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THE IMPACT OF BOARDROOM NATIONAL DIVERSITY ON FIRMS' PERFORMANCE AND BOARDS' MONITORING IN EMERGING MARKETS: A CASE OF MALAYSIA

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ABSTRACT

Like many other theories, agency theory and thus most of the corporate governance (CG) regulations around the world support boardroom diversity with a variety of rationales. Accordingly, the recently introduced Malaysian Code on Corporate Governance (MCCG) in March 2012 also recommends an increase in boardroom diversity. Being a broader construct, boardroom diversity can be classified into quantifiable (age, gender, experience, education, race/ethnicity and nationality) and non-quantifiable (leadership style, interpersonal communication, the locus of control and team-building skills) characteristics of the directors. However, except age and gender of the directors, the previous literature has rarely focused on other aspects of the boardroom diversity. Among others, the nationality of the directors is a vital element of the boardroom diversity particularly in multi-ethnic and multi-cultural societies like Malaysia. Therefore, this study aims to investigate the impact and role of the directors with foreign nationality on the Malaysian boards in a stratified random sample of 350 non-financial listed companies from 2010 to 2014. By employing Panel Corrected Standard Errors (PCSEs), the study found that foreign directors have a significant positive impact on firms' performance measured by ROE, ROA and market value. However, as expected, foreign directors have a significant negative impact on monitoring role of the board. Besides filling the exhibited gap in the previous literature, the study also updates regulators and other policymakers by providing important insights for improving policy and practice in the future.

Keywords: Corporate Governance, Boardroom Diversity, Foreign Directors, MCCG 2012, Emerging Market, Malaysia

INTRODUCTION

The rapid globalization blessed firms with access to international equity markets by removing barriers to trade and capital flows (Oxelheim & Randoy, 2003). By taking away a number of blockades, the globalization also facilitated firms to retrieve and grab cross-border information and other crucial resources. However, on contrary, it also posed some serious challenges which pushed countries and firms for strengthening the structure of their corporate governance, among others (Erhardt, Werbel, & Shrader, 2003; Oxelheim & Randoy, 2003). Board of directors is a vigorous driver that augments internal mechanisms of control and compliance to good CG practices at the firm level (Fama & Jensen, 1983; Jensen & Meckling, 1976; Rahman, Ibrahim, & Che-Ahmad, 2015a). In regard to

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structure and composition of the board, boardroom diversity is believed to increase its efficiency by strengthening monitoring and advising of the management. Boardroom diversity that can be classified into quantifiable (age, gender, experience, education, race/ethnicity and nationality) and non-quantifiable (leadership style, interpersonal communication, the locus of control and team-building skills) characteristics of the directors is further highlighted in the context of multi-ethnic and multi-cultural countries (Bhagat, Bolton, & Subramanian, 2010). Besides other aspects of the boardroom diversity, directors' nationality particularly from the countries famous for strong CG regulations or their good compliance is considered a major source of enunciating firms' proficiency and productivity (Jindal & Jaiswall, 2015; Rahman, Ibrahim, & Che-Ahmad, 2015b).

Agency theory also assumes that the presence of directors with foreign nationality is the second effective internal mechanism of governance after the independence of the board. The theory posits that boardroom heterogeneity particularly that in the nationality of the directors ensures the protection of shareholders from the expropriation of management through augmenting independence of the board (Homan, 2017; Jensen, 1986). Also, the theory posits that the presence of foreign directors on the board augments its monitoring role through attracting foreign shareholding. Because, firms in emerging markets are blessed with capital inflows from other countries which increase foreign shareholdings and thus boardroom heterogeneity particularly in regard with directors' nationality that ensures effective surveillance of managers (Ararat, Aksa, & Cetin, 2010). Oxelheim and Randoy, (2003) argued that the presence of one or more foreign directors on the board augment firms' commitment towards compliance of good CG practices. These, in turn, signal firms' positive image that improves their financial performance and market value (Ararat et al., 2010; Ntim, 2015; Oxelheim & Randoy, 2003). As CG regulations around the world are mostly based on the suppositions of agency theory, hence, these also recommend the nomination of foreign directors to the boards. Consequently, like many other countries around the globe, section 2.2 of the MCCG 2012 in Malaysia also recommends an increase in the boardroom diversity (Rahman, Ibrahim, & Zahid, 2014).

However, in contrast, it is also argued that foreign directors on the board simply increase firms' costs. Due to language barriers, they also complicate the process of communication and reporting within and outside of the firm (Erhardt et al., 2003; Masulis, Wang, & Xie, 2012). They represent different cultures and thus disparate managerial approaches which reduce firms' efficiency especially by affecting the uniformity of direction (Alli, Chan, Subrahmanyam, & Thapa, 2010). Moreover, foreign directors are also less effective monitors owing to their residence abroad and inability to manage frequent visits for attending boards' meetings. Besides time and money constraints, the complications in international traveling particularly after 9/11 have also toughened the visits of foreign directors to firms' host country (Masulis et al., 2012; Rose, 2015). The quality of boards' surveillance or advising is further deteriorated due to no or rare informal local contacts of the foreign directors which could update them about the economy and law and order situations of the firms' host country. Overall, these in turn, affect firms' performance (both accounting and market) and boards' monitoring role, among others (Masulis et al., 2012; Naveen, Daniel, & McConnell, 2013). To sum up, the incongruent arguments and findings of the previous scarce literature regarding the impact and role of the foreign directors on the board necessitate further investigation of the topic. The need for further investigation is also highlighted by the introduction of MCCG 2012 that requires increasing boardroom diversity in a multi-ethnic and multi-cultural country like Malaysia. Accordingly, this study aims to examine the impact and role of boardroom national diversity on firms' performance (accounting and market) and monitoring role of the board. Therefore, the study investigates the impact of the foreign directors on firms' performance measured by ROE, ROA and market value. Also, the study examines the impact of foreign directors on monitoring role of the board measured by the frequency of its meetings in a stratified random sample of 350 non-financial Malaysian listed companies from 2010 to 2014. The remaining of this study is organized as the following section reports relevant literature and hypotheses development while the next section deals with the research design. These are followed by the univariate and multivariate analysis and their explanation before the conclusion.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency theory assumes that board of directors is a central mechanism of internal governance that ensures consistent surveillance, accountability and advising of the managers (Carter, Simkins, & Simpson, 2003; Fama, 1980; Jensen & Meckling, 1976; Jensen, 1993; Rose, 2016; Ware, 2016). However, these conventional roles of the board as posit by agency theory have increased and complicated, particularly after the rapid globalization (Ararat, Black, & Yurtoglu, 2016; Carter et al., 2003; Rutledge, Karim, & Lu, 2016). Among others, the globalization pushed firms to raise funds and expand their operations in other countries (Carter et al., 2003; Masulis et al., 2012; Rose, 2016; Rutledge et al., 2016; Tsamenyi & Uddin, 2008). In this regard, corporate governance suggests that firms should provide some noticeable gestures particularly regarding the quality of their transparency, monitoring and governance to the stock market, shareholders, investors, costumers, society, government and all other stakeholders in international markets (Rahman, Ibrahim, & Che-Ahmad, 2015). Corporate governance assumes that these signals are important for creating and improving firms' positive image in the eyes of all key stakeholders in the targeted markets (Carter et al., 2003; Masulis et al., 2012; Rahman et al., 2014; Rose, 2016; Tsamenyi & Uddin, 2008; Ware, 2016). Therefore, in addition to others, CG recommends an increase in boardroom heterogeneity that could update firms on political, legal, social, cultural and economic systems of other countries. CG assumes that directors with heterogeneous backgrounds particularly that in nationality facilitate firms in understanding cross-cultural sensitives which assist them in penetrating into already saturated or new foreign markets (Abu, Okpeh, & Okpe, 2016; Carter et al., 2003; Hillman & Dalziel, 2003; Homan, 2017; Masulis et al., 2012; Oxelheim & Randoy, 2003; Pfeffer & Salancik, 1978). Subsequently, both the CG and firms prefer to nominate directors either with foreign nationality or experience (Homan, 2017; Masulis et al., 2012; Oxelheim & Randoy, 2003; Rose, 2016; Ware, 2016).

Agency theory assumes that investors are highly concerned about the profitability on, and safe return of their investments (Baker & Anderson, 2010; Khanna & Zyla, 2010; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). The theory suggests that foreign directors improve the independence of the board that enhances the quality of its monitoring and advising (Abu et al., 2016; Homan, 2017; Jensen, 1993; Lee & Shailer, 2008; Oxelheim & Randoy, 2003). By virtue of enriching heterogeneity, the theory also postulates that foreign directors improve the quality of boardrooms' decisions through the better conceptualization of various important and complicated issues (Carter et al., 2003; Gyapong, Monem, & Hu, 2016; Ismail & Manaf, 2016; Jensen, 1993; Oxelheim & Randoy, 2003; Rosenstein & Wyatt, 1997; Rutledge et al., 2016). These, in turn, improve firms' financial performance through increasing their sales by sharing valuable information about suppliers, market trends and consumers' preferences in unexplored, less or highly competitive and already saturated international markets (Carter et al., 2003; Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978).

The shareholders also express confidence in well-governed firms as evidenced by their willingness to pay a premium on investment in these firms (Khanna & Zyla, 2010; La Porta et al., 2000; Rose, 2016; Rutledge et al., 2016). It is argued that the quality of firms' governance shapes up firms' market value by affecting shareholders' perception and buying behavior (Heenetigala, 2011; Khanna & Zyla, 2010; La Porta et al., 2000). Being an effective driver of augmenting governance at firms' level, agency theory and thus CG regulations support the presence of foreign directors on the board for improving firms' positive image, social license to operate and legitimacy in the eyes of shareholders and creditors (Akerlof, 1970; Freeman, 1984; Hambrick & Mason, 1984; Lee & Shailer, 2008; Oxelheim & Randoy, 2003; Spence, 1973). This, in turn, facilitates firms in raising less costly funds from a larger pool of domestic as well as international markets (Carter et al., 2003; Masulis et al., 2012; Oxelheim & Randoy, 2003). Therefore, foreign directors not only enhance shareholders' confidence (Ararat et al., 2010; Naveen et al., 2013; Ntim, 2015; Sajjad & Rashid, 2015). but also improve firms' performance (Carter et al., 2003; Fama, 1980; Hillman & Dalziel, 2003; Jensen, 1993; Oxelheim & Randoy, 2003; Pfeffer & Salancik, 1978).

Many empirical studies found that foreign directors have a significant positive association with firms' financial performance (Carter et al., 2003; Müller, 2014; Oxelheim & Randoy, 2003; Rosenstein & Wyatt, 1997) in Netherland (Homan, 2017), Nigeria (Abu et al., 2016), Korea (Choi, Park, & Yoo, 2007) and Kenya (Ageda, 2015; Amoll, 2015). A study of 1981 firm-year observations of the Indonesian listed companies from 2004 to 2010 revealed the significant positive relationship between foreign directors on the supervisory board and firms' accounting and market performance (Ilona, 2015). Oxelheim and Randoy, (2003) found that directors from the USA and UK have a significant positive association with firms' financial performance and market value in Sweden, Denmark and Norway. Many other studies also noted that foreign directors have a significant positive association with firms' market value in the USA (Naveen et al., 2013), UK (Padgett, 2014), South Africa (Ntim, 2015), Turkey (Ararat et al., 2010) and Pakistan (Sajjad & Rashid, 2015). Jindal and Jaiswall, (2015) found that firms with one or more international directors on their boards get a positive response from the investors in India. Estélyi and Nisar, (2016) found that boardroom national diversity improves firms' operating efficiency and overall conduct in domestic and international markets which attract heterogeneous shareholders.

However, in contrast, it is also argued that foreign directors on the board have no significant relationship with firms' financial performance (Molenkamp, 2015; Muravyev, 2017; Salloum, Jabbour, & Mercier-Suissa, 2017). Therefore, the regulatory or organizational endeavors for increasing the representation of foreign directors on the board of every firm particularly those not operating in an international context are not justified (Cimerova & Dodd, 2016; Herdhayinta,2014;

Molenkamp, 2015; Rose, 2015; Zakaria, Purhanudin, & Palanimally, 2014). Despite effective advising of the management, Masulis et al., (2012) criticized foreign directors on account of their weak monitoring. Due to a residence abroad, foreign directors are not good in the acquisition of information as they cannot manage frequent visits to attend boards' meetings. (Masulis et al., 2012; Muravyev, 2017). Accordingly, it is argued that the associated costs of foreign directors are higher than the benefits they produce (Alli et al., 2010; Cimerova & Dodd, 2016; Masulis et al., 2012; Muravyev, 2017).

Many empirical studies also found that foreign directors on the board have negative (Cimerova & Dodd, 2016; Masulis et al., 2012) or no significant relation with firms' financial performance (Herdhayinta, 2014; Molenkamp, 2015; Muravyev, 2017; Zakaria et al., 2014) measured by ROA (Darmadi, 2011; Randøy, Thomsen, & Oxelheim, 2006) and ROE (Rose, 2015). Also, it is found that they have no relation to firms' market value (Alli et al., 2010; Darmadi, 2011; Fidanoski, Simeonovski, & Mateska, 2014). Fidanoski et al., (2014) found that firms with foreign directors on their boards are undervalued by the investors. Vania and Supatmi, (2014) reported that foreign nationality of the directors on the board has no significant relation with market response or value of the firms in Indonesia.

To sum up, the literature regarding the impact and role of the foreign directors on the board is not only scarce but also incongruent (Rahman et al., 2015). Therefore, this study investigates the impact of foreign directors on firms' financial performance (ROE and (ROA), firms' market value and boards' monitoring role in a developing and multi-ethnic country like Malaysia. On the basis of agency theory, the following hypotheses are established for this investigation.

- ***H1:*** The proportion of foreign directors on the board has a significant positive impact on ROE.
- ***H2:*** The proportion of foreign directors on the board has a significant positive impact on ROA.
- ***H3:*** The proportion of foreign directors on the board has a significant positive impact on firms' market value.
- ***H4:*** The proportion of foreign directors on the board has a significant negative impact on monitoring role of the board.

RESEARCH DESIGN OF THE STUDY

This study controls for firms' specific characteristics like age, size and leverage of the sample firms. Besides consistency with previous studies, the rationale behind controlling firms' specific characteristics is their obvious effect on the statistical estimation of a data collected through stratified random sampling. Because, the heterogeneity among the units of a randomly selected sample in the current study that includes firms with different age, size and leverage may affect the accuracy of statistical estimation (Rahman, Ibrahim, & Che-Ahmad, 2017a, 2017b). As the study period accounts for 5 years from 2010 to 2014 that includes the introduction of MCCG in March 2012, therefore, the code is also included as a control variable in the current investigation. In regard with the sample of the study, there were 960 companies registered in 12 different sectors on Bursa Malaysia (Malaysia's stock exchange) at the end of 2009 (Economic Planning Unit, 2011). Out of these, the mining and hotels sectors excluded in the selection of sample owing to their low representation i.e. less than 5 listed companies in each of the sector. Likewise, finance sector that includes banks, insurance companies and other financial corporations is also overlooked in the selection of sample due to its different governance structure. In view of these, this study selected a stratified random sample of 350 non-financial Malaysian listed companies from a population of 921 companies registered in 9 different sectors on Bursa Malaysia.

The data for number or proportion of foreign directors on the board extracted through content analysis of the directors' profile reported in the annual reports of the sample companies. Following Hassan, (2014), the study also obtained data for boards' monitoring measured by frequency of their meetings from annual reports. Like many others in the area, the data for ROE, ROA, firms' market value, age, size and leverage of the sample firms extracted from Thomson Reuters DataStream and cross-validated with their annual reports(Hassan, 2014; Rahman et al., 2017a, 2017b).

The study developed the following four models for a comprehensive investigation from different perspectives. For instance, Model 1 and Model 2 of the study investigates the impact of the proportion of foreign directors on the board on the financial performance of the non-financial listed Malaysian companies measured by ROE and ROA respectively. Likewise, Model 3 measures the impact of the proportion of foreign directors from a market perspective by using the proxy of firms' market value. Last but not least, Model 4 investigates the impact of the proportion of foreign directors on the monitoring role of the board.

$$ROE_{it} = \beta_0 + \beta_1 FD_{it} + \beta_2 FAGE_{it} + \beta_3 FSIZ_{it} + \beta_4 FLEVG_{it} + \beta_5 ID_{it} + \beta_6 TD_{it} + \varepsilon_{it} \ldots\ldots \text{Model 1}$$

$$ROA_{it} = \beta_0 + \beta_1 FD_{it} + \beta_2 FAGE_{it} + \beta_3 FSIZ_{it} + \beta_4 FLEVG_{it} + \beta_5 ID_{it} + \beta_6 TD_{it} + \varepsilon_{it} \ldots\ldots \text{Model 2}$$

$$MV_{it} = \beta_0 + \beta_1 FD_{it} + \beta_2 FAGE_{it} + \beta_3 FSIZ_{it} + \beta_4 FLEVG_{it} + \beta_5 ID_{it} + \beta_6 TD_{it} + \varepsilon_{it} \ldots\ldots \text{Model 3}$$

$$MONT_{it} = \beta_0 + \beta_1 FD_{it} + \beta_2 FAGE_{it} + \beta_3 FSIZ_{it} + \beta_4 FLEVG_{it} + \beta_5 ID_{it} + \beta_6 TD_{it} + \varepsilon_{it} \ldots \text{Model 4}$$

Where

ROE_{it} = Return On Equity
ROA_{it} = Return On Assets
MV_{it} = Firms' market value
$MONT_{it}$ = Monitoring measured by Boards' meetings
β = Beta
FD_{it} = The proportion of foreign directors on the board of the *ith* firm at time *t*
$FAGE_{it}$ = Age of the ith firm at time *t*
$FSIZ_{it}$ = Size of the *ith* firm at time *t*
$FLEVG_{it}$ = Leverage of the *ith* firm at time *t*
ID = Dummy variables for controlling sector-wise effect of the nine sectors on *ith* firm at time *t*
TD_{it} = Dummy variables for controlling time effect of five years of the study on *ith* firm at time *t*
ε_{it} = Error term of the *ith* firm at time *t*

DESCRIPTIVE STATISTICS

The descriptive statistics in Table 1 show mean values of 6.52 and 5.46 for ROE and ROA respectively. The negative minimum values for both the ratios – ROA and ROE imply the losses sustained by the sample firms during the corresponding period of the study.

Table: 1 Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
ROE	-184.99	369.91	6.52	21.85
ROA	-109.18	633.78	5.46	23.73
MV	0.89	4.73	2.35	0.71
MONT	2.00	55.00	5.44	2.18
FD	0.00	1.00	0.08	0.16
AGE	1.00	42.00	15.99	7.25
SIZE	3.73	7.74	5.26	0.71
LEVG	-376.63	546.49	46.23	68.58
COD	0.00	1.00	0.60	0.49

The average values for market value and boards' monitoring – frequency of boards' meetings are 2.35 and 5.44 respectively. The statistics also show 8% representation of the directors with foreign nationality on the boards of Malaysian firms. In regard to control variables, the average for age, size and leverage of the sample firms are 15.99 years, 5.26 and 46.30. The dummy variable COD for controlling the effect of MCCG 2012 shows its enactment in 2012 for a total of three years till 2014.

PEARSON'S CORRELATION MATRIX

Pearson's correlation matrix reported in Table 2 shows that foreign directors have a significant positive correlation with ROE, MV and SIZE. However, they have no significant positive correlation with ROA, MONT, AGE and COD. Also, they have an insignificant negative correlation with LEVG. All the correlations are below 0.8 and thus there is no multicollinearity.

Table: 2 Pearson's Correlation Matrixes

Var	ROE	ROA	MV	MONT	FD	AGE	SIZE	LEVG	COD
ROE	1.00								
ROA	0.326**	1.00							
MV	0.103**	0.026	1.00						
MONT	-0.063*	0.000	0.056*	1.00					
FD	0.138**	0.018	0.067**	0.048	1.00				
AGE	0.036	-0.004	0.032	0.003	0.048	1.00			
SIZE	0.364**	0.124**	0.249**	0.021	0.198**	0.270**	1.00		
LEVG	-0.089**	-0.054*	0.031	0.010	-0.002	-0.065**	0.020	1.00	
COD	-0.017	-0.021	0.045	0.024	0.013	0.172**	0.048	0.030	1.00

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2 -tailed).

HETEROSCEDASTICITY

The statistics for Prob > chi2 less than 0.05 in Breusch-Pagan/Cook-Weisberg test evidence heteroscedasticity. Based on this, all models (Model 1 to Model 4) of the study have a problem of heteroscedasticity as evidenced by the following statistics.

1. Chi2(1) = 2715.31, Prob > chi2 = 0.0000 ----.Model 1 (ROE)
2. Chi2(1) = 716.87, Prob > chi2 = 0.0000 ---- .Model 2 (ROA)
3. Chi2(1) = 35.90, Prob > chi2 = 0.0000 ---- Model 3 (MV)
4. Chi2(1) = 464.65, Prob > chi2 = 0.0000----- Model 4 (MONT)

CROSS-SECTIONAL DEPENDENCE

The Pr < 0.05 for Pesaran test indicates the cross-sectional independence in the data. Based on this, all models of the study have cross-sectional independence as shown by the following statistics.

1. Pesaran's test of cross sectional independence = 11.034, Pr = 0.0000--- Model 1 (ROE)
2. Pesaran's test of cross sectional independence = 56.305, Pr = 0.0000----Model 2 (ROA)
3. Pesaran's test of cross sectional independence = 4.713, Pr = 0.0000----Model 3 (MV)
4. Pesaran's test of cross sectional independence = 8.084, Pr = 0.0000----Model 4 (MONT)

SERIAL CORRELATION

The following statistics with probability above 0.05 for Wooldridge test evidence no autocorrelation in all models of the study.

1. F (1, 319) = 0.91, Prob > F = 0.3389, --- Model 1 (ROE)
2. F (1, 319) = 0.269, Prob > F = 0.6043, --- Model 2 (ROA)
3. F (1, 319) = 1.590, Prob > F = 0.5421--- --Model 3 (MV)
4. F (1, 319) = 2.326, Prob > F = 0.1282 --- -Model 4 (MONT)

MULTIVARIATE ANALYSIS

Due to evident heteroscedasticity and cross-sectional independence along with no serial correlation, this study applied Ordinary Least Square with Panel Corrected Standard Errors (OLS-PCSEs) for all models. Because, it is suggested that OLS – PCSEs is an efficient estimator that ensures unbiased and efficient statistical computation in the presence of heteroscedasticity and cross-sectional independence, if there is no serial correlation(Beck & Katz, 1995, 2001, 2009).

Table: 3 Foreign Directors and ROE

ROE	Coef.	Std. Err.	z	P>|z|
FD	13.203	4.395	3.000	0.003
AGE	-0.147	0.052	-2.800	0.005
SIZE	8.157	1.389	5.870	0.000
LEVG	-0.043	0.010	-4.210	0.000
COD	-1.304	0.260	-5.010	0.000
Cons	26.270	26.243	1.000	0.317
Industry Dummy				YES
Year Dummy				YES
Wald chi2(10)		69100.000		
Prob > chi2		0.000		
R-square				0.208

By employing OLS-PCSEs, the statistics in Table 3 and Table 4 show that foreign directors have a significant positive association with firms' financial performance measured by ROE and ROA. Consistent with previous studies, the findings indicate that foreign directors strengthen advising role of the board that improves firms' financial performance by enhancing the quality of decisions. Also, the findings endorse previous studies showing that foreign directors on the board not only amplify firms' compliance to good CG practices but also expand their access to crucial information and other resources which improve their financial performance. Moreover, the findings also imply that foreign directors improve firms' understanding to cross-cultural sensitives and market trends which improve their financial performance by exploring new markets and increasing sales (Carter et al., 2003; Gyapong et al., 2016; Ismail & Manaf, 2016; Oxelheim & Randoy, 2003; Rosenstein & Wyatt, 1997). Specific to Malaysia, the findings endorse Rahman et al., (2017b) who found that foreign nationality of the member of top management team improves firms' vision, quality of decisions and choices of investment which positively impact their financial performance. Overall, the findings which support H1 and H2 of the current study also validate the suppositions of agency theory which favor boardroom heterogeneity for improving firms' financial performance through augmenting independence of the board (Jensen, 1993; Rahman et al., 2017a).

Table: 4 Foreign Directors and ROA

ROA	Coef.	Std. Err.	z	P>|z|
FD	1.196	0.084	14.210	0.000
AGE	-0.093	0.059	-1.580	0.115
SIZE	2.323	1.264	1.840	0.066
LEVG	-0.012	0.004	-2.710	0.007
COD	-1.069	0.778	1.370	0.170
Cons	2.724	7.053	0.390	0.699
Industry Dummy				YES
Year Dummy				YES
Wald chi2(11)		1.88e+06		
Prob > chi2		0.0000		
R-square				0.0206

The statistics reported in Table 5 shows that foreign directors have a weak but significant positive association with firms' market value. The findings endorse previous studies showing that foreign directors enhance shareholders' confidence and thus firms' market value by signaling their commitment towards transparency and compliance to good CG practices. Also, these studies found that foreign directors increase firms' positive image and legitimacy in the market (Akerlof, 1970; Freeman, 1984; Hambrick & Mason, 1984; Lee & Shailer, 2008; Oxelheim & Randoy, 2003; Spence, 1973) that increase their market value by attracting investors and shareholders from domestic as well as international markets (Carter et al., 2003; Masulis et al., 2012; Oxelheim & Randoy, 2003). Besides these, the findings also show that foreign directors on the board augments boardroom heterogeneity (Carter et al., 2003) that enhances shareholders' confidence by ensuring transparency and accuracy of the financial information (Ibrahim, Che-Ahmad, Johl, & Rahman, 2016). The findings which support H3 of the study also show similarity with Rahman et al., (2017b) who reported that foreign nationality of the member of the top management team in Malaysian context increases firms' market value through improving their social and reputational capital. Overall, the findings show that shareholders and investors give value to the foreign nationality of the directors on the board for protecting their interests from the expropriation of management.

Table: 5 Foreign Directors and Firms' Market Value

MV	Coef.	Std. Err.	z	P>|z|
FD	0.166	0.093	1.790	0.073
AGE	-0.005	0.002	-3.160	0.002
SIZE	0.001	0.000	2.200	0.028
LEVG	0.318	0.020	16.070	0.000
COD	0.065	0.010	6.690	0.000
Cons	0.782	0.211	3.700	0.000
Industry Dummy				YES
Year Dummy				YES
Wald chi2(11)		0.000		
Prob > chi2		10300000.00		
R-square				0.095

Table 6 shows that foreign directors have a weak significant and negative impact on monitoring of the managers in the Malaysian context. The findings which support H4 of the study endorse Masulis, Wang, and Xie, (2012) who found that foreign directors are not good monitors due to their residence abroad and complications in international traveling to attend boards' meetings. Consistent with them, the findings also indicate that foreign directors have no informal network that could update them on firms' specific information for strengthening monitoring of the managers.

Table: 6 Foreign Directors and Monitoring

MONT	Coef.	Std. Err.	z	P>|z|
FD	-0.406	0.226	-1.800	0.073
AGE	-0.003	0.007	-0.380	0.703
SIZE	0.001	0.001	2.240	0.025
LEVG	-0.027	0.097	-0.270	0.784
COD	0.143	0.045	3.170	0.002
Cons	4.982	0.547	9.110	0.000
Industry Dummy				YES
Year Dummy				YES
Wald chi2(11)		1.10E+07		
Prob > chi2		0.00E+00		
R-square				0.0359

Regarding control variables in all models of the study, firms' age has a significant negative relationship with ROE and firms' market value while an insignificant negative association with

ROA and MONT. These findings indicate that sample firms could not update their strategies in accordance with the emerging challenges in the external environment. As expected and logical as well, firms' leverage has a significant negative impact on ROE and ROA. These reveal that firms should avoid debt financing by relying more on equity for acquiring their assets. The significant positive association between leverage and firms' market value point out that investors value firms' assets instead of its mode of financing i.e. either debt or equity. The statistics also show no significant relationship between firms' leverage and monitoring measured by the frequency of boards' meetings.

The findings also evidence that firms' size has a significant positive association with ROE, ROA, MV and MONT. These findings confirm that large firms are in better position to generate good returns through the efficient use of their assets that not only improves firms' financial performance but also enhance their market value. Also, large firms conduct more boards' meetings which improve the quality of monitoring and pace of decision making. The statistics show that MCCG 2012 has a significant and an insignificant negative association with ROE and ROA respectively. These findings have a plausible explanation that compliance to the new regulation increase firms' costs which negatively affect their financial performance. However, the code has a significant positive relationship with MV and MONT. These findings unveiled that the new code has improved compliance with good CG practices which increased firms' market value in the eyes of investors on one hand and frequency of boards' meetings – proxy of boards' monitoring on the other hand.

CONCLUSION AND WAY FORWARD

The significant positive role of foreign directors in relation with ROE, ROA and MV endorse the suppositions of agency theory and findings of extant previous literature. The findings also validate the recommendation of MCCG 2012 regarding the increase in boardroom diversity. Based on these and a low representation of foreign directors i.e. 8%, this study recommends an increase in their proportion on the Malaysian boards particularly from the countries famous for strong CG regulations or their compliance. In regard to the significant negative impact on monitoring of the managers, this study also recommends that foreign directors should increase their attendance at boards' meetings. Also, they should develop an informal network that could update them on firms' specific information. Old and already established firms are advised to revise their strategies according to the new challenges and changing environment. Likewise, small firms are also recommended to ensure the efficient utilization of their assets for increasing returns on shareholders' equity. Based on findings, firms are also advised to rely more on equity instead of debt for financing their assets. By following results, firms are also advised to improve the level of compliance with CG good practices.

Overall, the findings update the scarce and incongruent previous literature. Because, most of the boardroom diversity-related studies conducted in the past not only overlooked nationality of the directors but also produced inconclusive results. In addition, the findings of the study also contribute to policy and practice by updating the government, regulators and policymakers regarding the compliance with voluntary regulations and importance of boardroom national diversity in an emerging and multi-ethnic country like Malaysia. Besides investigating the topic in other emerging and multi-ethnic countries, the studies in future may also explore its qualitative aspect by interviewing directors on the board particularly those with foreign nationality. The studies in future may also search some other and more appropriate proxies for measuring boards' monitoring role.

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