

# BULETIN

UiTM CAWANGAN NEGERI SEMBILAN  
KAMPUS SEREMBAN  
EDISI 10 2025

F  
P  
N  
S  
3



fpnuitmn9s3



<https://encr.pw/FakultiPerakaunanS3>

## The Role of Independent Directors in Strengthening Corporate Governance

*Musliha Musman, Raziah Bi Mohamed Sadique and Salwa Muda*

Corporate governance refers to the framework by which organisations are directed, managed, and controlled to safeguard the interests of both shareholders and broader stakeholders. It encompasses the structures, processes, cultures, and systems that promote accountability, transparency, fairness, and responsibility in corporate decision-making (Aguilera & Ruiz Castillo, 2025). As noted by Mrabure and Abhulimhen-Iyoha, (2020), corporate governance functions as a mechanism through which shareholders ensure that boards align managerial actions with shareholder interests. At the same time, it requires balancing the expectations of diverse stakeholders through effective oversight and management practices (Sari, 2023).



Drawing on agency theory, the separation of ownership and control often creates conflicts of interest between managers and shareholders, thereby necessitating governance structures that establish monitoring and control mechanisms to ensure managers act in the best interests of owners (Asad et al., 2024). More recent studies, however, extend this traditional perspective by emphasising that governance is not only about reducing agency costs but also about fostering long-term value creation and stakeholder trust. Aguilera et al. (2021), for example, argue that effective governance enhances organisational legitimacy by embedding ethical norms, sustainability, and inclusiveness into decision-making processes. Similarly, Zattoni and Cuomo (2023) highlight the increasing integration of environmental, social, and governance (ESG) considerations within modern governance frameworks, reflecting broader accountability to stakeholders beyond shareholders.

Recent empirical evidence also suggests that corporate governance is evolving into a multidimensional system that supports resilience and adaptability. Chatjuthamard et al. (2024) demonstrate that stronger governance structures positively influence corporate culture, thereby improving transparency and organisational performance. Likewise, García-Sánchez et al. (2025) find that governance mechanisms play a critical role in moderating the effectiveness of corporate social responsibility (CSR) initiatives, particularly when comparing family-owned to non-family firms. Together, these studies indicate that governance today transcends regulatory compliance, serving as a strategic mechanism to sustain trust, promote disclosure, and ensure equitable outcomes across stakeholders.

A key dimension of effective governance lies in board composition, as the board acts as the central oversight body. Strong oversight requires a high degree of independence, which underscores the importance of including a substantial proportion of non-executive directors (Tai, 2025). From the agency theory perspective, independent or outside directors serve as neutral referees whose primary

responsibility is to monitor managerial decisions and safeguard shareholder interests (Squires & Elnahla, 2020). In contrast, inside directors often maintain close alignment with the Chief Executive Officer (CEO), which may lead to coalitions that entrench management at the expense of shareholders (Lizares, 2022). Independent directors, by contrast, are generally seasoned professionals, including executives from other organisations, former policymakers and regulators, academic leaders, or entrepreneurs who contribute diverse expertise and impartial judgment (Hong & Marnet, 2025). Their independence enables them to exercise objective oversight of management, thereby enhancing accountability, reducing agency conflicts, and strengthening overall governance effectiveness.

The importance of outside directors in constraining managerial behaviour lies primarily in their independence from management. According to Ghazalat (2025), a higher proportion of independent directors strengthens the board's ability to monitor management, thereby curbing opportunistic behaviour, reducing agency costs, and encouraging greater voluntary disclosure. Conversely, when boards are dominated by non-independent directors, complicity between managers and directors may arise, weakening oversight (Bhatt & Bhattacharya, 2015). Independent directors thus play a vital role in protecting shareholder interests, enhancing transparency, and ensuring compliance with disclosure requirements.



In Malaysia, the Malaysian Code on Corporate Governance (MCCG) 2021 emphasises that at least one-third of the board should consist of independent non-executive directors. This requirement is reinforced by the Bursa Malaysia Listing Requirements, which stipulate that listed companies must appoint at least two independent directors or one-third of the board members, whichever is greater. Independent directors are defined as individuals who are neither company officers nor related to them, and who are free from any associations with concentrated or family ownership. Their primary responsibility is to safeguard shareholder interests by exercising unbiased judgment. The inclusion of independent directors strengthens board autonomy, enhances the monitoring of management, and fosters transparency, accountability, and the disclosure of intellectual capital. Furthermore, for large corporations with a market capitalisation exceeding RM2 billion, the MCCG mandates that at least 50% of the board must be independent, and the chairman should also hold independent status. These reforms reflect the increasing recognition of board independence as a cornerstone of effective corporate governance.

Recent empirical evidence continues to highlight the value of board independence. Chatjuthamard et al. (2024) show that increasing board independence by one standard deviation leads to a 32.8% improvement in corporate culture, as measured through advanced textual analysis and machine learning techniques. Similarly, a study on 100 firms in India finds that independent directors, both at the board and committee levels, significantly enhance transparency and ESG disclosures, with positive spillover effects on overall firm performance (Arora, 2024). In family-owned firms, Tai (2025) reveals that the independence of directors, defined as their ability to act without undue influence, positively influences

performance, while mere familiarity with the firm does not. Furthermore, strong governance practices amplify the benefits of directors' independence, particularly in enhancing firm performance and credibility.

Corporate governance has increasingly developed into a multidimensional framework that extends beyond regulatory compliance, placing emphasis on accountability, transparency, and sustainable value creation. Within this framework, independent directors serve as a crucial component of board composition, playing a pivotal role in protecting shareholder interests, mitigating agency costs, and enhancing disclosure and trust. Regulatory reforms and growing empirical evidence consistently highlight their positive influence on corporate culture, ESG performance, and overall firm outcomes. Thus, board independence continues to be recognised as a cornerstone of effective governance, ensuring rigorous monitoring, promoting transparency, and aligning corporate practices with the expectations of both shareholders and stakeholders.



## References

- Aguilera, R. V., Aragón-Correa, J. A., Marano, V., & Tashman, P. A. (2021). The corporate governance of environmental sustainability: A review and proposal for more integrated research. *Journal of Management*, 47(6), 1468-1497.
- Aguilera, R. V., & Ruiz Castillo, M. (2025). Toward an updated corporate governance framework: Fundamentals, disruptions, and future research. *BRQ Business Research Quarterly*, 28(2), 336-348.
- Arora, A. (2024). Do independent directors enhance better corporate governance in companies in India?. *Public Administration and Policy*, 27(2), 154-166.
- Asad, M., Akbar, S., & Mollah, S. (2024). The role of independent directors' tenure and network in controlling real-earnings management practices. *Review of Quantitative Finance and Accounting*, 63(4), 1251-1279.
- Bhatt, R. R., & Bhattacharya, S. (2015). Do board characteristics impact firm performance? An agency and resource dependency theory perspective. *Asia-Pacific Journal of Management Research and Innovation*, 11(4), 274-287.
- Chatjuthamard, P., Jiraporn, P., Kilic, M., & Uyar, A. (2024). Corporate culture, corporate governance, and independent directors: evidence from textual analysis. *Society and Business Review*, 19(3), 496-522
- García-Sánchez, I. M., Rodríguez-Ariza, L., Aibar-Guzmán, C., Khan, H., Zahoor, N., & Tarba, S. Y. (2025). Value Creating Corporate Social Responsibility Strategies of Family and Non-Family Firms: An Interventionist Perspective. *Journal of Business Ethics*, 1-41.
- Ghazalat, A. (2025). Board characteristics, board committees and voluntary disclosure as a catalyst of investment opportunities. *Discover Sustainability*, 6(1), 1-21.
- Hong, S. J., & Marnet, O. (2025). Outside board directors' expertise and intellectual capital disclosure: evidence from FTSE 350 companies. *International Journal of Disclosure and Governance*, 1-34.
- Lizares, R. M. (2022). Ownership concentration and board structure: Alignment and entrenchment effects in an emerging market. *Managerial and Decision Economics*, 43(6), 2557-2569.
- Mrabure, K. O., & Abhulimhen-Iyoha, A. (2020). Corporate governance and protection of stakeholders rights and interests. *Beijing I. Rev.*, 11, 292.
- Sari, R. (2023). Enhancing Corporate Governance through Effective Oversight and Accountability. *Advances: Jurnal Ekonomi & Bisnis*, 1(6), 344-356.
- Squires, B., & Elnahla, N. (2020). The roles played by boards of directors: an integration of the agency and stakeholder theories. *Transnational Corporations Review*, 12(2), 126-139.
- Tai, Y. H. (2025). Do independent directors' independence and familiarity enhance family firm performance? The role of corporate governance performance. *Pacific Accounting Review*, 37(2), 271-293.
- Zattoni, A., & Cuomo, F. (2023). Should we integrate corporate social responsibility with corporate governance? An empirical investigation of good governance codes' recommendations. *In Research Handbook on Corporate Governance and Ethics* (pp. 157-174). Edward Elgar Publishing.