director ratio and financial performance of both Bursa Malaysia's construction and technology sectors but significant positive correlation between board size and financial performance only in construction sectors. These correlations indicate that an increase in the independent director ratio does not indicate an increase in financial performance in both sectors but an increase in board size indicates an increase in financial performance in construction companies. Ponnu and Karthigeyen (2010) document no concrete evidence that the inclusion of independent board of directors as recommended by the Malaysian Code of Corporate Governance has positive effect on corporate performance. Mustapha and Che Ahmad (2013) document positive relationship between institutional blockholder's in Malaysian firms demand for corporate monitoring and their shares ownership while non-institutional blockholders show negative relationship with their shares ownership. Another previous study were devoted to examine the effect of one particular corporate restructuring announcement on firm value while some studies compare the effect on firms' value before and after a single operational or financial restructuring exercise was chosen.

Board Structure, Ownership Structure and Corporate Restructuring

Meanwhile, there are studies that attempt to highlight issues on corporate restructuring and its relation to corporate governance and performance. Few studies were devoted to examine the relationship between ownership structure and corporate restructuring. (Gibbs, 1993; Bethel and Liebeskind, 1993) include ownership structure to examine its relationship on restructuring choices while Lai and Sudarsanam (1997), as well as Markides and Singh (1997) examine the effect of certain firm characteristics such as ownership structure and capital structure to the choice of restructuring strategies adopted. Perry and Shivdasani (2005) include board structure and ownership structure to examine how these two structures influence on motivation to restructure by firms with poor performance for a developed market like the U.S. Bennett (2010) examines ownership structure's effects on buying and selling of asset using event study. He finds that firms with large block outside shareholders experience significantly higher positive announcement effects than large inside shareholders held firms. Lee et al. (2013) suggest that firms with improved post divestiture performance are likely to divest for urgent payout motive while firms with deteriorated post divestiture performance with no urgent payout motive are likely to divest and retain the asset sales proceeds. Kavadis and Castaner (2015) document positive relationship between family ownership and restructuring with the presence of high institutional ownership. In addition, the financial crisis has shown its impact on corporate restructuring issues in Malaysia but the influence of board of directors' structure and ownership structure on firm's performance subsequent to corporate policies such as corporate restructuring remains silent and underdeveloped especially in Malaysia. Previous studies show that the impact of board of director's structure and ownership structure to reduce agency cost and determine the firm performance is unquestionable. Therefore, it is significant to document empirical studies with respect to corporate restructuring in Malaysia. This study then will to some extent fill this gap by giving further insight on the issue of governance structure via board of directors' structure and ownership structure and corporate restructuring specifically on post period of asset disposal as part of restructuring scheme.

Methodology

This study uses yearly data of firms that are listed on the Main Board of Bursa Malaysia and announced completed asset disposal as part of corporate restructuring scheme for the period of 2004 to 2013. This study relies on Thompson's

Datastream and annual reports as sources of data. The final sample comprises 136 firms with complete data that completed operating assets disposal as part of asset restructuring scheme. This study also excludes firms in regulated industry such as financial industry and those of incomplete data.

This study differs from Perry and Shivdasani (2005) that used a decline of at least 33% in pretax income from the previous years to identify the onset of poor performance and undergo corporate restructuring. Hence, the utilization of completed data of asset disposal complements Perry and Shivdasani's study and provide new insight on asset restructuring studies. Data for firm's characteristics and performance are taken one year before, during and one year after the completion year of the asset disposal as announced in the database. The data includes Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) as dependent variable while independent variables such as board size (BSIZ) and number of independent directors (INDIR) to represent board of directors' structure while, institutional ownership (IS), substantial shareholders (SS) and employees' director ownership (ED) to represent ownership structure, debt ratio (TD) to represent firm's capital structure policy and Herfindahl index based on sales concentration over business segments (HD) to represent firm's diversification policy. The regression model is as follows:

$$LnEBITDA = \alpha\, i,t + \beta 1(BSIZ)_{i,,t-1} + \beta 2(INDIR)_{i,\,t-1} + \beta 3(INS)_{i,\,t-1} + \beta 4(SS)_{i,\,t-1} + \beta 5(ED)_{i,\,t-1} + \beta 6(TD)_{i,\,t-1} + \beta 7(HD)_{i,\,t-1}$$

Results

Table 1 reports the descriptive statistics of the variables used in this study.

Table 1. Descriptive statistics

	EBITDA	BSIZ	INDIR	TD
Mean	232828	7.5	3.14	0.47
Median	20847	7.000000	3	0.44
Maximum	9357318	14.00000	7	2.93
Minimum	-770578	3.000000	0	0.03
Std. Dev.	990950	2.01	1.06	0.26
Skewness	6.06	0.57	0.41	3.24
Kurtosis	40.49	0.31	0.47	24.57
Jarque-Bera	27780.68	21.85537	66.52920	170245.9
Probability	0.000000	0.000018	0.000000	0.000000
Sum	98638959	2858	1189	180.68
Sum Sq. Dev.	992240	2.04	1.06	0.26
Observations	387	387	387	387

	HD	IS	SS	ED
Mean	0.69	28.36	50.07	11.86
Median	0.68	23.51	51.15	6.05
Maximum	1.00	96.62	87.35	57.91000
Minimum	0.22	0.0	7.99	0.000000
Std. Dev.	0.25	21.79	16.43	15.23
Skewness	-0.11	0.62	-0.38	1.46
Kurtosis	-1.39	-0.54	-0.17	1.09
Jarque-Bera	31.63367	32.14575	7.402664	139.3439
Probability	0.000000	0.000000	0.024691	0.000000
Sum	267.59	10720	18869	4327
Sum Sq. Dev.	0.25	21.82	16.45	15.25
Observations	387	387	387	387

Table 2 shows that all absolute values of correlation coefficients of the independent variables used in this study for sample of asset restructuring firms are less than 0.8.

Table 2. Correlation coefficients

	BSIZ	INDIR	IS	SS	HD	TD	ED
BSIZ	1.000000	0.330578	0.195459	0.227720	-0.102401	0.264588	-0.093487
INDIR	0.330578	1.000000	0.207021	0.267048	0.109388	0.049618	0.055777
IS	0.195459	0.207021	1.000000	0.515623	0.001509	-0.009654	-0.385890
SS	0.227720	0.267048	0.515623	1.000000	-0.001599	0.166011	-0.005516
HD	-0.102401	0.109388	0.001509	-0.001599	1.000000	0.040631	0.108560
TD	0.264588	0.049618	-0.009654	0.166011	0.040631	1.000000	-0.120468
ED	-0.093487	0.055777	-0.385890	-0.005516	0.108560	-0.120468	1.000000

Therefore, it indicates that the problem of multicollinearity among the set of explanatory variables is not an issue of concern (Gujerati, 2003). Table 3 reports the OLS regressions of our research model for periods of (-1), (0) and (+1) respectively.

The BSIZ consistently shows significant positive in all periods. The positive relationship between board size and performance is inconsistent with Kiel and Nicholson (2003) and Haniffa and Hudaib (2006) which recommended small board size. Therefore, an increase in board size that promotes diversity of knowledge and skills would benefit firms as reflected in higher performance while the presence of debt fails to act as monitoring device as argued in many previous studies for asset restructuring firms. The INDIR only shows significant negative effect in (-1) while SS shows significant positive in all periods. The significant negative relationship in (-1) and insignificant relationship in (0) and (+1) of independent directors and performance support the argument of Haron et al. (2008) and Ponnu and Karthigeyen (2010). INS shows insignificant effect in all periods (+1) while ED shows significant negative effects in periods (-1) and (0).

However, an increase in substantial shareholders ownership subsequent to asset restructuring scheme leads to an increase in performance.

Table 3. Determinants of asset restructuring performance

Samples	Asset Restructuring		
Dependent Variable	logEBITDA		
Periods / Independent Variables	(-1)	0	(+1)
BSIZ	0.290161*** (3.864822)	0.282593*** (3.476373)	0.184069** (2.411577)
INDIR	-0.983900*** (-2.998202)	-0.371192 (-1.118340) †	0.170383 (0.519212) †
IS	0.008155 (0.948916) †	-0.005819 (-0.643930) †	0.008482 (0.958496) †
SS	0.023825*** (2.805031)	0.037593*** (3.432024)	0.025954 (2.373779)**
ED	-0.020311* (-2.017890)	-0.022689** (-2.015303)	-0.010654 (-0.925323) †
TD	0.686237 (1.582021) †	-0.029211 (-0.849402) †	0.537700 (0.690921) †
HD	-1.873224*** (-3.395380)	-1.115059* (-1.833866)	-1.406817** (-2.307929)
R-squared	0.349727	0.330626	0.262843
F-statistic	8.067246	7.550107	5.603127
Durbin-Watson stat.	1.854004	1.899066	1.990793
† p < 0,10; *p < 0.05; **p < 0.01; ***p < 0.001			

HD shows significant negative effects in all periods while TD shows insignificant effects in all periods. An increase in sales concentration prior and subsequent to asset restructuring scheme does not lead to increase in performance while an increase in debt ratio in all periods does not lead to an increase I performance. These results indicate that increases in number of independent directors, institutional ownership, employees' director ownership, debt ratio and having less business segments or refocusing to reduce potential agency costs and promote strong governance to improve performance subsequent to asset restructuring is not met except for board size and substantial shareholders.

Conclusions

This study recommends larger board of directors' size than smaller, a mandatory presence and increase of substantial ownership and less focused than focused in business segments to enhance firm performance as shown by the significant results for all periods. Surprisingly, the presence of independent directors, debt as monitoring device and employee- directors' ownership to reduce agency conflict as argued by some previous studies to enhance corporate governance and therefore firm performance are questionable. From managerial perspective, an asset restructuring scheme should encourage larger board of directors' size to allow for diversity of knowledge, experience and skills to be exploited for firm's benefits, increasing substantial ownership and expansion through diversification strategy. However, the limitation of this study is that selected years of asset restructuring event ignores any external shock such as economic scenario in the model that might trigger firms to restructure. Future research is recommended to explore on the relationship between other types of restructuring scheme such as corporate spin-off and governance structure.

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STRUKTURA ZARZĄDZANIA, RESTRUKTURYZACJA I WYDAJNOŚĆ KORPORACYJNA

Streszczenie: Wspólną formą restrukturyzacji korporacyjnej jest zbycie aktywów rzeczowych i operacyjnych firmy, takich jak fabryki i urządzenia, dla kilku powodów. Ponadto, na wydajność firmy mają również wpływ cechy przedsiębiorstwa i wykorzystanie wpływów zbycia. W niniejszym badaniu analizuje się strukturę zarządzania ruchomościami, a mianowicie strukturę zarządu i strukturę własności, po zakończeniu procesu restrukturyzacji aktywów w odniesieniu do wydajności malezyjskich firm w okresie od 2004 do 2013 r.
Słowa kluczowe: struktura zarządu, struktura własności, restrukturyzacja aktywów, malezyjskie firmy

治理結構，企業重組和績效

摘要：企業重組的常見形式是公司有形資產和經營性資產的剝離，如廠房和設備的幾種動機。此外，公司特徵和剝離收益的使用也影響企業業績。本研究考察了馬來西亞企業2004年至2013年企業績效完成資產重組後特別是董事會結構和所有製結構的影響。
關鍵詞：董事會結構，所有製結構，資產重組，馬來西亞企業。