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## Corporate governance, critical junctures and ethnic politics: Ownership and boards in Malaysia

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### ABSTRACT

Quotas and affirmative policies are often implicated in debates on corporate governance. This paper examines critical junctures and the role of willful actors in mobilizing their ethnic and political positions to affect governance reforms in Malaysia since independence. We trace the trajectory of *Bumiputera* affirmative policy in shaping equity ownership and composition of boards of directors using historical institutionalism as a lens. We find ethnic politics has been an endogenous force resulting in Malay share of equity ownership rising from negligible levels to over 20 percent and almost half of the boards of directors of listed companies comprising of Malays. Our analysis shows that governance is a representation, as well as a manifestation, of how ownership and board structures are institutionally reproduced rather than a mere response to global isomorphic pressures.

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## 1. Introduction

This paper examines how board composition and ownership structures are constructed and evolve in relation to ethnic politics that shaped affirmative policies in postcolonial Malaysia. Focusing on affirmative policies in reforming governance, it complements recent research on board diversity in different countries: countries differ in their approach to promoting diversity in the boardroom from mandatory quota approaches (e.g. Norway and Spain) to voluntary approaches (e.g. UK and Australia) (See [Al-Shaer & Zaman, 2016](#)). The Malaysian context is, however, different: its equity ownership and representation on boards of directors were historically shaped by ethnic politics and resultant affirmative policies since the country's independence. Although ethnic politics in ex-colonies has been considered in critical/interpretive accounting research ([Davie, 2005](#); [Efferin & Hopper, 2007](#); [Kim, 2008](#); [Wickramasinghe & Hopper, 2005](#)), its connection with affirmative policies and corporate governance has not been sufficiently explored. We try to fill this gap in the literature.

We draw on historical institutionalism<sup>1</sup> that explores how ideas become path-dependent (dependent on past knowledge and trajectories) social practices under certain historical circumstances and political actions (see [Campbell, 2004](#); [Thelen,](#)

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<sup>1</sup> Historical institutionalism sits with institutional analyses which are enriched by three supplementary variants – namely, rational choice institutionalism, historical institutionalism and sociological institutionalism (for a review, see [Hall & Taylor, 1996](#)).

1999; Thelen & Steinmo, 1992). In particular, we use 'critical junctures' which is defined as the concrete, temporal process that leads to incremental changes in prevailing institutions. It is these temporal processes which inspire certain historic actors to take political opportunities to alter an institution's path-dependent trajectory. With a particular political agenda, such actors become willful social actors who can both challenge and change institutions (Collier & Collier, 1991). It is these challenges and changes which we try to bring into the fore of the discussion of the institutional reproduction of corporate governance.

In Malaysia, *Bumiputera*<sup>2</sup> (literally 'sons of the soil') developed a political agenda wherein willful actors addressed the issue of economic disparities between ethnic Malays and non-Malays. The notion of critical junctures helps us examine how this agenda was implicated in governance reform affecting equity ownership and representation on the boards of directors of Malaysian listed companies. We thus explore three questions: (1) what critical junctures gave shape to postcolonial ethnic-politics and in turn affected corporate board composition and ownership structures? (2) How did these critical junctures become path-dependent in reproducing board composition and ownership structures? (3) What counterfactuals and contingencies were present in relation to above changes? These questions led us to pursue a periodization analysis starting from 1957, 1970, and 1997, respectively. Our analysis reveals how *Bumiputera*'s representation on boards of directors and their share of equity ownership was increased, despite global codes and practices of corporate governance.

The contributions of our paper to the literature are twofold. First, we show that corporate governance practices are not simply shaped by history and political contexts (e.g. Campbell, 2004), but involve an institutional process that passes through critical junctures, path-dependencies, and underlying counterfactuals and contingencies. We show that board composition and ownership structures are not given attributes but rather they become objects for institutional flux and opportunities, allowing willful actors to preserve or change those attributes through advancing affirmative policies. Second, we also contribute to accounting and ethnicity research in less developed countries (e.g. Efferin & Hopper, 2007; Wickramasinghe & Hopper, 2005). This embryonic stream of research has adopted cultural perspectives, political economy, and historical institutionalism broadly. To complement this, our paper focuses on willful actors' ethnically oriented agency roles implicated in how postcolonial affirmative policies are developed. Researching corporate governance from this angle is important as ethnic issues are perennial in postcolonial settings where social and institutional transformations occurred with ethnic clashes and compromises.

This paper proceeds as follows. Section 2 outlines our perspective on governance that is focused on critical junctures. Section 3 describes the context researched and the methods employed. Section 4 provides the periodization analysis, showing how board and ownership structures in Malaysian corporate governance were formed and reformed through critical junctures. Section 5 contains the discussion and the conclusion.

## 2. Governance: A historical institutionalism perspective

### 2.1. The point of departure

Our paper complements research examining how corporate governance affects firm performance and accounting and auditing quality (Bushman, Piotroski, & Smith, 2004; Davis-Friday, Eng, & Liu, 2006; Gul, Zhou, & Zhu, 2013; Larcker, Richardson, & Tuna, 2007; Mollah & Zaman, 2015; Sloan, 2001; Tee, Gul, Foo, & Teh, 2017). Our analysis adds to this literature which is often based on shareholder perspective and tends to adopt positivist methodology. In contrast to a reliance on quantitative data and focus on testing the statistical significance between variables, our paper highlights the social and political underpinnings that reveal institutional explanations of governance practices (Huse, 2005; Tremblay & Gendron, 2011; Turley & Zaman, 2007; Zaman, Hudaib, & Haniffa, 2011). For example, Sloan (2001) explores how organizing accounting functions through corporate governance practices enhances firm performance but does not consider the influence of contextual ramifications (see Brennan & Solomon, 2008). Our analysis of governance reform also augments research which adopts stakeholder perspectives (e.g. Coyle, 2007; Hill & Jones, 1992; Solomon, 2007), use alternative theories, and seek to broaden the scope of governance research and examine implications for accountability and the wider society (see Brennan & Solomon, 2008).<sup>3</sup> We add to this commendable development in the literature by adopting a historical perspective to explore the formation, development and underlying policy issues of governance.

Our focus on exploring how governance ideas emerge, evolve, and change through institutional and social processes, and through political and historical struggles, complements among others, the works of Efferin and Hopper (2007), Uddin and Choudhury (2008) and Yonekura, Gallhofer, and Haslam (2012) who focus on developing country contexts. Also, while corporate governance reform and structures in Malaysia has been the subject of prior research (e.g. Fung, Gul, & Radhakrishnan, 2015; Haniffa & Hudaib, 2006; Mat Zain, Zaman, & Mohamed, 2015; Salleh & Stewart, 2012; Tee et al., 2017), we add to them

<sup>2</sup> *Bumiputera* has three aspects here: primarily of the people (ethnic) (i.e. the indigenous people of Malaysia); secondly, a policy to further the benefits or interests of *Bumiputera* people; and, thirdly, an institution shaping corporate governance in the country. Malaysia's indigenous people comprise Malays and others termed 'natives' and 'aborigines'. Malays form a significant percentage of *Bumiputera*; therefore, the terms '*Bumiputera*' and 'Malays' are used interchangeably herein. Non-*Bumiputera* refers to the immigrant Chinese and Indian.

<sup>3</sup> Theories used include stakeholder theory (Wheeler & Sillanpää, 1997), resource dependency theory (O'Connell, 2007), institutional theory (Parker, 2007), Weber's rationality ideas (Uddin & Choudhury, 2008), sociological and political theory perspectives (Gendron & Bédard, 2006; Sikka, Puxty, Willmott, & Cooper, 1998). See Wickramasinghe and Alawattage (2007) for a review of various theories.

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