BOARD DIVERSITY AND BOARD MONITORING ON PERFORMANCE OF MALAYSIAN ACQUIRING COMPANIES: THE INTERACTION EFFECT OF BOARD MONITORING INTENSITY

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by

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LIST OF ABBREVIATIONS

CAR	Cumulative Abnormal Return
CEO	Chief Executive Director
CMSA	Capital Markets and Service Act
FCCG	Finance Committee and Corporate Governance
FDI	Foreign Direct Investment
FPLC	United State of America
GLS	Generalized Least Square
GMM	Generalised Method of Moments
M&As	Mergers and Acquisitions
MCCG	Malaysian Code on Corporate Governance
MICEX	Moscow Interbank Currency Exchange
MNCs	Multinational Corporations
MTBV	Market to Book Value
NYSE	New York Stock Exchange
OECD	Organization of Economic Corporation Development
OFDI	Outward Foreign Direct Investment
OLS	Ordinary Least Square
PLC	Public Listed Companies
PPCs	Political Connected Companies
R&D	Research and Development
RDT	Resources Dependency Theory
ROA	Return on Assets
ROCE	Return on Capital Employed

ROE	Return on Equity
RTS	Russian Trading System
SC	Securities Commission
SMEs	Small and Medium Enterprises
UK	United Kingdom
USA	United State of America
USD	United State Dollar

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KEPELBAGAIAN DAN PEMANTAUAN LEMBAGA PENGARAH TERHADAP PRESTASI SYARIKAT PEROLEHAN MALAYSIA: KESAN INTERAKSI PEMANTAUAN LEMBAGA

ABSTRAK

Tesis ini merupakan penyiasatan empirikal yang memberi penekanan kepada kepelbagaian lembaga, mekanisme pemantauan lembaga dan interaksi pemantauan lembaga (BMI) terhadap prestasi syarikat perolehan di Malaysia (M&As). Secara khusus, kajian ini menyiasat perkaitan kepelbagaian dan pemantauan lembaga terhadap prestasi firma. Selain itu, kajian ini juga menganalisis sama ada BMI boleh meningkatkan hubungan antara kepelbagaian lembaga dan prestasi firma. Dapatan kajian ini menunjukkan sama ada kepelbagaian lembaga dan pemantauan lembaga boleh meningkatkan prestasi syarikat perolehan di Malaysia. Penyelidikan terkini dalam struktur lembaga telah tertumpu terutamanya pada kepelbagaian lembaga pengarah dalam prestasi firma. Beberapa kajian di negara maju dan sedang pesat membangun telah dijalankan untuk menyiasat kesan kepelbagaian lembaga pengarah terhadap prestasi firma bagi syarikat tersenarai dan tidak tersenarai awam, perusahaan kecil dan sederhana, syarikat keluarga dan institusi kewangan, tetapi kekurangan kajian penyelidikan mengenai penggabungan dan firma pemerolehan (M&As). Kajian ini memilih syarikat M&A sebagai sampel kerana syarikat-syarikat ini menghadapi cabaran dalaman yang terutamanya berkaitan dengan pengurusan sumber manusia. Di samping itu, kajian ini menyiasat perspektif percuma yang merupakan dimensi kepelbagaian pengarah syarikat. Mekanisme kepelbagaian lembaga yang digunakan dalam kajian ini ialah pengarah wanita, pendidikan pengarah bebas, pengarah asing dan pelbagai pengarah, manakala proksi pemantauan lembaga pengarah bebas, jawatankuasa audit bebas dan bilangan mesyuarat lembaga pengarah. Tambahan pula, kajian ini menganalisis kesan interaksi pemantauan lembaga sebagai interaksi antara kepelbagaian lembaga dan prestasi firma. Saiz sampel terdiri daripada 203 syarikat dan kaedah yang digunakan ialah Kaedah Detik Umum (GMM) untuk menganggarkan perhubungan. Penemuan menunjukkan pengarah asing (FD) mempunyai hubungan positif yang signifikan terhadap ROA. Pengarah berbilang (MD) mempunyai hubungan positif yang signifikan terhadap ROA dan ROE. Sementara itu, pendidikan pengarah bebas (IDE) mempunyai hubungan negatif yang signifikan terhadap ROA dan ROE. Ini menunjukkan kepelbagaian lembaga mempunyai kesan ke atas prestasi firma. Berkenaan dengan langkah pemantauan lembaga, keputusan menunjukkan hubungan positif yang signifikan antara jawatankuasa audit pengarah bebas (IDAC) dan ROA. Tambahan pula, penemuan intensiti pemantauan lembaga sebagai pembolehubah interaksi menunjukkan pengarah wanita (WD) dan pendidikan pengarah bebas (IDE) mempunyai perkaitan positif dengan ROA dan ROE. Ini menunjukkan bahawa kekerapan mesyuarat lembaga memberi lebih impak kepada nilai pendidikan pengarah wanita dan pengarah bebas terhadap prestasi syarikat pengambilalihan. Akhir sekali, penemuan juga boleh membantu syarikat dan penggubal dasar di negara mengikut amalan tadbir urus korporat ini. Penemuan juga mantap sepanjang keseluruhan ujian.

BOARD DIVERSITY AND BOARD MONITORING ON PERFORMANCE OF MALAYSIAN ACQUIRING COMPANIES: THE INTERACTION EFFECT OF BOARD MONITORING INTENSITY

ABSTRACT

This thesis is an empirical investigation which is emphasizing on board diversity, board monitoring mechanism and board monitoring intensity (BMI) on performance among acquiring companies in Malaysia (M&As). Specifically, this study investigates the association of board diversity and board monitoring toward firm performance. In addition, this study also analyses whether BMI can enhance the relationship between board diversity and firm performance. The findings of this study indicate whether board diversity and board monitoring can increase the performance of acquiring companies in Malaysia. Recent research in board structure has focused primarily upon diversification of board of directors in firm performance. A number of studies in developed and emerging countries have carried out to investigate the effect of board diversity on firm performance for public listed and non-listed companies, small and medium enterprises, family companies and financial institutions, but lack of research study on merger and acquisition firms (M&As). This study chooses M&A companies as a sample due to these companies face internal challenges that primarily are related to the management of people. In addition, this study investigates a complementary perspective which is a diversity dimension of company's directors. Board diversity mechanisms that used in this study are women directors, independent director education, foreign directors and multiple directors, while proxy of board monitoring are independent directors, independent audit committee and the number of board meeting. Furthermore, this study analyses the effect of board monitoring intensity as an interaction between board diversity and firm performance. The sample size consists of 203 companies and the method uses is generalized Method of Moment (GMM) to estimate the relationship. The findings show foreign director (FD) has significant positive relationship on ROA. Multiple director (MD) has significant positive relationship on ROA and ROE. Meanwhile, independent directors' education (IDE) has significant negative relationship on ROA and ROE. This demonstrates board diversity has an impact on firm performance. With regard to board monitoring measures, the results reveal a significant positive relationship between independent director audit committee (IDAC) and ROA. Furthermore, the findings of board monitoring intensity as interaction variable shows that women director (WD) and independent directors' education (IDE) have positive association with ROA and ROE. This implies that the frequency of board meeting gave more impact on the value of women director and independent directors' education on the performance of acquiring companies. Finally, the findings can also assist the companies and policymakers in countries following these corporate governance practises. The findings are also robust throughout the entire test.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Globalization and the increasing challenges in business areas compel companies to develop corporate strategies to strengthen and maintain long-term success. The COVID-19 pandemic has significantly impacted the world's economies, adding to the existing volatility and uncertainty businesses already face. In this environment, companies are encountering difficulties as they strive to grow and remain competitive. Businesses worldwide are adapting to these unprecedented challenges (PwC, 2022).

According to PwC (2022), companies are scrambling to reorganize their businesses and capabilities in response to the changes brought about by COVID-19. In challenging economic environments, the number of M&A deals is expected to increase as asset prices, including company valuations, may decline. This presents an opportunity for acquiring businesses to purchase assets or companies at a lower cost compared to normal economic conditions. When the economy improves, seeking deals on distressed or undervalued assets can provide long-term benefits. Hence, the world indirectly boosts M&A activities (OECD, 2009; PwC, 2022).

This means that even in an unhealthy or challenging global economy, companies may still be inclined to pursue mergers and acquisitions. Weaker companies struggling to survive and facing financial difficulties become potential targets for stronger companies. Through consolidation, companies can expand their market presence, eliminate competition, and increase their market share. Additionally, in a challenging economic environment, asset prices, including company valuations, may decline. This presents opportunities for acquisitive companies to acquire assets or companies at a lower cost compared to normal economic conditions(Demirer et al., 2022).

Mergers and acquisitions (M&As) are a preferred choice for companies as a strategy to expand their business either locally or internationally and enhance overall company performance. Schuler and Jackson (2001) state that companies often choose to use M&A as a strategy to strengthen and maintain their position in the market, expecting to benefit from such initiatives. M&As provide companies with the opportunity to expand their business lines and achieve synergistic gain (Gaughan, 2007). Furthermore, M&A is a strategy for companies to access new markets, diversify risk-return volatility, overcome adverse government policies, increase market power, enhance productivity, and raise capital in a short time frame (Hu & Ngo, 2015).

Based on the PwC report (2022), the volume of deals in Asia Pacific shows a significant increase, with the region's share of global M&As continuing to rise. Furthermore, according to Brown (2022), due to the rapid growth of the Asia Pacific region and various levels of transition and transformation taking place, such as organizational, technological, digital, manufacturing, industrial, and political changes, there are disproportionately more opportunities to apply a value creation lens.

However, when companies decide to engage in M&As, they face increased complexities in their operations due to market challenges such as high inflation, prolonged impacts of the pandemic, unique territory nuances, and heightened regulatory scrutiny. These factors contribute to highly variable returns (PwC report, 2022).

1.2 Background of the Study

Once companies announce their involvement in corporate strategies, it serves as a signal for shareholders to assess the company's potential for investment benefits. M&A involves three main steps: pre-M&A, transition, and post-M&A processes. Among these steps, the most challenging process to manage is the post-M&A phase. This stage is critical for the success of the M&A transaction as it involves integrating the acquired entity into the acquiring firm. According to Angwin (2004), during this process, the acquiring firm establishes rules, standards, and cohesive visions aligned with its overall strategy. Seo (2001) found that the integration period following an M&A is typically demanding and time-consuming, often intensifying tensions within the original networks of each entity and, in the worst-case scenario, potentially weakening them.

M&As has a vital impact on the company performance. It is one of the most important corporate decisions a company can make, making it a tool to boost the value of the company after it reaches its peak performance. There are many reasons when the company choose to involve with M&As. One of the reasons is to achieve a synergistic benefit from either operating or financing activities. Second, acquire new technology by acquiring a business with a technological advantage. Third, the company wants to improve the profitability. Fourth, acquire the competency because if the company wants a competency that it does not have, it looks for a company that does. Fifth, they want to enter a new market because entering a new market is a difficult situation that they will face due to the market's current competition. The company will then merge with another company that already has a significant market share. The next reason is to gain access to funds by leverage the financial advantages and opportunities that arise from combining resources, accessing new funding sources, and creating a stronger financial position in the market. The final reason is to gain tax benefits by merging the company that have higher tax liability with the company that running in losses.

According to DePamphilis (2012), acquiring another company is often pursued by management with the anticipation of improving business performance and reaping benefits for the acquiring company. However, not all strategies yield positive outcomes, as some can result in losses for the companies involved. Agrawal and Jaffe (2001) argue that M&A may not be the most effective strategy for enhancing firm performance, as the performance of acquiring companies can be uncertain. Furthermore, a PwC report (2022) revealed that nearly half of the examined deals in the Asia Pacific region resulted in reduced value and underperformed comparable deals in the sector. The study indicated that 41% of buyers and 63% of sellers performed worse than their peers.

Therefore, there are several reasons for the failure of M&As, including different lines of business, inefficient communication, and divergent objectives between the acquirer and the acquired firm (Jiraporn, Singh, & Lee, 2009). Additionally, culture differences, foreign exchange risk, and accounting regulations pose challenges, particularly in cross-border M&As. Strong cultural differences are often associated with negative impacts on M&A performance (Jiraporn et al., 2009). Furthermore, poor corporate governance, inadequate due diligence, ineffective program management, weak leadership, and a lack of courage can contribute to M&A failure, leading to reputational damage. Unfavourable press, dissatisfied stakeholders, and a loss of investor trust can harm the combined firm's reputation in the market.

Restoring trust and recovering a damaged reputation can be difficult and time-consuming (Jiraporn et al., 2009).

In addition, companies face challenges when making significant decisions such as engaging in M&A. Information asymmetry plays a crucial role in decision-making within a company, as it heavily relies on how individuals or groups effectively utilize information to make informed decisions regarding business strategy. In group decision-making, information is often distributed among members to ensure high-quality decision-making. When evaluating the best course of action, the knowledge and expertise of individuals or groups take priority, often leading companies to appoint advisors who can assist in making high-quality decisions (Brodbeck, Kerschreiter, Mojzisch, & Schulz-Hardt, 2007). Consequently, companies are now permitted to engage consultants or advisors who can guide them through all stages of the M&A process until the deal is successfully completed.

Hence, the relationship between advisors and acquiring firms is of utmost importance. Sleptsov, Anand and Vasudeva (2013) have found a positive relationship between the number of prior transactions with advisors and acquisition performance, even when the acquisitions are less related. In Malaysia, the appointment of advisors is mandatory. According to the Malaysian Code on Takeovers and Mergers, acquiring companies are required to engage an independent financial advisor to advise the committee. If the offer is successful, the target company must provide details of any resignations and appointments of directors or management team members. This requirement enhances the relevance of the company-advisor relationship as it emphasizes open communication and transparency. The target company is obliged to disclose this information to ensure that shareholders have complete visibility into the potential impact on the management team and the company's operations after the transaction. The advisor can assist the target company in accurately preparing and disclosing this information in a timely manner (Securities Commission Malaysia, 2016).

Evaluating information in M&A transactions can be challenging. In international acquisitions, advisors often struggle to identify potential target companies due to differences in accounting standards and financial disclosure rules between the parent country and the target country. This creates high information asymmetry and uncertainty when evaluating potential targets (Qi Zhou, Anand, & Jiewei Yu, 2007). According to Banal-Estañol, Albert and Seldeslachts (2011), information asymmetry is a common reason for M&A failures. While companies appoint advisors to assist them in obtaining information about the target company, not all information is readily available. Some information remains private as companies may use it for other purposes if the decision not to merge is made, such as for competition. Furthermore, advisors also encounter difficulties in acquiring non-financial information for decision-making. Non-financial information, such as a company's production capacity, efficiency, supply chain management, product quality, and customer satisfaction, plays a crucial role in evaluating a company's effectiveness and its ability to meet customer needs. Additionally, information about a company's patents, trademarks, copyrights, and other intellectual property rights is essential in determining the value, protection, and potential risks associated with a company's intellectual assets, including any potential for infringement or legal action.

In addition, it also incurs with huge cost. Even after all the stages were finished, the internal problems still exist and the consultant cannot monitor the acquiring companies once the acquisition is completed. One of the internal problems that may exist is cultural integration. When two companies merge, their organisational cultures, values, and methods of operation frequently diverge. This can lead to conflicts and challenges in aligning the two cultures and integrating the employees from both companies. In order to make a good decision for the companies, thus a strong and good governance structure in companies is needed. The companies need to enhance their position in the competitive market in order to become more competitive advantage. The companies have to face with managerial challenges before, during and after M&A. Hence, to serve a better performance, the crucial part should be played by the top management team and the board of directors. The effective and appropriate board structure acts to improve corporate performance and maximizing shareholders value in a company. The board of directors is a cornerstone in corporate governance framework and it would be linked to the judgment, responsibility and accountability. It is parallel to the statement by "Oecd (2004), the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders".

The requirement of board diversity in the board structure is the best practice for the company to make a good decision for the company strategy. This is because board structure represents important nonfinancial information when making investment or strategic decisions. When the directors serve on the boards, they supply firms with human capital. Human capital refers to the variety of board directors that can bring knowledge, experience, expertise, skill and social connections serve as a signal in the board decision making that can help to reduce information asymmetry because it can provide important information regarding the firm industry, customers and suppliers (Certo, 2003; Zhang, 2007). Firms with efficient corporate governance mechanisms also may reduce information asymmetry and improve transparency between investors (Ajina, Sougne, & Laouiti, 2014).

The existent of directors with diverse characteristics can give a good impact for the company to improve their performance. According to Carter, Simkins and Simpson (2003), directors with diverse characteristics easy to understand the complexities of business environment. Furthermore, Horwitz and Horwitz (2007) examine the effect of team diversity and find that the more varying teams provided a broader range of knowledge, information and resources. It seems to be heterogeneous in their teams. Ibrahim (2014) points, in future; the requirement for the professional directors would be needed due to the operating environment becomes more complex. Hence, a diverse board structure might be necessary and board diversity can be one of the managerial strategies to enhance firm performance.

Besides, board monitoring also play crucial role in increasing firm performance. Board monitoring refers to the oversight and supervision activities performed by the board of directors of a company. It involves the board's responsibility to monitor the actions, decisions, and performance of the management team to ensure that they are aligned with the company's objectives, comply with legal and regulatory requirements, and promote long-term value creation. Board monitoring can be measure by many perspectives and characteristics such as independent directors, board committees, board meeting and etc. Various committees and independent directors can enhance the performance of company (Lam & Lee, 2012; Singla & Singh, 2019). Independent directors have specific responsibilities to provide oversight and ensure effective governance. In addition, independent directors often serve on board committee. The existence of independent directors on audit committee enables them overseeing financial matter. Through committee work, independent directors contribute their expertise to specific areas of governance (Al-Matari, Al-Swidi, Fadzil, & Al-Matari, 2012).

In order to ensure the monitoring activities play effectively by the board of directors, one mechanism should be tested. That is board monitoring intensity. The different between board monitoring and board monitoring intensity is board monitoring only emphasizes the composition of the variable such as the number of independent directors that typically expected to bring objectivity, independence, and diverse perspectives to board discussions and enhance the board's ability to provide effective oversight and independent judgment while board monitoring intensity use as indication to analyse the overall monitoring capacity and engagement of the board. A higher value suggests more opportunities for monitoring and oversight discussions that potentially lead to more robust governance practices (Brick, 2005; Lam & Lee, 2012; Singla & Singh, 2019).

Thus, the purpose of this study is to identify whether board diversity, board monitoring and board monitoring intensity can increase the performance of acquiring companies after the deal was completed.

1.3 Problem Statement

Organizations are run by human being. In order to ensure the board of directors really play their role and promoting accountability and transparencies, it became crucial issues. Even though there are superior codes on corporate governance, the sincerity and the ability of people cannot be estimated by the code. Nowadays, most of the companies in Malaysia face tough challenges because of the globalization. Bring up a diverse group of directors in companies with better monitoring is an effort to achieve the successful of the board role then lead to the better firm performance especially during merger and acquisitions activities.

M&As involve the complexity of a company's operation. However, the demand for local and cross-border M&As expected to increase especially after the COVID-19 pandemic which had a big impact on the world's economy. The economic change forces the companies to scramble to reorganize their business in line with the current situation. When the company faced financial distress or struggle to adapt to the changing market dynamics, some companies will grab opportunities for potential acquirer to capitalize on distressed assets, acquire strategic capabilities or enter new markets through M&A transactions. The post-pandemic also highlighted the important of diversification and that may urge the companies to expand their market globally. As a result, this situation may contribute to the expectation of increased demand for local and cross-border mergers and acquisitions (M&As) post-pandemic.

When the companies announce to involve in any corporate strategies, it is a signal for the shareholders to identify their potential benefits from the investment because M&As is a strategy for the company to earn profit through synergies, efficiencies and value-creating growth. Therefore, the acquiring company should be potentially success after M&As. Nevertheless, not all of the strategies would give benefit, some strategies make the companies suffer losses and some do not.

According to Sirower (1997), senior executives face a serious problem when the company decided to be involved in any corporate strategy growth such as M&A due to the inherent challenges and complexities associated with this strategic decisions such as integration challenges, culture clash, strategic fit, financial risks, stakeholder management and post-merger integration. The problem requires careful planning, effective leadership and deep understanding the complexities of post-mergers. Based on the study, almost 65 percent of the major strategic acquisitions fail due to dramatic losses of shareholders value of the acquiring company.

Bruner (2002) states that the performance of acquiring company shows unsuccessful after M&As and most of the previous researchers also found the same result where the performance of acquiring companies always shows decreased significantly. The M&As failure rates have remained consistently high (Cartwright & Schoenberg, 2006). Even though the performance of acquiring companies is puzzle (Agrawal & Jaffe 2001), the companies always choose to use M&As as a strategy to strengthen and maintain their position in the market due to the potential for market expansion, synergies, diversification, access to new technologies, competitive advantage, and talent acquisition. However, it is important to note that successful M&A execution requires careful planning, thorough due diligence, effective integration, and proper management of the post-merger phase (Schuler & Jackson, 2001).

However, there are many successful factors of acquiring companies. One of the factors is the efficiency of the board structure. Board of directors plays an important role, especially as a decision-making body. Johl, Kaur and Cooper (2015) find board of directors became an important body in a company to monitor and assist the top management in carrying out their duty to safeguard the interests of the shareholders. One of their roles is involving in decision-making body in a company. Board of directors are responsible to approve a major strategic and financial decision such as M&As (Ferreira, 2010). According to Teti, Dell'Acqua, Etro and Volpe (2017) the independence directors emerges as a significant factor influencing M&A performance. Independent directors help make better decisions regarding M&A activities and leading to value-adding the acquisitions. Datta, Basuil and Agarwal (2020) find acquiring firms stand to benefit from having a larger board and influential outside directors. These directors can effectively monitor the CBMA process and provide valuable advice to top management, enhancing the chances of success.

Meanwhile, Fidanoski, Simeonovski and Mateska (2014) state a more diverse board in a company may contribute to better performance for the company. This is potentially logical since the companies that have a diverse board would be managed by directors that come from difference culture, have difference characteristics, various network connection, difference knowledge and skill may produce difference ideas. Therefore, this study will focus on investigating the connection between board diversity and board monitoring of acquiring companies' performance in Malaysia. This study will also analyse whether board monitoring intensity can enhance the relationship between board diversity and firm performance. Board diversity mechanisms in this study include women directors, Independent directors' education, foreign directors and multiple directors.

Women as a director became a topical issue in current year. However the capabilities of women in a company still questioning. Some studies found that women directors can play important role in firm performance (Conyon & He, 2017; Sabatier, 2015) and some did not (Boubaker, Dang, & Nguyen, 2014; Carter, D'Souza, Simkins, & Simpson, 2010). The nature of women is different than men. According to Grant and Taylor (2014), Women communicate effectively by getting right to the point, remaining succinct, dimensionalizing their content, owning their voice, controlling movement, and projecting warmth. Hence, these characteristics of women show that women have the ability to influence other people. Dieleman, Meijun and Ibrahim (2014) state that women make their careers in firms by taking on executive roles compared to men often end up in non-executive roles and more likely to have multiple directorship. There also have a claim that women are more risk-averse than men (Marinova, Plantenga, & Remery, 2010). Hence, the existent of women directors in M&As companies can be beneficial to help the company to be successful in the future.

This study will also examine the relationship between independent directors' education (IDs education) and acquiring firm performance. The existent of IDs education can be valuable for the company. Most of the previous study has focused on the independent directors solely without taking into consideration on the IDs background or characteristics. Even though, the requirement of independent directors in companies is one third of the directors, but based on the previous study, the result encountered mixed (Adams & Jiang, 2016; Arosa, Iturralde, & Maseda, 2010; Cabrera-Suárez & Martín-Santana, 2015). Hence, this study believes that the diversification on background and characteristics of IDs can give more impact on the degree of their engagement. A special knowledge or expertise can guide the directors for strategic decisions, while effective monitoring requires that boards be sufficiently independent of management. Hence, education independent directors can help the acquiring company to enhance their performance after the deal was completed.

Even though less of study on foreign directors, this study believes that the appearance of foreigners on the board of directors assumes to be greater importance and can increase the performance of the companies especially in M&As companies because their participation could give a signal of intention to expand globally. In addition, they may also have informational advantage and be more knowledgeable in term of sophisticated risk management strategies as compared to domestic directors. Foreign directors also may possess information and expertise about the complexity of different strategic approaches and it may be a unique position to influence management process in organizations. Due to their international experience and exposure, may have access to unique information and insights that domestic directors may not possess. This informational advantage can stem from their familiarity with global markets, industry trends, and international business practices. They may have a broader perspective on risks and opportunities that can benefit to company's risk management efforts (Estélyi & Nisar, 2016).

Some studies found that multiple directors were not beneficial for the company. This is because directors who serve on multiple boards faced time constraints and be less effective monitors from them. However, this study will investigate whether multiple directors can improve M&As performance. According to this study, the more number of multiple directors can benefit knowledge and insight from an advisory perspective. Directors who serve on multiple boards have access to resources and information that are not readily available to investors, such as effective corporate practises and lessons from other boards. The directors are able to share this information among boards of directors. Additionally, it can create a wider network of boards connected by common boards when companies share multiple directors with other companies.

Hence, the main objective of this study is analysing the four board diversity mechanism which are women directors, education independent directors, foreign directors and outside directors.

This study also believes that board's efforts related to its monitoring and control tasks implemented to reduce the agency conflict in a firm. Hence, this study will analyse whether the directors really play their monitoring function by examining the relationship of board monitoring toward firm performance. Board monitoring mechanisms that include in this study are independent directors, independent audit committee and the number of board meeting. The number of meeting indicates a higher level of effort in monitoring and control. Audit quality can enhance internal and external audit quality as well as it can reduce the information asymmetries and lead to lower cost of debt and increase firm performance.

In addition, the third objective will examine by the presence of board monitoring intensity (BMI) that can give more impact on the relationship between board diversity and firm performance. According to Ebenezer (2017) board monitoring intensity measured by the number of board meeting in a year. The frequency of board meetings can be monitored the directors more thoroughly and effectively, which will improve the financial performance of the company. Furthermore, it also enables the directors keep understanding and up to date with important developments of the firms so that the directors can timely take decisions in any critical problem as well as improve firm performance (Ebenezer, 2017).

Even though, the board diversity and firm performance had been studied frequently, but the mechanisms that used in this study are different and seldom used. In addition, this study will also take the proxy of board monitoring and board monitoring intensity in the analysis which these mechanisms will use as an independent and interaction variable. The sample of this study is M&A companies, which is lacking of study has been done in this area. In addition, to measure the performance of M&A companies, most of the previous study used event study to see the market reaction whether the deal is successful or not. However, there are lacking of study that analyse the performance of acquiring companies after the deal was completed and using historical and real accounting performance rather than using an event study.

1.4 Research Questions

The research questions are as follows:

1) Does board diversity affect firm performance of acquiring companies?

2) Does board monitoring affect firm performance of acquiring companies?

3) Do board monitoring intensity (BMI) interact the relationship between board diversity and firm performance of acquiring companies?

1.5 Research Objectives

The research objectives are as follows:

1) To analyze the effect of board diversity on firm performance of acquiring companies.

2) To examine the effect of boards monitoring on firm performance of acquiring companies.

3) To investigate whether board monitoring intensity have an interaction effect on the relationship between board diversity and firm performance of acquiring companies.

1.6 Scope of the Study

The purpose of this study is to examine the impact of board structure on the firm performance of acquiring companies as well as to determine whether the board of directors effectively performs its monitoring function. The three goals of this study were to evaluate the associations between board diversity and firm performance, board monitoring and firm performance, and whether board monitoring intensity was a moderating factor in the association between board diversity and firm performance.

This study selects some of board diversity variable that influence the firm performance of acquiring companies which consists of women directors (WD), independent director's education (IDE), foreign directors (FD) and multiple directors (MD). This study will demonstrate whether these characteristics may boost the capabilities of board of directors to strengthen the performance of acquiring companies or not. Following that, this study will look at how board monitoring—which comprises independent directors (ID), an independent audit committee (IDAC), and the frequency of board meetings (BMEETING)—relates to company success. The usefulness of board monitoring intensity (BMI) as an interaction variable on the link between board diversity and firm performance will next be examined in this study.

The sample of study consists of Malaysian acquiring companies from year 2008 until 2011 and the data collection starts from 2009 until 2019. This study chooses Malaysian acquiring companies due to the current economic and business challenges environment that force the companies to get involve in M&A as mention in background of the study.

1.7 Significant of the Study

The investigation and analysis of the impact of board diversity on acquisition firms' performance in Malaysia is driven by a variety of factors. This nature of studies helps to identify the most important factors and methods that can be used in the development of financial and economic field, especially with regard to M&A companies as one of the most important engines in the economy of countries. When companies merge or acquire other businesses, it can lead to increased market concentration, economies of scale, and enhanced competitiveness. Successful M&A transactions can drive economic growth, job creation, and innovation, contributing to the overall development of the economy (Hossain, 2021).

The aims of this study investigates board diversity, board monitoring and board monitoring intensity (BMI) on performance of acquiring companies in Malaysia. The significance of this study on board diversity and board monitoring stem in its potential to shed light on the relationship between these factors and firm performance. This study offers important new understandings for corporate governance scholars and practitioners by investigating how board diversity and board monitoring procedures affect several performance indicators. In addition, this study has several important implication by examining the interaction effect of board monitoring intensity (BMI) on the relationship between board diversity and acquiring firm performance.

Firstly, the results of this study can add to the body of knowledge regarding the advantages of having a diverse board. Research can demonstrate the benefits of diversity on strategic planning, risk management, innovation, and decision-making processes by examining the participation of women, education background, foreigners and multiple directors on corporate boards. This can give empirical support for the business case for board diversity and assist allay any doubts that may already exist.

Secondly, by examining board monitoring mechanisms including independent directors, independent directors audit committee and the number of board meeting, the study can shed light on the ways in which these elements affect the success of the company. Comprehending the correlation between board monitoring and performance metrics including return on Assets (ROA) and Return on Equity (ROE) can contribute to the improvement of corporate governance practices and board optimization for organizations.

Thirdly, Through a rigorous investigation of how board monitoring intensity interacts with the relationship between board diversity and firm performance in acquiring companies, this research aims to offer valuable insights into the nuanced effects of board diversity on performance outcomes. By examining this dynamic interplay, the study seeks to shed light on whether and how the positive effects of board diversity are contingent upon the level of board monitoring.

Furthermore, the research can have practical implications for policymakers and regulators. By examining the effectiveness of existing regulatory frameworks and governance guidelines regarding board diversity and monitoring, the study can provide evidence-based recommendations for improving corporate governance practices. This can contribute to the development of more robust regulations and policies that foster board diversity and enhance board monitoring, ultimately benefiting firms, shareholders, and stakeholders.

1.8 Organization of the Study

This study divides into five main chapters. First chapter is broader background of corporate governance study, introduction of mergers and acquisitions, problem statement, research questions and objectives. The second chapter begins by overviewing mergers and acquisition, corporate governance in Malaysia, the board role, a good board structure, corporate governance and M&A theories, board diversity, board monitoring, board monitoring intensity, firm performance measurement, the hypothesis and constructing the conceptual framework. Next, Chapter Three introduces the data and methodology which employed for testing, explanation of each variables, equations formulation and model that used in the study. Then, Chapter Four presents the results and discussions of the research findings. Finally, Chapter Five summarizes and concludes the study. This section also includes the study's limitations and suggestions for future research.

1.9 Definitions of Key Terms

1.9.1 Board Diversity

Board diversity includes a variety of the unique qualities, traits, and expertise areas of each board member as they relate to decision-making and other board-related processes. Board diversity involves by directors with different backgrounds, perspectives, and behaviours which can build a strong board structure to the companies (Bashir, Zuaini, & Idris, 2014; Hillman, Cannella, & Harris, 2002; Walt & Ingley, 2003). This study investigates the impact of board diversity on the firm performance of Malaysia's acquiring companies, considering factors such as gender, independent directors' education, foreign directors, and multiple directors.

1.9.2 Board Monitoring

Board monitoring refers to how good the directors play their monitoring role in a company. It can ensure the quality and integrity of directors while doing their duties (Hashim & Abdul Rahman, 2006). The aim of this study is to examine the relationship of board monitoring on the firm performance of Malaysia's acquiring companies, considering factors such as independent directors, independent directors audit committee and the number of board meeting.

1.9.3 Board Monitoring Intensity

Board monitoring intensity refers to the frequency or extent to which directors engage in monitoring their companies. There are many measurements to test the intensity of the directors. One of the measurements is by seeking on the frequency of the board meeting (Ebenezer, 2017; Kamardin, Abdul Latif, Mohd, & Adam, 2014). The study aim to explore the interaction effect between board monitoring intensity, board diversity, and firm performance, examining how different levels of monitoring intensity influence outcomes in Malaysia's acquiring companies.

1.9.4 Firm Performance

Firm performance was defined as an organization's capacity to take advantage of its surroundings in order to access and utilize the limited resources. Firm performance can be measures by many perspectives depending on the relevant area of study. It can be financial, customer, internal processes or innovation perspectives (Taouab and Issor, 2019). This study focuses on evaluating the relationship between board diversity, board monitoring, board monitoring intensity, and firm performance in the context of M&As in Malaysia, considering financial indicators like return on assets (ROA) and return on equity (ROE).

1.9.5 Mergers and Acquisitions

Merger is a combination of two entities, while, acquisitions refer to the acquisition of particular assets by one businesses. Mergers and acquisitions can be takeovers, tender offers, alliances, joint ventures, minority equity investment, licensing, divestitures, spin-offs, split-ups, carve-outs, leveraged buyouts, reorganizations, restructuring, and reconstructing (Ahern and Weston, 2007). This study aim to understand the impact of board diversity, board monitoring and board monitoring intensity on the firm performance of Malaysia's acquiring companies, considering the specific context of M&As in Malaysia.

1.9.6 Corporate Governance

Corporate governance refers to the system of rules, practices, and processes that govern the direction and control of a company, ensuring transparency, accountability, and responsible decision-making. This study recognizes the importance of corporate governance in shaping the relationships between board diversity, board monitoring and board monitoring intensity, and firm performance in Malaysia's acquiring companies, considering the overall governance framework and practices.

CHAPTER 2

BACKGROUND OF STUDYIntroduction

This section focuses on providing a foundational understanding of key concepts related to mergers and acquisitions (M&A), corporate governance, and the role of the board of directors. It aims to establish a strong knowledge base that is essential for comprehending the subsequent sections of the study.

By providing this background knowledge, the section lays the groundwork for the subsequent sections of the study. It helps readers understand the fundamental concepts and principles that underpin the study's research objectives and enables them to grasp the significance of examining board diversity, board monitoring, and firm performance within the context of M&A firms.

2.2 Mergers and Acquisitions

In general, mergers and acquisitions (M&As) refer to the process used by the companies to combine or consolidate their operations through a variety of transactions. The transaction can be local or cross-border M&A. A merger happens when two or more companies combine their operations, assets, and liabilities to establish a new company. When two businesses merge, they usually establish a single legal entity with the aim of creating synergies (maximising their combined strengths), expanding market presence (growing their market share), or accomplishing other strategic goals. In contrast, an acquisition occurs when one company acquires another, typically through the purchase of all or a controlling interest in the latter's assets. The acquired company may merge with the acquiring company or go on as an independent entity. The main drivers of mergers and acquisitions include industry consolidation, financial and economic concerns, access to new technologies or intellectual property, cost and synergy savings, and strategic growth (Roberts & Wallace, 2007). According to Ahern & Weston (2007), takeovers, tender offers, alliances, divestitures, spin-offs, split-ups, carve-outs, leveraged buyouts, reorganisations, and reconstructing consider as M&As.

M&As can take the form of horizontal, vertical or conglomerate mergers. Horizontal mergers occur when acquiring and the target company perform similar functions. It involves the similar products to similar customers. The reason for horizontal mergers is to make the companies able to compete in the respective industry. Firmly it is controlling by government due to the adverse effects on competition like bank mergers. A vertical merger involves companies that operate in related functions but at different stages of the product cycle. These companies are not direct competitors but rather have a complementary relationship, with one company typically being a supplier or customer of the other. The purpose of a vertical merger is to increase operating efficiencies, improve supply chain management, and reduce costs by integrating different stages of the production or distribution process. Moreover, conglomerate merger occurs when the companies operating in difference area and the companies also acquire one or more companies. The reason of conglomerate merger is for diversification purpose (Pervaiz & Zafar, 2014).

According to the Bloomberg report, the total value of M&A transactions in emerging countries is generally lower than that of developed countries in North America. However, in the Asia Pacific region, the value of M&A transactions in emerging countries has surpassed that of developed countries. This trend can be attributed to various factors, including market fragmentation, economic growth, regulatory environment, regional economic integration, and industry dynamics. For example, Malaysia has emerged as an attractive destination for M&A transactions,