THE EFFECTS OF BOARD AND OWNERSHIP STRUCTURE ON CORPORATE R & D STRATEGY: A MALAYSIAN-BASED EVIDENCE

ROSLIDA BT. RAMLEE

DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF ACCOUNTANCY

UNIVERSITI TEKNOLOGI MARA
DECEMBER 2001
ABSTRACT

This study is adapted from a study conducted by Baysinger et.al.(1991) on selected American companies. The purpose of this study is to analyze the relationship and examine the factors that are expected to influence a firms' corporate R & D strategy, namely board composition and firm's ownership structure. For board composition, this study is find out whether inside or outside directors influence the R & D spending. Firm ownership structure is also examined to see whether all substantial shareholders, individual shareholders or institutional shareholders influence the R & D spending.

A sample of 40 companies of various industries, listed on the Kuala Lumpur Stock Exchange (KLSE) Main Board and Second Board were investigated. The Pearson Product Moment Correlation and Multiple Linear Regression analysis are used to analyze the data obtained from the annual reports of the respective companies and KLSE Handbook for the years 1990-1999. The overall result of this study indicates that there is no significant relationship that exists between the board composition and firm's ownership structure on corporate R & D spending of a company. The overall implication of the result indicates that more than 90% of corporate R & D decisions are influenced by other factors unexplained in this study. The findings at 95% confidence level indicated that all null hypotheses cannot be accepted.

Regardless of other insignificant results obtained, it is hoped that this study will be a Malaysian-based evidence to support the study on the relationship between board composition and ownership structure on corporate R & D spending.
ACKNOWLEDGEMENT

First and foremost, I would like to express my gratitude to Universiti Teknologi MARA (UiTM) especially the Training and Staff Development Division of the Registrar Office, for giving me this opportunity to further my studies and providing me the financial assistance.

I gratefully acknowledge my supervisor, Dr. Zubaidah Zainal Abidin for her guidance, critics and comments, understanding and general supervision throughout the preparation of this dissertation. Also not forgetting, Prof. Dr. Ibrahim Kamal Abdul Rahman, the Dean of Faculty of Accountancy, Dr. Asmah Abdul Aziz, the Coordinator Master of Accountancy Program, Associate Prof. Dr. Normah Hj. Omar, the Research methodology lecturer and Associate Prof. Dr. Isahak Kassim, the Statistics lecturer, for their invaluable advice, assistance and guidance in this study.

Special thanks is dedicated to my course-mates for their assistance, encouragement and support for making this research a reality.

Most of all, to my dear family who have been my constant source of strength and inspiration. To my beloved parents, Hj. Ramlee Yaacob and Hjh. Faridah Che Esa, I couldn’t thank both of you enough for all your support, wisdom and prayers. Finally, my deepest and warmest appreciation goes to my wonderful beloved husband, Yahya Mustafa, whose love, patience, understanding, encouragement, support and tolerance in making this study available.
TABLE OF CONTENTS

Title i
Abstract ii
Acknowledgement iii
Table of Contents iv
List of Figures vi
List of Tables vii

CHAPTER 1 : INTRODUCTION

1.1 Introduction 1
1.2 Problem Statement 3
1.3 Objectives of the study 5

CHAPTER 2 : LITERATURE REVIEW

2.1 Introduction 7
2.2 Board of Directors 7
  2.2.1 Executive Directors 7
  2.2.2 Non-Executive Directors (NEDs) 8
  2.2.3 Effective Board Composition 8
2.3 Agency Theory 10
2.4 Firm’s Ownership Structure 12
  2.4.1 Substantial Shareholders 12
  2.4.2 Institutional Shareholders 13
2.5 Research and Development 16
2.6 Effect of Board Composition and Firm’s Ownership Structure On R & D Spending 18
  2.6.1 Board Composition 18
  2.6.2 Ownership Structure 19
2.7 Summary 24
2.8 Conceptual Framework 25

CHAPTER 3 : RESEARCH METHODOLOGY

3.1 Introduction 29
3.2 Sampling Design 29
3.3 Research Design 30
3.4 Data Collection 33
  3.4.1 Dependent Variable 33
  3.4.2 Independent Variables 34
  3.4.3 Control Variables 35