Abstract

Despite the many benefits that good governance brings to investors, academics contend that individual investors have no significant role to play in governance as it is economically unviable and too time consuming for them. On the other hand, regulators encourage and seem to expect individual investors to be governance interested, especially in exercising their ownership rights and making use of governance redress mechanisms whenever the need arises. Are such expectations of how these investors should behave at all reasonable? More importantly, there is anecdotal real-life evidence that at least some individual shareholders in Malaysia do play a role in governance such as attending AGMs. If, as assumed by academics that it is not viable for them to do so, what is the logic and/or motivations behind such observed behavioural tendencies?

This study explores the many possible ways by which investors take governance into account (including harder-to-observe treatments – e.g. governance featuring in the form of share investment evaluation criteria). Yet unidentified, important actual motivations and justifications for all reported governance-related tendencies are studied as well. The actual relevance and also prevalence of such treatments and reasonings are largely unexplored in the empirical literature.

Essentially, the study considers all governance-related attributes (both firm-level and country-level) that are potentially important to individual investors as well as all governance-related actions/tendencies exhibited by them throughout the typical share investment cycle. Each action/tendency is viewed and made sense of (i) as an integrated part of the sets of behaviours identified, (ii) within the governance environment and investment context where it takes place and (iii) from the standpoint of individual investors.

Individual investors' relative propensities toward considering governance and/or undertaking governance-related actions are found to be (i) affected by, and are thus rational responses to, the governance-related institutional, environmental, cultural constraints they face and (ii) influenced by their personal investment inclinations, stylistics and preferences such as their primary investment strategies. These entail a number of implications that inform both policy and practice.

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Declaration

I declare that the work contained in this thesis has not been submitted for any other award and that it is all my own work.

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Chapter 1 Introduction

1.1 Chapter Outline

Chapter 1 begins with a description of the wider background to the study so as to provide the necessary overall research context. Major themes include the relevance of good corporate governance to capital markets and investors around the world and the interplay between governance and individual investors (as theorised by academics, as encouraged and/or expected by government regulators and as apparent from anecdotal evidence/real life observations of practitioners). The need for more research on individual investors' actual roles and nature of involvement in corporate governance (by exploring their governance-related behavioural tendencies) is then highlighted.

The earlier sections of the chapter above lead to a concise breakdown of the study's main research questions. This is followed by the establishment of the major objectives of the research. The researcher then describes his initial motivations for carrying out a study of this particular nature.

The later sections of the chapter are devoted to brief description of the underlying foundations of the study in terms of its major elements, conceptions and general design. This concise and integrated description begins in Section 1.6 which contains an account of the main ideas and contributions of the study as well as its distinctiveness compared to previous empirical research. Essentially, the various drawbacks of past studies are explored with the aim of showing how they influence the current study's overall approach in tackling the research questions posed, the various elements/variables to be considered and more importantly, how such elements are considered.

The overall design of the study itself is then elaborated upon with particular focus on the notion of exploring investors' governance-related behavioural tendencies over the entire share investment cycle. A conceptual framework is then established to provide additional guidance and also structure to the study. Using this framework, the major elements of the study are explicitly illustrated in terms of how each element interacts and fits alongside others.

Lastly, a breakdown of the main chapters of the study is given.

1.2 Wider Background to the Research

Corporate governance generally refers to the ways and means by which publicly-listed companies are run, controlled and directed (Charkham, 2005). It deals with a wide range of basic yet key issues such as the kinds of corporate objectives that these entities should pursue; the organisational structures and processes adopted; the division of corporate roles and responsibilities[1]; the various checks and balances established[2]; and the demonstration of corporate accountability. It ensures that corporate managers/directors have the right combination of qualifications, experiences and incentives to run such entities.

In addition, good governance lowers the likelihood of corporate abuses and/or fraud (for indications supporting such a claim, see, for example, Uzun et al., 2004 and Farber, 2004) that result in significant destruction of shareholder value[3]. Put simply, the core concern of corporate governance is the proper running of publicly-listed companies (Kean and Cheah, 2000).

Traditionally, corporate governance was largely a particular concern of academics and capital market regulators. Widespread interest in corporate governance, however, developed in the last few decades (Letza and Sun, 2002), mainly due to major developments in capital markets around the world such as:

(i) the major corporate scandals in the early 1990s such as the cases of Maxwell and Barings Bank in the UK;

[1] Especially between company directors and top management led by the CEO.
[2] Such as internal risk controls and independent monitoring of corporate executives by non-executive directors.
[3] The term shareholder value usually refers to the returns that shareholders ultimately get from their investment in the shares of public-listed firms through conventional means such as increases in share price and also dividends.

(ii) the devastating impact of the 1997 Asian Financial Crisis[4] on developing capital markets (see, for example, Johnson et al., 2000; Becht et al., 2003);

(iii) the string of corporate scandals in the early 2000s involving firms such as Enron, Tyco, Worldcom, etc[5] (Monks and Minow, 2004) and;

(iv) the recent collapses/failings of major Western publicly-listed firms in the most severe financial crisis to hit the global capital markets post World War II[6] (see, for example, Bushon, 2009).

Each shares a common thread in the sense that they are claimed to be partly caused, or their adverse impacts exacerbated, by lapses/failings in various aspects of corporate governance.

Apart from the major incidences above, there are a number of persistent governance concerns in capital markets worldwide in recent years. Prominent issues include managers/directors who allegedly overpay themselves (so-called “fat cats”), undertake overly risky projects, make corporate decisions that are not in the interest of those they serve (i.e. the corporations’ shareholders/owners), provide insufficient disclosures, are reluctant to communicate with or listen to their shareholders, and show a general lack of accountability and transparency.

Upon further reflection, however, these issues have been observed since the era of Berle and Means (1932) suggesting that major lapses in governance in recent times have caused a resurgence of (see, for example, Gomez, 2004), and also heightened interest in, various aspects of governance. Becht et al. (2003) supported this claim by stating that many of the main issues debated by early writers remain central today.

[4] As various weaknesses in governance practices such as the lack of corporate transparency, lack of risk controls and also lack of corporate accountability are argued to have exacerbated the negative effects of the Crisis.
[5] These incidents typically involve large scale, blatant lapses in good governance such as the discovery of many instances of accounting misappropriation, fraud and other illegal/unethical corporate behaviour.
[6] The current Crisis is portrayed as being caused by poor corporate governance such as lack of risk controls, widespread executive greed, the discovery of various incidences of significant fraud/scandals and other corporate abuses.

Malaysia is no exception. In the past few years, a host of incidences involving combinations of issues listed above were discovered in a number of Malaysian publicly-listed firms such as Transmile (accounting fraud), OilCorp (inadequate disclosures and conflicts arising from the company's significantly different asset valuations that are disputed by their external auditors), Megan Media (fictitious transactions), KFC (board tussle at the expense of minority outside shareholders), Padiberas (insider trading), FCW (absence of its Chairman at consecutive AGMs), and OCI Bhd (missing or destroyed accounting books and records), amongst others [7]. In addition, publicly-listed firms based in Malaysia were also found to be sorely lacking in terms of their general governance practices and were severely affected during the 1997 Crisis (Kean and Cheah, 2000).

As a consequence of the various weaknesses/failings/concerns pertaining to corporate governance outlined above, numerous investors of shares in many Malaysian publicly-listed corporations incurred substantial financial losses due to poor governance [8] (Leong, 2009). These failings have caused much concern amongst investors and greatly shaken their confidence in capital markets (Bushon, 2009). This is aptly described by Jaafar Sidek (2007a: no page): *"minority shareholders have been appalled by the wave of corporate governance and accounting irregularities in our country [Malaysia] recently"*. Searching questions are thus increasingly being asked regarding the actual running of publicly-listed corporations.

Apart from the negative consequences of poor governance, good governance brings a number of benefits. In a more globalised economy, good corporate governance has become a means for differentiation and is often argued to be a potential source of competitive advantage (see, for example, Rubach and Sebora, 1998). This is because good governance, as it endeavours to ensure that the right corporate structures and processes are established, that the right decisions are made in a timely manner to achieve the proper corporate objectives, is contended

[7] For a detailed description, please refer to the various reports, observations and articles compiled/posted/published by various reliable sources (practitioners and the press) such as the Malaysian Minority Shareholders' Watchdog Group's website at www.mswg.org.my, The Star newspaper's website at www.thestar.com.my and other business press with wide national readership such as The Edge Daily (www.theedgemalaysia.com). Selected samples of such articles are provided in Appendix 1.

[8] This points to the significant destruction of shareholder/investor wealth mainly in the form of drastic falls in a firm's share price.

to result in superior corporate performance (see, for example, Klapper and Love, 2004; Monks and Minow, 2004).

As a consequence of the confluence of the many factors above, both positive and negative ones, governance has become a buzzword for investors, governments and capital market regulators alike. In fact, it assumed centre stage in driving major corporate and capital market reforms worldwide. Essentially, governance is portrayed as the solution to the many problems plaguing capital markets outlined above while on the other hand, paying attention to governance results in lower investment risks and also higher investment returns for investors [9] (see, for example, Shleifer and Vishny, 1997). Investors/shareholders, as owners of publicly-listed companies, should therefore take governance[10] into account when making investment decisions (Bauer and Guenster, 2003).

Notwithstanding the arguments above, academics contend that most investors/shareholders, who collectively own these companies, themselves pay scant interest to the actual running/governance of such entities (Monks and Minow, 2004; Low, 2004; Thompson and Davis, 1997). This is mainly because utilitarian governance theories have predicted that it is economically unviable and too time consuming for small individual investors to monitor the actions of corporate managers (Grossman and Hart, 1980).

The description above applies especially to small, individual shareholders as they are seen to be ill-informed, disinterested and/or indifferent share owners with no significant role to play in governance. Such tendencies are said to be particularly prevalent in developing capital markets such as Malaysia (Low, 2004). In fact, even the many new codes and guidelines on corporate governance introduced by

[9] This refers to the dual aspect of corporate governance. On the one hand, it contributes to public policy goals such as increasing investor confidence in the workings of the capital markets and on the other, the benefits accruing to individual investors themselves in the form of greater returns (this is based on the notion that firms that are better governed achieve superior corporate performance over the long-term as compared to poorly governed ones. Agency costs are also argued to be lower in better governed firms. Furthermore, this superior performance will be fairly reflected in the corresponding share price valuations over extended periods of time. For further details, please refer to Section 2.5 Relevance of Corporate Governance to Individual Shareholders).

[10] This refers to the many aspects/attributes of firm governance such as the board of directors and disclosure practices. Individual investors' evaluation of "good governance" and also understanding of its many aspects (in terms of the kinds of governance mechanisms/attributes that are relevant and how they should work/function) are dealt with in Chapter 2.

many governments around the world have largely ignored this particular group of investors.

The arguments above seem persuasive but there are certain indications that this may not be as simple a scenario as envisaged. Consider the policies adopted by the Malaysian government and regulators post Asian Crisis pertaining to shareholder governance-related activism where an array of shareholder rights and redress mechanisms have been adopted (Anwar, 2007). Also, much resource has been expended to educate individual investors on the importance of governance (see, for example, The Securities Commission Development Centre Quarterly Bulletin [Malaysia], 2002).

Instead of just expecting to be protected, investors are encouraged and expected to exercise their ownership rights, monitor the actions of corporate managers and make use of redress mechanisms whenever the need arises (i.e. to contribute to corporate governance as described by Allen, 2004a). Are such expectations of how investors should behave, which runs contrary to the academic arguments predicting otherwise, reflective of the actual situation?

More importantly, there is anecdotal real-life evidence that some individual shareholders in Malaysia do play an active role in governance[11]. Notable examples include (i) the dressing down of Malton Bhd's board of directors by minority investors (who include many individual retail ones) for the absence of their executive chairman and executive director for two consecutive annual general meetings (AGMs) as well as their excessive remuneration when shareholders received no dividends and, (ii) investors successfully forcing the withdrawal of all three resolutions at the 2006 EGM of Bandar Raya Developments Bhd (or BRDB) after a significant group of minority retail (individual) and institutional shareholders voted against.

[11] Please refer to various published articles in the national press (see, for example, The Star newspaper). Articles are available through its website at www.thestar.com.my and refer also to the articles compiled/produced by other reliable sources such as those posted on the Minority Shareholders' Watchdog Group (Malaysia) website at www.mswg.org.my, The Edge Daily, etc. Selected samples of anecdotal evidence (i.e. relevant articles) are provided in Appendix 2.

On a more broad and general basis, individual investors are seen to dominate the attendance numbers at Annual General Meetings of Malaysian publicly-listed companies (Allen, 2004b; Schacht et al., 2009) even though the overall attendance levels tend to be low. Jaafar Sidek (2006: no page) highlighted that *"over the last one year, MSWG*[12] *noted that minority shareholders have grown in strength either in persons or as proxies to vote against resolutions which are against their interests"*. In addition, Goh (2008) has clearly described that *"obviously, awareness of corporate governance has improved among the general public. There are certainly more letters being written about accounting woes by investors to regulators"*. Overall, it is claimed that shareholder activism[13] is on the rise in Malaysia.

In some countries, individual investors have even banded together into associations to lobby for better corporate governance. If, as assumed by academics, it is not viable for these investors to do so, what is the logic and/or motivations behind such observed behavioural tendencies? It is apparent that theory-based reasoning and justifications in the extant literature which seem logical may, in fact, bear little resemblance to the multi-faceted, complex nature of actual share investment processes (Demirguc-Kunt and Maksimovic, 2002; Gabrielsson and Huse, 2004). Put simply, does governance actually matter to individual investors in reality?

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[12] The MSWG (Minority Shareholders Watchdog Group) was established (specifically, mandated/backed and also funded by the Malaysian government and other capital market-related regulatory bodies) to further/promote the interests of minority shareholders (both individual and institutional investors), mainly by:

- encouraging shareholder activism, especially the exercise of ownerships rights,
- acting as a forum for minority shareholders to share investment experiences,
- providing a platform for these investors to band together for collective governance-related initiatives, and
- developing the educational aspects of corporate governance (for investors).

For a detailed description of MSWG's history, aims, development as well as its various investor/shareholder-centered, governance-related activities/initiatives/services – Refer to Appendix 3.

[13] Investors involved in proactive governance-related initiatives such as attending AGMs, submitting complaint letters to company management and/or capital market regulators, etc. The full range of governance-related activism initiatives considered is outlined in Chapter 2 (Section 2.7.2).

In a related development, individual investors are said to lack consistency or are myopic in the sense that, when the companies that they partly own are registering good growth, operating performance, profits and/or the share prices are on an upward trend, governance is of little concern. Potential weaknesses in the actual running of these entities or even abuse/misuse of corporate assets are tolerated or ignored. Conversely, only when things go wrong do they start to question, where is the governance? This provides the basis for exploring if, when and how governance matters when circumstances change.

Practically, there are a number of ways by which investors could take governance into account besides costly continual governance monitoring and activism. For example, they could simply avoid investing in poorly governed firms[14] or sell out whenever governance concerns arise. Such treatments, if found to be practised, show that certain aspects of governance are indeed accounted for by individual investors. As these are much harder to observe/document compared to highly visible actions such as attending AGMs, the prevalence of such treatments has been largely unexplored in the empirical literature.

1.3 Research Questions

The study's main research questions are derived from the overall governance scenario and also the specific areas of interest meriting further academic research and enquiry, as portrayed above. They are:

- Does corporate governance matter to individual investors? If it does:
    - What aspects of it are taken into account in their share investment practices?
    - How are the relevant governance aspects taken into account?

- When or under what circumstances does governance start to matter/matter more[15]?

[14] Based on the firm-specific governance attributes that they may consider.
[15] For example, when corporate fraud happens often (and presumably is reported in the press) or when the equity market is on a declining trend. The justifications for these

- What are the reasons/justifications and also influences underlying individual investors' propensities to consider governance, undertake particular governance-related actions and/or exhibit governance-related tendencies?
    - What country-specific environmental and institutional factors influence and also explain observed behavioural tendencies[16]?
    - What personal investment-related attributes, preferences and stylistics influence and explain observed behavioural tendencies[17]?

1.4 Research Objectives

In order to address the research questions posed earlier, the following objectives are established:

- To review the different literature streams that are relevant to the study such as corporate governance, individual investor behaviour, path dependence/ institutional complementarities, economic and political history (elaborated in Chapters 2, 3 and 4);
- To examine the Malaysian institutional and corporate environment as well as certain investment-related cultural norms and, subsequently, to gauge their influences on the governance-related behavioural tendencies of individual investors who operate within this particular context (addressed in Chapter 3);
- To explore selected investment-related tendencies, preferences and stylistics exhibited by individual investors in terms of how each may influence each investor's relative propensities of considering governance and/or undertake certain governance-related actions (addressed in Chapter 4);

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scenarios alongside other potentially relevant ones are provided in Chapters 2 and 3. Other possible scenarios are gauged from the feedback of the study's interview respondents.

[16] Notable examples include racial/ethnic influences, relationship-based business culture and political involvement in business. The justifications for considering these external characteristics alongside other relevant ones are provided in Chapter 3.

[17] Notable examples include an individual investor's primary investment strategy, main investment objectives and other personal preferences/stylistics. The justifications for considering these individual characteristics alongside other relevant ones are provided in Chapter 4.

- To carry out a pragmatic, sequential mixed methods procedure in order to obtain the necessary data for the study (described in Chapter 5);
- To explore, analyse and report the various investment-related demographic attributes, psychological tendencies and investment-related preferences/stylistics of individual investors (dealt with in Chapter 6);
- To analyse, uncover and report the interplay between individual attributes and also the national institutional, cultural and corporate environment in terms of how each may affect investors' governance-related behavioural tendencies over the typical investment cycle (dealt with in Chapter 7);
- To synthesise and also draw conclusions regarding the interplay between individual investors and corporate governance (presented in Chapter 8).

A brief explanation of the various concepts and issues mentioned above and the intricate interlinks between them are given in the later sections of this chapter. Detailed elaborations are provided in subsequent chapters of the study.

1.5 Initial Motivations for the Study

Initial motivation to conduct the study arose from the researcher's earlier Masters Dissertation on corporate governance-related disclosures made in annual reports. In the course of completing the earlier piece of work, the researcher developed a better appreciation of the importance of good corporate governance in capital markets around the world. High standards of governance not only foster and enhance investor confidence but also serve to promote better corporate practices which ensure the proper working of these markets.

The study is also spurred by the researcher's own experiences of investing in shares in a developing capital market (specifically, investing in the shares of various publicly-listed companies in Malaysia, the researcher's home country). Hence, while various issues, factors, arguments and/or incidences that are detailed throughout the study are mainly uncovered through a review of relevant literature, materials published/disseminated by market regulators and the popular press, interpretation is further informed by the first-hand experiences and actual observations made by the researcher himself[18].

In producing this piece of research, the researcher has a few personal aspirations. Firstly, it is to improve the workings/functioning of the Malaysian capital market and in doing so, play a small part in improving his home country's economic institutions. As the Malaysian stock market shares a number of attributes with other developing markets around the world (Claessens and Fan, 2002; Rajan and Zingales, 1998), it is hoped that the methodology and/or findings of the study will have, at the very least, some applicability/relevance to these markets as well.

Second, it is the researcher's intention to deepen our understanding of the largely ignored and often the most vulnerable of all investor groups, that of individual retail investors. This is because, unlike big institutional shareholders who typically possess relatively large ownership stakes and have considerable clout/say within publicly-listed companies (Romano, 2000), the personal share ownership sizes of most individual investors are negligible[19]. These members of the investing public are usually the most powerless in terms of influencing the way publicly-listed companies that they partly own are governed and hence, prone to being ignored, exploited and/or mistreated.

Even so, due to their sheer numbers when seen as a collective group, individual investors' proportion of overall corporate share ownership is highly significant (La Porta et al., 2000). Individual investors thus merit attention. Therefore, this study is aimed at enriching our current understanding of investors' governance-related behavioural inclinations within specific environmental contexts.

[18] Mainly in terms of constructing and framing the various arguments put forth.
[19] Considering the typical sizes of public-listed corporations where many millions of shares are in circulation/issued at any one time.

1.6 Significance of Research

The primary focus of the research is to examine the investment-related behavioural tendencies of individual investors in a developing capital market setting. It is carried out from the perspective of corporate governance.

The study makes a number of specific contributions. These include being:

(i) The first piece of research primarily devoted to investigating the nature of relationships between corporate governance and individual investors. Previous academic work has largely ignored this particular minority shareholder group as they are seen to play no significant role in governance (Monks and Minow, 2004) and first-hand access to these investors has also been difficult to establish (Wood and Zaichkowsky, 2004).

(ii) The first study that attempts to make sense of various aspects of investor behaviours/tendencies from a distinct, unifying perspective (corporate governance). Previous studies have explored and described a wide range of somewhat disparate individual investor behaviours without reinterpreting or making sense of them in such a manner. See, for example, Nagy and Obenberger, 1994; Dorn and Huberman, 2005; Lease et al., 1974; Clark-Murphy and Soutar, 2004.

(iii) The pioneer in considering both personal (investment-related preferences/ stylistics/psychological traits) and external institutional environmental attributes that help shape the identified behavioural tendencies. While considering the influences of country-specific institutional and environmental variables is a feature of many governance-based studies, this study takes a step further by also considering the influences of personal investment biases/preferences/stylistics concurrently. Exploration of individual traits in relation to governance-related investor behaviour in a holistic manner has never been attempted thus far.

In addition, the research also has various distinctive characteristics, as outlined in the next section.

From the outline above, the study makes original contributions to knowledge pertaining to (i) the subject matters at hand and (ii) research methodology. The major themes outlined are elaborated upon in the following sections of the chapter.

1.7 Distinctiveness of Research

The study's distinctive aspects are derived from its attempts to address the various shortcomings of previous empirical studies on corporate governance and investor behaviour.

First, past studies have focused on only one or a select few variables (to preserve theoretical traction and simplicity) which failed to capture/document the intricate interlinks and mutually influencing relationships between the various different governance attributes/aspects concurrently and holistically (see, for example, Daily et al., 2003; Gabrielsson and Huse, 2004).

Second, past studies were overwhelmingly quantitative, relying heavily on statistical outputs that have faced persistent problems of potential omitted variables; reverse causality (Klapper and Love, 2004); and unrealistic assumptions made, or explanations given, with regards to investors' behavioural tendencies/ actions and the corresponding reasons/motivations for such tendencies. This is also partly due to the extensive use of aggregated market-based data as gaining access to individual investors and also obtaining samples of adequate sizes has proven to be difficult (Wood and Zaichkowsky, 2004).

Third, the reality of corporate governance being a culture-laden, politically-influenced and contextualised phenomenon is ignored or inadequately accounted for (Demirguc-Kunt and Maksimovic, 2002; Licht, 2001). On the other hand, individual investors themselves have been viewed as a fairly generic group across countries in past studies in terms of their behavioural tendencies and motivations. This obviously ignores the real-life distinctiveness of investors based in different countries (Aguilera and Jackson, 2003), even within countries.

Lastly, there is a dearth of research focusing specifically on the individual investor group from the perspective of governance, especially in developing capital markets such as Malaysia. The few studies that exist, besides being non-governance focused, also make use of samples of investors based in Western developed countries (see, for example, Dorn and Huberman, 2005; Lease et al., 1974; Clark-Murphy and Soutar, 2004; Nagy and Obenberger, 1994).

The various shortcomings above have resulted in calls by authors such as Daily et al. (2003), Gabrielsson and Huse (2004) and Huse (2005) for researchers to adopt new approaches to the study of governance, especially since past studies have yielded inconclusive/conflicting findings. Researchers are encouraged to conceptualise and also design governance-based studies in a more holistic, flexible, integrated yet contextualised manner (Huse, 2005; Daily et al., 2003).

In response, the study explores all governance-related attributes (both firm-level and country-level) potentially important to, and all governance-related actions/ tendencies exhibited by, individual investors. Each attribute/tendency is viewed and made sense of (i) as an integrated part of the set of behaviours/tendencies identified, (ii) within the governance environment and investment context where it takes place and (iii) from the standpoint of individual investors.

Investors' investment-related behavioural tendencies are posited to be profoundly affected by, and are thus rational responses to, the governance-related institutional, environmental, cultural constraints that they face (Huse, 2005; Gomez-Mejia et al., 2005; Aguilera and Jackson, 2003). Besides environmental influences, the study also investigates the influences of investors' personal attributes (for example, individual preferences such as chosen primary investment strategies) on their relative propensities toward undertaking governance-related actions. In addition, the study focuses on individual investors from a culture that is distinct from the West (Kim and Nofsinger, 2003).

Academic theories and predictions of investor motivations/actions/tendencies that are argued to bear little resemblance to real-life practices are evaluated by comparing and contrasting them with actual motivations/actions/tendencies, as reported by the investors/practitioners themselves. This also enables the identification of yet undocumented potential key reasoning, justifications and/or motivations that compel investors toward or away from considering governance or exhibit particular governance-related behaviours. In fact, the study is the first to solicit first-hand responses of actual individual investors on a wide range of governance-related behavioural tendencies and issues within a single study.

Essentially, the researcher adopts a two-stage, sequential mixed methods procedure where individual investors are interviewed to uncover the key issues/ tendencies/actions and the underlying motivations for each. Subsequently, a questionnaire based on the obtained feedback is distributed to explore the indicative prevalence of each potentially important tendency/action/motivation identified. Pragmatic understanding of the governance phenomenon as it is being practiced is emphasised.

Rather than sophisticated statistical models, the study makes use of simple contingency tables enriched by extracts of investors' first-hand accounts of the governance phenomenon which enables easier dissemination to the wider investing public. Since this research is aimed at improving our understanding of individual investors' investment-related behavioural tendencies, practical improvements and understanding should also benefit this particular investor group. Looking to improve actual investment practice is consistent with the study's pragmatic philosophy.

1.8 Overall Design of Study

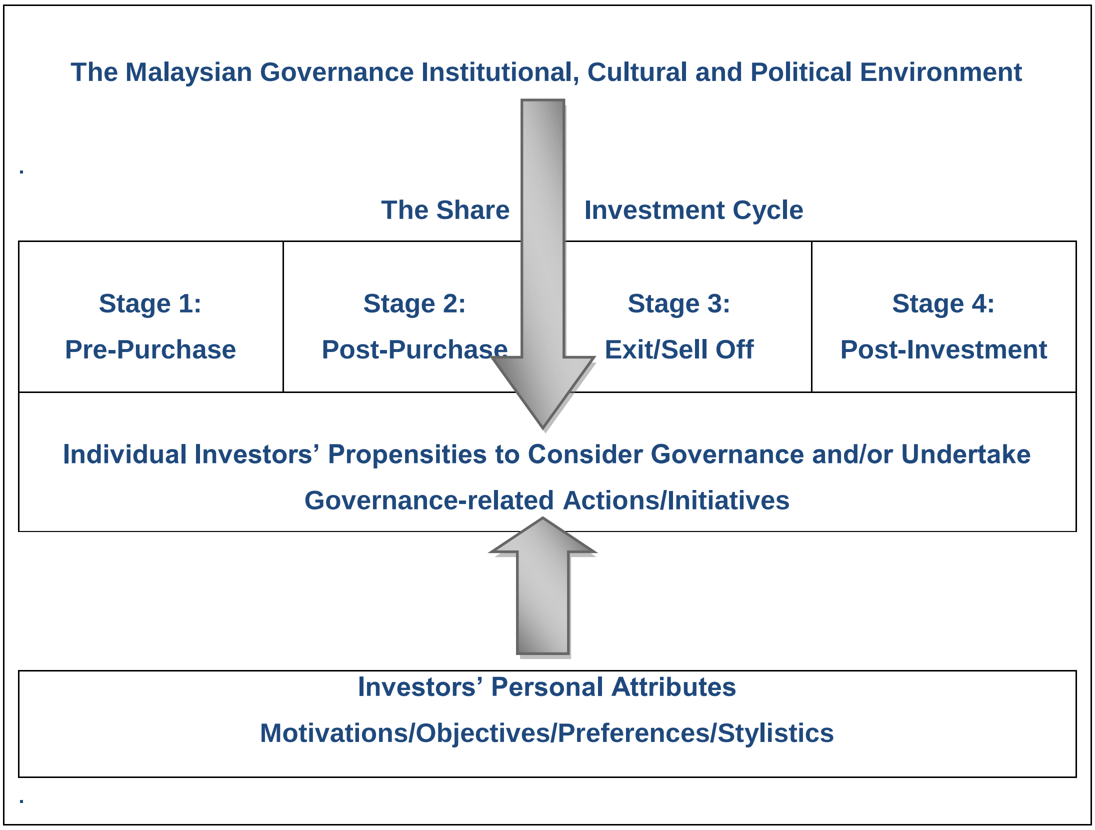
Consistent with the study's holistic approach, investors' behaviours/actions/ tendencies are cast into distinct stages of the typical share investment cycle (i.e. before, during and after a tranche of shares is held). This is because different governance related factors and/or behaviours feature at different parts of the investment cycle. For example, shareholder activist behaviour such as attending AGMs take place post-purchase of shares while evaluations of firm-specific governance factors take place pre-investment. Such a procedure enables each action/tendency to be better appreciated alongside others. Each of the governance-related actions/tendencies is segregated into the specific stages of the cycle where they are likely to feature.

This concept of considering investment behaviour in stages is consistent with Lewellen et al.'s (1977) study which divided investment activity into broad, chronologically-driven elements moving *"from goals to analysis to choice to evaluation" (Lewellen et al., 1977: 300).* Based on the author's own share investment experience spanning a number of years and also indications obtained through a preliminary review of established literature, the study divides the typical share investment cycle into (i) Pre-Purchase, (ii) Post-Purchase, (iii) Exit/Sell Out and (iv) Post-Investment stages.

Even though a few past studies (see Lease et al., 1974; Schlarbaum et al., 1978; Clark-Murphy and Soutar, 2004; Dorn and Huberman, 2005) did examine various decision-making processes and tendencies exhibited by individual investors over the investment cycle, these studies considered a collection of somewhat disparate concepts/issues. On the contrary, as mentioned earlier, the current study is the first to view all investment-related actions from a unifying perspective (corporate governance).

Combining the many different aspects of the research, the researcher has developed a unique conceptual framework to act as a guide and also to provide overall structure to the study. This framework is the culmination of (i) extensive reviews of a number of diverse literature streams (for example, the corporate governance, behavioural finance and political economy streams), (ii) the linking/ integration of various concepts, arguments and issues after much personal reflection on established academic and practitioner knowledge and (iii) attempts to address as many gaps and also shortcomings of previous empirical studies as reasonably possible. A visual representation is given below.

__Figure 1.1__ Conceptual Framework of Study



By referring to Figure 1.1, the study generally progresses by the following chronological order.

As little is known regarding which governance-related actions/tendencies are relevant/important in reality, the study first identifies and compiles all possible governance-related tendencies/behaviours (combining theoretical explanations/ predictions in the extant literature, the expectations of regulators and certain anecdotal real-life observations). All such governance-related actions/tendencies are placed within The Share Investment Cycle in Figure 1.1. Specifically, they are cast into the "Individual Investors' Propensities to Consider Governance and/or Undertake Governance-related Actions/Initiatives" section that runs through all four distinct stages of the cycle.

The treatment above is deemed suitable as, even though the governance institutional context is argued to be distinct for every country, the possible actions/tendencies of investors are actually fairly confined and generic. For example, in terms of attending AGMs of publicly-listed firms, investors could only opt to either attend or not attend. Similarly, investors could only opt to either avoid or not avoid investing in poorly-governed firms.

Once the possible range of behaviours/tendencies has been compiled, the corresponding explanations and/or justifications for undertaking/not undertaking each governance-related action/tendency are explored. To achieve such an aim, important aspects of the Malaysian governance and institutional environment are first described in detail. This is because environmental variables are seen to (i) provide the overall context within which investors' investment activities take place and (ii) act as constraints or facilitators of investors' behavioural tendencies. In Figure 1.1, they collectively make up "The Malaysian Governance Institutional, Cultural and Political Environment" section that forms the backdrop to The Share Investment Cycle.

In essence, the study contends that certain relevant country-specific, governance-related environmental variables provide the underlying motivations/justifications for empirically-observed governance-related investor propensities (i.e. the relative likelihood of undertaking each considered tendency/action). Hence, predictions are subsequently made regarding each chosen external factor's likely influence on investors' governance propensities within the Malaysian context (such predictions are not explicitly shown in Figure 1.1).

Third, a number of personal investment-related attributes/preferences/stylistics exhibited by investors is considered (as represented by "Investors' Personal Attributes Motivations/Objectives/Preferences/Stylistics" section in Figure 1.1). Similar to environmental variables, personal/individual variables are explored in terms of how each impact and also explain investors' governance-related propensities (again, predictions are not explicitly shown in Figure 1.1).

In terms of predictions, taking the previous example of AGM attendance, perhaps certain environmental constraints discourage some from attending (such as the existence of powerful, politically connected majority shareholder/owners that could disregard the interests of other investors with minimal sanctions, rendering their presence inconsequential) or certain personal investment preferences such as primary investment strategies adopted that make governance relevant/irrelevant to some of these investors. Previously unidentified important motivations/

justifications that explain identified investor actions/tendencies are also solicited from the investors themselves.

1.9 Structure of the Thesis

The study comprises of eight chapters.

Chapter 2 reviews current literature and other relevant sources that guide our understanding of individual investor behaviour from the perspective of corporate governance. It provides the overall context, interplay and also discrepancies pertaining to the governance-related behavioural tendencies of investors between three distinct sources, that is, (i) the dominant academic theoretical and empirical literature, (ii) the expectations, policies and assumptions of capital market regulators and, (iii) anecdotal real life evidence of investors' actual behaviour.

Chapter 3 explores the corporate governance environment specific to Malaysia. It gauges the influences of distinct cultural and institutional attributes on the behavioural tendencies of individual investors investing within that particular context.

Chapter 4 is an elaboration of investors' investment-related preferences/stylistics/ tendencies that are posited to impact their relative propensities to consider corporate governance.

Chapter 5 explicates the pragmatic philosophy that informs the overall stance of the study. The research methodology and methods utilised are then discussed in detail. Practical steps taken in carrying out the actual research are outlined along with the relevant data analysis procedures adopted. Lastly, research limitations are outlined.

Chapter 6 presents the study's various findings pertaining to individual investors' investment-related demographic, psychological, preferential and stylistic attributes.

Chapter 7 reports the various governance-related findings that are linked to the different stages of the typical investment cycle.

Chapter 8 offers an overall conclusion to the study. The primary stages of the study are revisited through a brief summary of each main chapter and/or stages of the research.

In the next chapter, the study reviews (i) established academic literature, (ii) government/capital market regulator policies and (iii) selected anecdotal evidence pertaining to all aspects of corporate governance that is relevant to individual investors. The primary aim is to identify (i) the many country- and firm-level governance attributes, (ii) the range of possible governance-related investor behaviours/action and (iii) the likely underlying motivations for individual investors to undertake/not undertake all such action.

Chapter 2 Review 1: Corporate Governance and Individual Investors

2.1 Chapter Outline

The review begins by describing the basic underlying concepts and thinking behind corporate governance. This is followed by an outline of the many aspects of governance, at both country and firm levels. Next, the theoretical underpinnings of the study are established, especially in justifying the reasons why the agency perspective is adopted for a governance-centred, investor study based in Malaysia. The study also attempts to make the case for its exclusive focus on the individual shareholder/investor group. An outline of the many benefits of good corporate governance to individual investors is then presented.

Moving to the next major section of the chapter, the study explicates the differing viewpoints regarding the relevance of corporate governance to individual investors and also the possible means by which they take governance into account. The primary aim is to highlight certain inconsistencies between the dominant academic viewpoint[20] that these investors have no active role to play in governance; the viewpoint of government regulators in terms of their expectations of how shareholders should behave; and some anecdotal evidence/observations showing that at least some individual investors do take governance factors into account as well as undertake certain pro-active governance-related initiatives[21]. Essentially, the study aims to build the case that it is compelling to investigate the prevalence of governance-related considerations and behaviours of individual investors as well as the underlying motivations for such behaviours.

Consequently, all possible means by which individual investors could take governance into account, be it theorised, predicted, expected and/or observed, are compiled. This is to facilitate investigation of the yet unknown relevance and also prevalence of each tendency/action in reality. Second, all major underlying

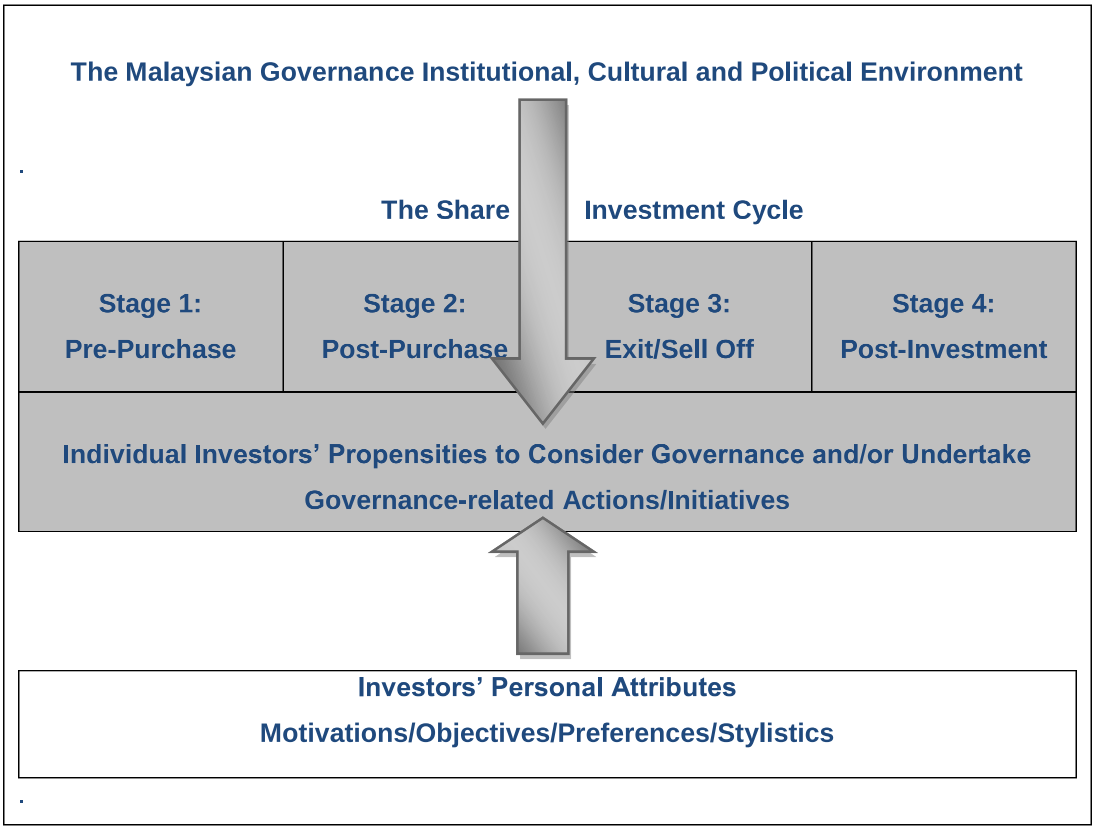
[20] i.e. the agency theory perspective, mainly applicable to capital markets with Anglo-Saxon structures.

[21] This refers to the range of activities that are popularly known and categorised as forms of shareholder activism. Included are initiatives such as attending AGMs, submitting complaint letters to company management and/or capital market regulators, etc. The full range of governance-related activism initiatives considered is outlined in Section 2.7.2.

motivations and/or justifications for the range of behaviours/tendencies identified are also explored.

In terms of the conceptual framework established, the relevant aspects being dealt with are highlighted (shaded) in Figure 2.1.

Figure 2.1 *Focus of Chapter within the Conceptual Framework of Study (I)*



In the final section of the chapter, the many governance-related elements/variables discussed throughout the chapter are integrated by the use of the study's main research questions as well as the typical share investment cycle. This is to show the underlying logic for the progression and also groupings of questions posed subsequently to both interview and questionnaire respondents.

2.2 Corporate Governance: The Agency Perspective

Public-listed corporations are of immense significance as, over the course of the 20th century, these entities have risen from relative obscurity to become the world's dominant economic institutions (Berle and Means, 1932; Bakan, 2005). Typically, modern corporations are collectively owned by combinations of up to many thousands of investors/shareholders (Bakan, 2005; Monks and Minow, 2004). As fragmented ownership is a primary feature of such entities (Berle and Means, 1932), their increasing numbers and sizes point to the rising proportions of people owning shares worldwide.

With extensive economic and social impact around the globe, the proper running of these enterprises becomes of huge interest. This is where the subject of corporate governance arises. At the most fundamental level, corporate governance refers to the ways and means by which publicly-listed corporations are directed and controlled (Arsalidou and Wang, 2005; Charkham, 2005).

The very relevance of corporate governance is argued to stem from the separation between ownership (finance) and management (control) of public-listed firms (Berle and Means, 1932; Davis et al., 1997; Jensen and Meckling, 1976). Due to such a separation and also with ownership itself being highly fragmented, shareholders (i.e. owners) are unable to influence managerial decisions (Berle and Means, 1932). This is because individually, investors' powers are too diluted[22]. In addition, there are also formidable barriers for them to form significant coalitions (and, act collectively) since they are anonymous to one another and are also broadly spread out geographically (Becht et al., 2003; Clarke, 2004; Bakan, 2005).

Consequently, managers' positions become entrenched as they end up with much discretion to run such entities in their own best interests rather than that of the shareholders. Descriptions of helpless shareholders facing strong, knowledgeable and entrenched managers are commonplace (Chirinko et al., 2004; Monks and Minow, 2004; Berle and Means, 1932). This conflict is the classic dilemma that the field of corporate governance is trying to address (Daily et al., 2003).

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[22] This is because their individual ownership share/stake is typically a negligible fraction of the total amount of shares issued.

The many streams of traditional governance research are profoundly influenced by the theory of agency, which is by far the most dominant theoretical perspective applied (Daily et al., 2003; Davis et al., 1997). Propounded by Jensen and Meckling (1976), agency theory provides an explanation for the classic governance dilemma[23]. It views corporate managers/directors as agents running the corporations on behalf of shareholders who collectively own such entities (Eisenhardt, 1989; Blair, 1995; Clarke, 2004). The sole objective of publicly-listed firms is to maximise the wealth of their shareholders (i.e. to maximise shareholder value[24]) (Letza and Sun, 2002). Shareholders, being the suppliers of capital, are also known as principals and viewed as the primary constituents of the firm (Stovall et al., 2004).

Both agents and principals are assumed to be self-utility maximisers (Jensen and Meckling, 1976; Letza and Sun, 2002) and hence, agents would always seek to enhance their own private benefits (even at the expense of their principals) if inadequate mechanisms[25] are in place to align the interests of both groups (Mallin, 2007; Davis et al., 1997). Authors such as Shleifer and Vishny (1986) and Haniffa and Hudaib (2006) have highlighted that managers pursuing their self interests may lead to a range of behaviours such as the misuse of corporate assets or pursuing overly risky/imprudent projects, amongst others.

Therefore, the primary function of corporate governance is to mitigate the conflicts within this core agent-principal relationship. The costs of interest alignment between the two parties are known as agency costs (Jensen and Meckling, 1976). Again, these mainly arise due to the significant discretion (control rights) that managers end up with alongside information asymmetries, since dispersed shareholders are outsiders with limited knowledge of what actually goes on inside the firm (Letza et al., 2004; Shleifer and Vishny, 1997).

[23] The separation between ownership and control phenomenon originally described by Berle and Means (1932) is consistent with the ideas propounded within agency theory, barring the use of the term itself which was coined a few decades later by Jensen and Meckling (1976).
[24] According to Becht et al. (2003), “shareholder value” refers to the stock market valuation of the corporation.
[25] The term “mechanisms” refers to a range of checks, balances, sanctions and incentives.

Theoretically, the agency perspective subscribes to the contractarian approach that views the firm as a nexus of contracts (Grossman and Hart, 1980; Dewatripont and Tirole, 1994). These contracts (connecting the suppliers of capital, labour, materials and other inputs) specify where decisions are made and how the proceeds from the firm's operations are divided up among the various corporate participants, with shareholders getting what's left after the other participants are paid off (Jensen and Meckling, 1976; Thompson and Davis, 1997). In short, shareholders are relatively less protected compared to other constituents due to their open-ended contract (Williamson, 1984; Williamson, 1985a).

From a more technical academic conception then, shareholders/investors take precedence because they are the ones taking a risk on the residue (leftover profits/earnings) rather than for being owners per se, leading some to refer to them as residual risk takers (see, for example, Alchian and Demsetz, 1972; Learmount, 2002; Clarke, 2004).

Regardless of whether investors are seen as owners or the more technical residual risk takers, the salient point is that shareholders are a core concern from the viewpoint of governance. In fact, many academics and policy makers are of the opinion that the main purpose of corporate governance is to safeguard the economic welfare and interests of shareholders (Berglof and von Thadden, 1999; Thompson and Davis, 1997).

The claim above has led authors such as Baysinger and Hoskisson (1990: 72) to regard governance as *"the integrated set of internal and external controls that harmonise manager-shareholder (agency) conflicts of interest resulting from the separation of ownership and control".*

Essentially, a combination of internal (such as the board of directors who have the right to hire, dismiss, and compensate managers) and external (such as takeovers and disclosure regulations) control mechanisms are utilised for such a purpose (Haniffa and Hudaib, 2006; Walsh and Seward, 1990; Gillan and Starks, 1998). These governance mechanisms or "ways" (Gibson, 1999) are geared towards overcoming/mitigating agency problems as efficiently as possible (Thompson and Davis, 1997). This is typically achieved by increasing the monitoring of management's actions, limiting managers' opportunistic behaviour, and/or reducing the information risk borne by shareholders (Skaife et al., 2004).

The various mechanisms/aspects of governance are typically divided into two distinct levels that is, firm-level and country-level (see, for example, Klapper and Love, 2004; Walsh and Seward, 1990; Becht et al., 2003; Arrarat and Ugur, 2003; amongst others).

At the country-level, important aspects of corporate governance that are relevant to Malaysia include (as listed by authors such as Klapper and Love (2004) who conducted their research on 14 emerging markets – including Malaysia. See also Thillainathan, 1999 and Low, 2004):

- General corporate ownership structures (this largely determines the general nature of corporate control at the firm-level. For example, the prevalence of significant and/or majority ownership by powerful families or big institutions. Please refer also to the description regarding firm-specific ownership structure given below).
- Legal and regulatory infrastructure (this is inclusive of the corporate laws and regulations that are in place to regulate the behaviours/structures/ functions of market participants and legal as well as capital market institutions such as the courts, the Securities Commission and other capital market regulatory bodies that enforce established rules and regulations).
- Basic shareholder rights (referring to shareholders'/investors' rights and entitlements as owners of the corporations such as their basic right to vote at AGMs in relation to the election of directors and also major corporate decisions such as significant mergers and acquisitions).
- Disclosure regulations and international accounting standards (in determining the kinds of essential company-related information that the corporation must provide to shareholders and other stakeholders).

On the other hand, firm-level attributes include (Thillainathan, 1999; Klapper and Love, 2004; Low, 2004; Walsh and Seward, 1990):

- Experience, qualification and independence[26] of the board of directors (acting as monitors of management on behalf of shareholders. See, for example, Fama and Jensen, 1983).
- Top management quality, capability and accountability (especially the Chief Executive Officer – to run the firm to generate good returns for shareholders in a transparent and accountable manner).
- Firm-specific ownership structure (especially the existence of powerful majority shareholder/managers and/or politically-connected large owners who may be proxies for political parties that are likely to possess significant scope to expropriate from minority shareholders).
- Top management compensation (particularly performance-linked pay which rewards managers for good corporate performance. See also Cheng and Firth, 2005; Dorff, 2005).
- The company's internal risk management and control systems.
- Amount, quality and timeliness of disclosures (to enable investors to make better informed decisions. See also Nestor, 2004).
- Takeover defences (such defences are expected to be minimal so as to better enable takeovers when the current management is not performing. Takeovers act as an external monitoring mechanism to ensure alignment of interest with shareholders and exertions of sufficient managerial effort since managers are otherwise faced with the threat of removal/ replacement by stronger outside managers, in theory).
- Reputable auditors (to serve as a check mechanism for the accuracy of the firm's published financial statements. See, for example, Goodwin and Seow, 2002).

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[26] The term independence refers to two related notions. Firstly, it refers to the proportion of the board of directors that comprises of independent, non-executive directors. This is because the typical Malaysian board consists of both inside and outside directors. The Malaysian Code on Corporate Governance recommends at least two directors or one third of the board to be independent. As an extension to the first notion, the focus is on the interpretation of the term "independence" itself – specifically, the attributes/criterias that makes a director truly independent of the insider/executive directors/managers.

As described in Chapter 1, the various aspects of governance above ensure that (i) corporations pursue their stated corporate objectives, (ii) organisational structures, processes and resources are suitably geared towards achieving the stated corporate goals (for example, employing suitably qualified top managers and directors), (iii) the proper internal risk control systems and practices are established, (iv) the appropriate checks and balances are in place, partly for effective demonstration of corporate accountability and transparency (for example, providing adequate disclosures of important corporate information to investors and employing reputable external auditors), and (v) to minimise the occurrence of corporate frauds and scandals.

The outline of various country-level and firm-level governance aspects, attributes and issues is not meant to be an exhaustive definition or neat compartmentalisation of the governance phenomenon into rigid facets. Furthermore, the study also does not attempt to propose, argue or even speculate on what the appropriate forms, structures and also working mechanisms of the different aspects of governance are or should be (as theorised in academic literature, as stipulated by various codes and guidelines on corporate governance and/or as implemented by market regulators[27]). Such structures/forms/working mechanisms include, for example, the appropriateness and also degree of compliance of certain public-listed companies with regards to the requirement that a certain proportion of their board of directors should be made up of non-executive and independent members.

Instead, the study identifies and considers all major aspects of governance that may be potentially important from the standpoint of investors. Rather than defining what governance means, includes and entails, the study gauges how governance is viewed and perceived by the investors themselves by scrutinising which aspects of it that they do consider, respond to or are simply of particular concern to them (as well as the underlying justifications/reasoning for such viewpoints/treatments).

[27] See, for example, the various provisions and guidelines detailed in Bursa Malaysia's (i.e. The Malaysian Stock Exchange) Listing Requirements and also The Malaysian Code on Corporate Governance (2000; Revised, 2007). Included are stipulated Board of Director characteristics such as the minimum number of independent, non-executive directors, corporate disclosure requirements, internal risk controls, etc.

The various firm- and country-level aspects of governance will be further elaborated upon, integrated with related concepts (for example, how they feature in investor's actual practices such as being accounted for in the form of pre-purchase share evaluation criteria) and subsequently, operationalised for the empirical phase of the research throughout Chapters 2, 3 and 4.

2.3 The Agency Perspective and Malaysian Corporate Governance

Corporate governance became a very prominent issue after the 1997 Asian Financial Crisis when various weaknesses in governance practices were widely perceived to be a major contributory factor (Johnson et al., 2000; Jomo, 1998; Claessens et al., 2002; Gibson, 1999; Haniffa and Hudaib, 2006). More importantly, such perceived weaknesses triggered major and sustained governance reforms in developing countries such as Malaysia. This is described by Anwar (2007), Chairman of the Malaysian Securities Commission, in her welcoming speech at the Launch of Malaysia's Corporate Governance Report on the Observance of Standards and Codes (ROSC: no page):

> *…challenges and weaknesses in our corporate governance framework… was aptly demonstrated during the Asian Financial Crisis when pressures on the ringgit and the stock exchange exposed latent corporate governance weaknesses in the corporate sector… the crisis certainly galvanised governments, regulators, corporates, NGOs and the media to place corporate governance in the public spotlight and precipitated widespread reform.*

Since 1997, the Malaysian government has been promoting better standards of corporate governance through the introduction of a myriad of governance-related regulations, codes, principles and best practices[28]. Most governance measures/ mechanisms introduced are based on Western principles, concepts and practices, especially those of the UK, US and Australia (Arsalidou and Wang, 2005; Lu and Batten, 2001).

[28] See, for example, The Malaysian Code on Corporate Governance (2000; Revised, 2007).

The design of the Malaysian Code on Corporate Governance itself was largely modelled after the UK's Combined Code, especially recommendations of the Hampel Committee[29] (Kean and Cheah, 2000; Haniffa and Hudaib, 2006). In fact, the High Level Finance Committee on Corporate Governance charged with drafting the Malaysian Code on Corporate Governance stated within the Malaysian Code on Corporate Governance (2000: 4) that they *"considered the Hampel approach to be the most suited for Malaysia"*

The High Level Finance Committee on Corporate Governance (Malaysia) in its Report on Corporate Governance (Revised 1999: 3) stated that "*corporate governance has the ultimate objective of realizing long term shareholder value"*[30]*.* Clearly, even fundamental issues such as the objectives that corporations should pursue[31] are also based on Western ideals.

Even so, the wholesale adoption of Anglo-Saxon governance mechanisms in Malaysia must be considered alongside the following recent empirical findings. Specifically, the proliferation of governance research worldwide post Asian Crisis[32] (Claessens et al., 2002; Gibson, 1999) show that the classic governance scenario of entrenched managers and dispersed, powerless shareholders do not hold true in corporate East Asia (La Porta et al., 1999; Claessens et al., 2000) as most public-listed firms have highly concentrated shareholdings by family and state interests (Thillainathan, 1999; Wiwattanakantang, 1999). In fact, more than two-thirds of East Asian firms are controlled by just a single shareholder (Claessens et al., 2000).

As most majority shareholders also assume the role of the managers who manage/control such firms (La Porta et al., 1999; Sycip, 1998), agency concerns of a different form are derived. They centre upon the potential conflicts of interests between powerful majority owner/managers and other minority shareholders/

[29] With a number of explicit references being made to the Hampel report itself.
[30] Typically measured by the amount of investment returns to shareholders in the forms of share price appreciation, dividends, etc.
[31] Specifically, the sole corporate objective is shareholder wealth maximisation.
[32] Pre Asian Crisis, there was a dearth of research on corporate governance outside of the four developed countries of the US, UK, Germany and Japan. As reported by Shleifer and Vishny (1997), even as recent as the late 1990s, not much is actually known about the nature, characteristics, and issues regarding corporate governance in most countries worldwide.

outside investors[33] (Shleifer and Vishny, 1997; La Porta et al., 2000; Claessens et al., 2002). The paramount focus of corporate governance in East Asian markets such as Malaysia, therefore, lies in resolving the conflicts between them (Du and Dai, 2005; Low, 2004; Claessens et al., 2002).

These findings, when considered within the context of governance reforms undertaken, raise an interesting issue. Basically, most implemented governance principles and measures are designed to address problems that are more peculiar to the classic entrenched agent, numerous dispersed owners scenario rather than that of entrenched large owner/managers with many small outside owners (see, for example, Haniffa and Hudaib, 2006; Arsalidou and Wang, 2005; Berglof and von Thadden, 1999). Wholesale adoption was carried out regardless because these East Asian countries (i) lacked an Asia-specific governance model to base their urgently needed corporate reforms on post Crisis and (ii) are mostly interested in attracting investments from the West again[34] (Arsalidou and Wang, 2005; Claessens and Fan, 2002).

Furthermore, even though some such mechanisms may be less suitable, there is at least partial or apparent applicability/relevance as they all address the general problem of the separation of ownership and control[35]. In the case of Malaysia, Western influences can be detected in reforms that aim to inject more independence into the board of directors, regulations aimed at facilitating corporate takeovers and the one-share-one-vote concept (The Malaysian Code on Corporate Governance, 2000)[36].

[33] Referring to the potential differences (in terms of objectives and/or motivations) between shareholders with control and those without. Put simply, majority shareholder/owners may pursue their own interests which need not coincide with those of other investors in the corporations.

[34] In order to allay Western investors' fears of East Asian capital markets being risky places to invest in - responding to pressures exerted by Western investors, governments and other international financial institutions such as the IMF to carry out governance reforms that they deem to be necessary and also appropriate (which is, of course, based on their ideals).

[35] This implies the existence of different variations, forms and degrees of the same basic concern/problem.

[36] Even though the established business culture is based on relationships and co-operation and not on arms-length, transaction-based independent monitoring. Secondly, corporate takeovers are very rare due to the prevalence of majority share ownership. Further explanation and examples are provided in Chapter 3.

Even though more emphasis was indeed given to a few solutions that are more relevant to the country's distinct governance characteristics such as excluding majority shareholder/managers from voting/deciding in related-party transactions, the overall situation has led to much criticism from various quarters. Such criticisms ranged from questioning the effectiveness/suitability of such measures (see, for example, Arsalidou and Wang, 2005; Lu and Batten, 2001; Allen, 2004a) to explicitly labelling them as "glib prescriptions" (Phan, 1998).

Allen (2000: 3) provided a succinct description:

> *It is worth noting that most governments in Asia have shown little interest in addressing the fundamental contradiction between the new corporate governance principles they are espousing and the deeply entrenched ownership structure of Asian companies... ignoring the cultural context in which companies operate.*

The Malaysian governance system is clearly shown to be heavily based on the Anglo-American system which justifies the outlining of various Western governance mechanisms/aspects (both country-level and firm-level) and also the classical agency perspective informing these mechanisms described earlier in the chapter. Also, shareholder wealth maximisation is the sole corporate objective, the core contractual relationship is that of principal-agent (as per Gomez-Mejia et al., 2005) and hence, the primary market constituent that merits consideration is minority shareholders/investors (Jensen and Meckling, 1976).

As the study aims to explore and interpret the behavioural tendencies of individual investors operating under the prevailing governance system, a pragmatic stance is taken. In keeping with the status quo the agency perspective is adopted as the study's theoretical core[37] (but only with regards to the aspects detailed above).

It must be noted that the study's intention is not to evaluate the chosen capital market's philosophical underpinnings per se or to provide justifications for or against particular governance systems or for how capital markets should function. Instead of attempting to evaluate the effectiveness of the described governance aspects, the objective here is strictly to demonstrate that the various governance measures discussed (i) are applicable to Malaysian publicly-listed firms and (ii) are

[37] This theoretical underpinning will act as a base theory to be expanded upon as the study progresses.

established elements within the Malaysian capital market. The various firm- and country-level aspects of governance outlined essentially form the initial list of variables that investors may consider to be important.

2.3.1 Other Theories and Perspectives

Even though the researcher has provided a number of valid reasons regarding the choice to conduct the study through the standpoint of agency perspective, an evaluation of selected alternative theories and perspectives is necessary.

One of the main alternative perspectives that merits particular attention is the stakeholder view of governance which is often portrayed to be in opposition to the agency standpoint[38] (see, for example, Shankman, 1999; Letza and Sun, 2002). For a detailed explication of its major attributes and nuances, see Solomon (2007), Clarke (2004) and Letza et al. (2004). Here, this perspective is only discussed within the context of pertinent concerns impacting the choice of theory, as applicable to the current study.

According to authors such as Davis et al. (1997), Donaldson and Preston (1995) and Freeman (1994), as described by Freeman et al. (2004: 365)

> *Stakeholder theory claims that whatever the ultimate aim of the corporation or other form of business activity, managers and entrepreneurs must take into account the legitimate interests of those groups and individuals who can affect (or be affected by) their activities.*

Put another way, Sternberg (1998: 95) explained that it is the doctrine where

> *organisations, including corporations and particularly businesses, should be run not to serve the interest of their owners, but for the benefit of all their stakeholders. It is an essential tenet of stakeholder theory that organisations are accountable to all their*

[38] Agency theory is widely recognised as a shareholder-based theory.

stakeholders, and that the proper objective of management is to balance stakeholders' competing interests.

Similarly, Donaldson and Preston (1995: 67) stressed that *"each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other groups, such as shareowners."*

The stakeholder perspective has been well explored and developed in the academic literature with a range of theoretical proposals, conceptions and/or justifications attempting to define, set boundaries and also map its scope (see, for example, Davis et al., 1997; Freeman et al., 2004). However, there are no widely agreed standards/boundaries to date. This includes even basic yet fundamental components such as which stakeholder groups to be included or considered. In fact, even defining the members of one particular stakeholder group is open to much debate (see, for example, the detailed arguments and examples by authors such as Moore, 1999; Sternberg, 1998).

In fact, Sternberg (1998: 96) offered a critical summary by stating *"some non-arbitrary criterion needs to be found… but stakeholder theory offers none".* She further highlighted that (i) individuals are often members of more than one stakeholder group, making classification difficult, (ii) the theory does not explain what should count as a benefit for the purposes of balancing benefits and (iii) the absence of guidance as to how balance is to be achieved. In fact, the only common denomination is that the nature of all such relationships is one of "exchange" (Solomon, 2007). Consequently, it is difficult for a practical, pragmatic study to adopt this perspective as it is not entirely clear how the various concepts should be operationalised.

Second, even though the stakeholder perspective may seem rather appealing in the distributive justice sense (in its idealistic, multi-fiduciary argument that the welfare of all corporate constituents are equally important and must be sufficiently catered for. See, for example, Moore, 1999; Davis et al., 1997), the study is compelled to consider actual beneficiaries rather than potential/supposed ones. The practical reality is that publicly-listed firms in Malaysia are run to maximise the profits of their owners/shareholders (especially in firms with majority shareholder/ owners, many of whom are powerful families or proxies/clients of political patrons whose objectives are to extract maximum value out of such entities)[39]. Scant attention is given to other stakeholders. Even minority outside owners are often victims of mistreatment/expropriation (see, for example, the White Paper on Corporate Governance in Asia, 2003).

An important supporting contention to the argument above is emphasised by Sternberg (1998: 21), that shareholder- centred governance *"does not diminish the importance of stakeholders in achieving the corporate objectives, or the need to treat stakeholders ethically. It simply recognises the difference between means and ends"*. Clearly, the crucial distinction is that stakeholders in Malaysian publicly-listed firms are treated more as means rather than ends (this contention is both implicitly and explicitly demonstrated in a detailed manner in Chapter 3).

Third, even though stakeholder interests have been recognised in corporate regulations and guidelines, their actual "existence" and implications are problematic. This is because stakeholder theory views investors/shareholders as only one of many constituent groups that simply need "looking after" (i.e. "adequately satisfied" through financial returns, however such adequacy is determined). Besides providing capital, investors/shareholders seem to have no other roles to play.

On the contrary, every other facet of established laws (with the notable exception of the aforementioned stated "recognition" of stakeholder interests) is based on *"fundamental features that characterise modern society"* (Sternberg, 1998: 105) that is (i) the notion of private property and (ii) the fiduciary duties that agents owe to principals (i.e. to maximise long-term owner value/wealth). In fact, the law explicitly provides for certain ownership roles for shareholders/investors in that they are given specific ownership rights such as voting rights over some firm-specific issues. Conversely, stakeholder theory undermines all such central tenets (Sternberg, 1998). Being both pragmatic and practical, the study therefore subscribes to the agency viewpoint as it is explicitly established and accepted legally rather than one with only a "conceptualized" and "mentioned" existence.

[39] Detailed explanations and related examples are provided in Chapter 3.

It is also interesting to consider closely the wording of the Malaysian definition of corporate governance that is "*the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value,* ***whilst taking into account the interests of other stakeholders****" [Emphasis added]* (Report on Corporate Governance by the High Level Finance Committee on Corporate Governance, The Securities Commission (Malaysia), 1999: 52).

The stakeholder-related phrase above seems to be of secondary importance and is framed more as an encouragement rather than a requirement since it is not specifically classed as an objective. Also, stakeholders are indeed viewed and treated more as means rather than ends in themselves. In fact, Jamie Allen (Secretary General of the Asian Corporate Governance Association (ACGA)) validated the study viewpoint by stating that Malaysia recognises *"the social importance of corporations, but do(es) not emphasize stakeholders within the governance context"* (in Allen, 2000: 2)[40].

The distinction above has major implications because authors such as Moore (1999) and Sternberg (1998) did acknowledge that traditional stakeholder doctrines – such as (i) recognition that people are more likely to take an interest in a process when they are materially involved in its outcome and (ii) a wide variety of interest must ordinarily be taken into account when pursuing organisational objectives – have long been recognised/accepted and are nothing new nor exceptional. It is only when force is applied by adding the specific objective that organisations should be run for the benefits of, and should be accountable to, all stakeholders, that stakeholder theory entails actual implications (as per Donaldson and Preston, 1995). Again, by looking at the definition of governance in the Malaysian context above, this is certainly not the case.

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[40] Allen (2000, p. 2) further stated that Malaysia encourages corporate boards to be *"responsible for relations with stakeholders*", but stresses that they are "*accountable to the shareholders*" (this viewpoint is consistent with the High-Level Report on Corporate Governance published in February 1999 that formed the basis of the Malaysian Code on Coporate Governance. Essentially, the report states: *"To define board responsibilities to act in the interests of a broader group than the company's shareholders would confuse board responsibilities and significantly undermine the accountability of the board. However, in making decisions to enhance shareholder value, boards must develop and sustain these stakeholder relationships"*).

The most salient point for the current study however, is that from the perspective of real-life individual investors, ownership of shares is also taken to mean ownership of such entities. At the very least, this claim is made in the sense that they perceive the ultimate responsibility of corporate managers is to run such entities to their benefit and to maximise their investment returns. Hence, taking into account the study's intention to make sense of the governance phenomenon from the standpoint of the practitioners themselves (i.e. as it is understood and practised by investors), agency perspective is the obvious and logical choice.

Sternberg (1998) further contended that, even if one were to argue the case for the morality of treating persons as ends rather than means, the respecting of persons as moral agents is actually achieved by allowing persons (such as individual investors) to choose their own ends. This is where stakeholder theory falters as it forcibly and systematically overrides the ends freely chosen by consenting agents in the name of "balancing stakeholder benefits" (refer also to Moore,1999). In reality, investors do possess the legal means to choose their own ends, as evidenced by their collective right to determine the firm's purposes and who are ultimately entitled to control it (Sternberg, 1998).

Once again, making the case for and also critiquing the normative, instrumental, value, moral and ethical basis for each theory are (i) not the intention of and (ii) beyond the scope of, the study. For relevant criticisms and counterarguments for a number of the contentions above, please refer to Freeman et al. (2004) and Letza et al. (2004).

Another relevant theory is the transaction cost theory (Coase, 1937; Williamson, 1996), which is argued to bear certain similarities to agency theory (Solomon, 2007). Even so, the crucial difference is that the unit of analysis in agency theory is the individual economic agent (in this case, individual investors) while transaction cost theory concentrates on the nature of the transaction itself (Solomon, 2007). Since the study focuses on individuals, in terms of their motivations/preferences/tendencies/actions before, during and after such transactions take place, agency theory seems to be the more suitable option.

It is important to note that the study subscribes to the arguments by authors such as Gomez-Mejia et al. (2005), Huse (2005) and MacNeil (2000) that more attention should be given to the social embeddedness and relational nature of the principal-agent relationship itself. This theme is elaborated upon in a detailed manner in Chapter 3. However, it is important to stress that the various environmental and institutional influences are examined within the confines/ context of the principal-agent relationship itself. This is because the study concurs with the view of Gomez-Mejia et al. (2005: 1512) that *"there must be a balance recognising unique contextual factors and the theory of principal-agent relations"* so as not to make the application of agency theory/viewpoint actually become *"a-theoretical"*.

2.4 The Focus on Individual Shareholders in Malaysia

From the earlier outline of major governance characteristics of the Malaysian capital market, it is obvious that minority shareholders in majority shareholder/ manager-controlled corporations are even more prone to exploitation, mistreatment and expropriation than those portrayed in the classic governance scenario (Khan, 1999; Low, 2004; Claessens and Fan, 2002; Arsalidou and Wang, 2005). This is aptly reflected in the White Paper on Corporate Governance in Asia (published as a result of the five annual meetings of the G-8 mandated, OECD-organised Roundtable on Corporate Governance in Asia) where protection of minority shareholders was featured prominently as *"the most serious corporate governance challenge"* in its checklist of priorities for the reform of governance in East Asian countries (White Paper on Corporate Governance in Asia, 2003: 15).

The vast amount of effort and resource devoted to governance reforms aimed at enhancing the interests of minority shareholders in the past decade is another good indication of their central importance to developing capital markets such as Malaysia. This is well reflected in an excerpt from the speech by the Honourable Prime Minister and Minister of Finance of Malaysia, YAB Datuk Seri Abdullah Ahmad Badawi, made at the Invest Malaysia 2005 Conference - *"...the protection of minority interests will, at all times, remain a critical priority of the Malaysian*

Government to ensure confidence in the Malaysian capital market" (Minority Shareholders Watchdog Group, 2006).

Taking the argument a step further, of the many minority shareholder groups, individual retail shareholders are usually the least protected and the most likely to be mistreated due to their very small individual shareholdings hence negligible influence on corporate managers. The contention is that individual investors merit attention.

Malaysia is a suitable choice for carrying out the study as it is one of the biggest East Asian capital markets when measured by market capitalisation as a percentage of GDP (Jomo, 1998). In addition, the collective size of the individual investor class in Malaysia is large both in terms of sheer numbers and collective amounts invested (Table 2.1).

Table 2.1 *Equity Analysis by Portfolio Size (June 2003)*

No. of Shares per Individual	No. Of Shareholders		Paid-Up Capital (RM)	
	Malaysian	Foreign	Malaysian	Foreign
Less than 100	123,917	7,869	7,440,989	308,386
100-1,000	2,298,210	139,528	1,807,793,607	80,935,309
1,001-10,000	3,581,493	458,279	12,403,823,778	1,753,681,692
10,001-100,000	573,565	158,198	13,407,331,120	3,611,841,314
100,001 & Above	58,064	20,810	113,804,756,139	20,341,618,773
Directors	2,820	244	8,875,445,629	613,856,355
Total	**6,638,069**	**784,928**	**150,306,591,261**	**26,402,241,828**

Source: Bursa Malaysia

More recently, the number of individual Malaysian shareholders/investors stood at 5,062,049 in December 2007 (Bursa Malaysia, 2007[41]). On other measures of relevance, individual investors accounted for approximately 24% of total trade value on Bursa Malaysia during the first six months of 2008; 37% for the whole of 2007; and was as high as 59% back in 1999 (*The Star*, 2008a).

The collective welfare of individual investors is, therefore, of extreme economic significance and bears real consequences on the growth of the Malaysian economy (La Porta et al., 2000). Lastly, the number of minorities will always be significant as listing requirements in Malaysia include minimum thresholds of shareholder numbers, designed to ensure a high degree of public shareholding (Thillainathan, 1999).

Due to their significance, a better understanding of this largely overlooked, under-researched investor group from the lens of corporate governance is needed. These arguments justify the study's focus on exploring governance from the viewpoint of Malaysian individual investors, especially whether and how they take it into account in their share investment practices[42].

As most individual investors are not expected to be very knowledgeable with regards to the specific nuances of each governance-related attribute outlined towards the end of Section 2.2 earlier in the chapter[43] and also considering the study's holistic perspective[44], exploring each attribute as it is generally understood is deemed suitable and sufficient to satisfy the study's aims. For example, rather than investigating whether individual investors know or care about the specific mandatory disclosures stipulated by corporate regulations for publicly-listed companies, the study explores whether material and timely corporate disclosures in general are regarded as important or otherwise by them[45].

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[41] These figures are based on the latest available dataset purchased from Bursa Malaysia.
[42] i.e. the range of governance-related investment behaviours/tendencies exhibited by them.
[43] As argued in Section 2.2, the nuances are in the form of defined/established/ conceptualised corporate governance codes, guidelines and/or regulations as well as academic design/conceptions.
[44] i.e. seeing each aspect within the wider perspective rather than close scrutiny on each aspect per se.
[45] For detailed explanation, please refer to the various arguments presented in Section 2.8 The Actual Behaviour of Individual Investors: Some Anecdotal Evidence beginning from Table 2.6. As for the list of firm-specific factors that may be of relevance to these individual investors, please refer to the list presented on page 71.

2.5 Relevance of Corporate Governance to Individual Shareholders

This section explores the many reasons why corporate governance may be a valid concern to individual investors, scrutinising the kinds of benefits that these investors can obtain by taking governance-related factors into account in their share investment decision-making.

First, recent studies that link corporate governance with corporate performance show that better governed firms are relatively more profitable; more valuable; and pay out more cash to shareholders (Brown and Caylor, 2006; and Gompers et al., 2003). Bauer and Guenster (2003) found that portfolios of companies with high governance standards perform better than portfolios of companies with lower standards. Hence, investors who opt for better governed companies should realise superior share investment returns.

Second, research on corporate valuations in times of financial crisis (Baek et al., 2004; Johnson et al., 2000; Mitton, 2002; Lemmon and Lins, 2003) found that better governed firms (with higher disclosure quality, less divergent control to cashflow ownership, and greater transparency) experienced better stock price performance. These findings suggest that firms with better governance, besides exhibiting superior performance, are also safer/lower risk investments. In addition, good governance also lessens agency costs (Skaife et al., 2004).

As additional evidence, Klapper and Love (2004) scrutinised the practitioner-based report by CLSA[46] which shows that companies ranked high on the governance index have better operating performance and higher stock returns. On the other hand, studies by Giannetti and Simonov (2006), Cremers and Nair (2005), and Yermack (2006) amongst others, show that poorly governed companies have lower returns compared to well-governed ones.

[46] CLSA stands for Credit Lyonnais Securities Asia (Asia-Pacific Markets), a leading independent brokerage and investment group. CLSA has built a reputation for unrivalled equity research and economic analysis, which are consistently voted as the best in Asia. Please refer to https://www.clsa.com/home.php

Bauer and Guenster (2003) contend that the findings above should convince minority shareholders to account for governance standards in their investment decision-making process. Indeed, most indications suggest that investors seem to attach higher relative values to well-governed companies. Black et al. (2006) found that firms scoring higher in a governance index have higher share prices in emerging markets. Klapper and Love (2004) found that, as predicted by La Porta et al. (1998), better governance increases investors' willingness to invest in a particular firm. Bushee et al. (2004) contended that there could be an association (whether it is perceived or actual) between governance mechanisms and superior firm performance that is not captured by other firm fundamentals.

Even though many of the empirical findings above suggest that corporate governance is likely to have a positive impact on company performance (Tam and Tan, 2007), good governance is not just about improving corporate performance and providing investors with better investment returns. Specifically, good governance is of utmost importance as it enhances investors' trust and confidence in the companies that they invest in (see, for example, Gregory and Simms, 1999). This is because corporate governance is concerned with adopting the proper corporate structures and processes that are best for the creation of long-term, sustainable shareholder value (Monks and Minow, 2004). Put simply, good governance provides reassurance to investors/shareholders that the publicly-listed firms that they collectively own are run properly and for their ultimate benefit.

Shleifer and Vishny (1997: 737) further reasoned that corporate governance provides "*the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment."* Governance mechanisms give this assurance as they compel managers to provide returns to shareholders in various forms (such as stable dividend payouts) and not siphon off corporate assets for their personal benefit.

Moreover, firms with greater transparency run by responsible managers/directors are argued to be less prone to incidences of corporate fraud (for detailed elaborations on how some aspects of governance affect the likelihoods of corporate fraud, see, for example, Dechow et al., 1996; Uzun et al., 2004; Farber, 2004). Nestor (2004) also attempted to show that, as corporate governance improves, the constraints on potential criminal behaviour by corporate agents grow.

Clearly, even if good governance could not eliminate corporate scandals altogether, at the very least, it reduces the likelihoods of such incidences. The occurrence of corporate scandals and fraud usually results in significant destruction of shareholder value and impacts negatively on investors' overall trust and confidence in the capital markets (again, affecting their willingness to invest)[47].

It is clear that the performance and also proper running of such entities matter to investors. Indeed, Jaafar Sidek (2007b: no page) argued that *"proper corporate conduct counts and good companies do the right things to ensure performance and investor confidence"*.

A supporting indication for the "improved investor trust and confidence" contention above is the finding by Giannetti and Koskinen (2003) that better investor protection generally improves investor participation rates in capital markets. Important empirical support are also derived from La Porta et al.'s (1998) findings regarding investors' willingness to invest (specifically, more willing to invest when a firm's governance standards are relatively higher) being applicable not only to particular firms but also to the wider capital markets around the world. Specifically, they found that those countries that display relatively better corporate governance systems and standards have capital markets that are greater in breadth, depth (i.e. size) and are also more liquid. This is a clear indication that more investors are more willing to invest in capital markets that display better governance, presumably due to the lower perceived risks of investment. This is the public policy motive of governments and capital market regulators around the world in striving for better overall standards of corporate governance.

In summary, at its core, good governance is simply a better, more transparent, proper and accountable way of running publicly-listed businesses. Indeed, according to Kean and Cheah (2000), the Malaysian Code on Corporate Governance emerged from an urgent demand for businesses to exhibit greater transparency and accountability. The four pillars of the OECD Principles of Corporate Governance comprising accountability, transparency, responsibility and fairness (OECD, 1999) is an apt reflection of such ideals.

[47] A few examples of such untoward incidences are documented earlier in Chapter 1 and further examples are given in a later section within this chapter and also in Chapter 3.

Despite the arguments presented earlier that (i) corporate governance is largely concerned with protecting the interests of outside minority investors and (ii) governance brings a number of potential benefits to them; there are differing perspectives and also conflicting evidence regarding the desired, expected and actual governance-related roles/behaviours of the investors themselves. This is especially true for individual shareholders. Each perspective is explored in the following sections of the chapter.

2.6 (I) Academic Perspective (I)

Even though corporate governance is shown to bring various potential benefits to shareholders/investors[48], the dominant presumption in the established governance literature is that individual investors play a largely passive or negligible role in governance (Bolton et al., 2002; Monks and Minow, 2004)[49]. From an agency perspective which emphasises utility maximisation (Eisenhardt, 1989), taking an active interest in the running of publicly-listed firms, continual/frequent monitoring of corporate management and the exercise of ownership rights are simply too costly and time consuming to be viable for this particular shareholder group (Grossman and Hart, 1980; Kim and Nofsinger, 2004). An overwhelming majority of these investors are also individually too small and powerless[50] to influence managerial actions, affect changes or make any discernable impact in the running of such entities (Claessens et al., 2002; Becht et al., 2003).

In addition, banding together and acting in unison is immensely difficult as these investors (i) are anonymous to one another and (ii) geographically dispersed. They are also faced with the “free rider” problem (see Gillan and Starks, 2000; Aguilera and Jackson, 2003) whereby any costs incurred while campaigning for better

[48] For the following sections, the terms “shareholders” and “investors” are used interchangeably and thus, unless specified otherwise, both terms refer to small individual share investors. This is because all references to shareholders in the following sections have been framed to specifically reflect only individual investors. The potential differences between the two terms will be explored in subsequent chapters.

[49] There is, however, one particular academic study on shareholder activism by individual investors in the US in relation to corporate governance issues by Strickland et al. (1996) that deserves particular mention. This study is one of the rare exceptions to the vast majority of corporate governance studies that ignore this subgroup of investors.

[50] In terms of the number of shares that each investor individually owns compared to the total number of shares issued by typical publicly-listed companies.

corporate governance have to be fully borne by the proactive shareholders while any benefits of such actions (for example, improved profitability or more transparent practices) would be distributed pro-rata to all shareholders, including the numerous inactive ones[51] (Shleifer and Vishny, 1986; Clarke, 2004; Strickland et al., 1996). Indeed, Shleifer and Vishny (1997: 741) have opined that:

> *the free rider problem faced by individual investors makes it uninteresting for them to learn about the firms they have financed, or even participate in the governance, just as it may not pay citizens to get informed about political candidates and vote…*

Furthermore, Shleifer and Vishny (1997) have conjectured that individual investors are often too poorly informed to even exercise the ownership rights that they do possess. As a whole, investor indifference or disinterest in corporate governance is therefore theoretically rational in utilitarian terms (Skaife et al., 2004; Monks and Minow, 2004; Becht et al., 2003).

Theoretically, an array of governance mechanisms exists to monitor, constrain and/or regulate managerial actions on investors' behalf (see, for example, Walsh and Seward, 1990; Becht et al., 2003). Such measures prevent managers from expropriating too much before it gets to the shareholders (Thompson and Davis, 1997). For example, an efficient market for the company's shares[52] sets stock price to match corporate performance. Subsequently, tying managerial share ownership[53] and compensation[54] to share prices motivates managers to improve corporate performance (see, for example, Morck et al., 1988; Becht et al., 2003).

As a further example, shareholder-elected boards of directors provide another means to monitor managers more directly. If these and a few other governance mechanisms fail to ensure that the firm is properly managed, the firm will register sub-optimal performance (Thompson and Davis, 1997). The presumption is that the share price will then fall, and the firm will become an attractive target for takeover by outsiders who can then improve the firm's performance. Since takeovers almost always involve paying shareholders a premium, the market for takeovers provides a safety net protecting shareholders. Other typical

[51] This refers to those investors/shareholders who share the associated benefits at no cost.
[52] This is where all relevant information regarding the fundamentals of the company is considered and also fairly reflected in its share price.
[53] This refers specifically to managerial share ownership.
[54] For example, stock options.

mechanisms are as outlined in Section 2.2 Corporate Governance: The Agency Perspective (specifically, pages 40-41).

According to Thompson and Davis (1997), the described array of protective governance mechanisms absolves shareholders from taking responsibility. Once shareholders choose to buy shares in a firm, their governance role is surmised to involve not much more than voting via proxy (i.e. delegating the right to vote to another party, usually the company's top managers) for their representatives on the board of directors and on a few other significant decisions[55]. Individual investors typically do not bother to vote themselves or even bother to appoint proxies to do it on their behalf. They needn't concern themselves with monitoring management since other mechanisms exist to do this for them.

Even so, it has been found that most conventional governance mechanisms do not work well in developing markets such as Malaysia (Gibson, 1999; Claessens et al., 2002). At this point of the review, it would suffice to mention that ineffectiveness of governance mechanisms mainly arise from (i) poor enforcement with regards to compliance with governance guidelines, best practices and regulations (for regulations-based mechanisms) and (ii) the peculiarities of some institutional characteristics (for market-based mechanisms; for example, prevalence of concentrated shareholdings negates the possibility of hostile takeovers).

An implication is that, since such mechanisms may not function well in promoting investors' interests[56], there is an incentive and/or need after all for these investors to consider different aspects of publicly-listed firms' governance. Put simply, there are compelling reasons why there is a need for the investors themselves to discern between firms with good governance practices and those who exhibit poor governance.

[55] Examples include the winding up of the corporation or major corporate merger/takeover decisions.
[56] Since the assumption is that such mechanisms will self-trigger corrective measures on investors'/shareholders' behalves.

2.6.1 The Design of Capital Markets

Apart from their reliance on various governance mechanisms to mitigate agency concern, some authors have persuasively argued that the general disinterest of individual investors stems from the very structure and design of capital markets based on Anglo-Saxon ideals/principles (since the time of Berle and Means, 1932). See, for example, Sykes (1994), Keasey et al. (2005), Letza et al. (2004), Moreland (1995).

Monks and Minow (2004) explained that one of the traditional basic rights of share ownership is the right to transfer ownership to someone else. Since facilitating this right has been a core priority in the development of capital markets, much emphasis has been placed on ensuring that any investor wishing to sell/buy a share can do so, instantaneously. Two key facilitators are that investors had to have limited liability and shares had to trade at a fairly low rate. As explained by Monks and Minow (2004: 119)

> *In order to have limited liability, shareholders had to give up control over any but the most basic corporate decisions. In order to keep trading prices low enough to ensure liquidity, shareholders had to allow their companies to issue millions of shares of stock, making it extremely difficult for any one investor to hold a meaningful stake. Both conditions loosened the very connection between ownership and control.*

The quote above, similar to the observations made by various academics since Berle and Means (1932), suggests that the nature of investor share ownership has evolved, from an active owner to that of a passive agent. In addition, as argued earlier, *"dispersed shareholders, with small interests in the corporation, are unlikely to incur the large monitoring costs that are sometimes required to keep management at bay"* (Becht et al., 2003: 17). See also Strickland et al. (1996), Kim and Nofsinger (2004) and Shleifer and Vishny (1986).

Furthermore, many individual investors are also perceived to be mostly concerned with the movements of share prices per se rather than the public-listed firms that these shares supposedly represent. Monks and Minow (2004:121) summed up the overall situation with the statement *"it is virtually impossible to argue that effective* *monitoring is cost-effective for investors whose profit is principally derived from buying and selling in the short-term”*.

Clearly, another key issue raised in their summary of the situation is the concept of short-termism. This is where individual investors are posited to adopt relatively short investment horizons (see, for example, Keasey et al., 2005; Letza et al., 2004). As proactive governance is concerned with the proper running of publicly-listed firms in order consistently to generate superior, stable returns over the long-term; an investor’s short-termist inclination provides an indication of his/her tendency against undertaking any activist governance-related behaviours. This is because short-term investors would have sold their shares long before any discernable improvements in governance practices and/or corporate performance could materialise[57].

Apart from being less likely to engage in shareholder activism or continual monitoring of firm governance, it is unclear whether investors with relatively short-term investment horizons actually discern between well-governed and poorly-governed firms when determining the subset of firms deemed worthy of investment or otherwise (such a possibility, however, will be subjected to empirical scrutiny by this study).

In terms of past empirical findings regarding short-termist tendencies, some studies on individual investors such as those by Lease et al. (1974) in the United States and Jackson (2003) in Australia have found that household investors are more focused on long-term share investments and had little interest in speculative, short-term trading. However, authors such as Low (2004) and Shleifer and Vishny (1997) have argued that investors in East Asian capital markets are more prone to short-term, speculative/rumour-driven share investments. It is therefore intriguing to uncover the actual prevalence of individual investors with long-term shareholding timeframes as compared to those with short-term ones in developing capital markets such as Malaysia.

[57] Further elaboration will be given in the later section on Shareholder Activism.

2.6 (II) Academic Perspective (II)

Consistent with the underlying design principles of capital markets detailed in the previous section, much emphasis is placed on disclosure, free exit and transfer as the shareholder's principal protection. The fact that it is both easier and cheaper to simply sell the shares further reduces the incentive for investors to monitor firms (Skaife et al., 2004; Eisenhardt, 1989; Aguilera and Jackson, 2003). The main consequence is encapsulated in the term "Wall Street Walk" which provided that investors should either vote with management or sell out (Kim and Nofsinger, 2004; Cheng and Firth, 2005).

In practical terms, investors would therefore be likely to exit when they detect the first signs of trouble, that is, when corporate performance and/or governance worsen (Monks and Minow, 2004; Bhide, 1993). Hence, selling out whenever governance- related problems arise is one of the possible ways by which investors account for corporate governance.

Other possible means by which individual investors could take governance into account when investing in publicly-listed firms (i.e. in ways that are distinct from the economically unviable, active and continual monitoring of managerial actions) have also been identified within the established literature. Such means (described below) are regarded as possibilities at this point in the study as they are typically applicable to all minority investor classes[58] and thus, their actual relevance and also prevalence (i) amongst the individual investor class and (ii) amongst individual investors based in Malaysia specifically, are unknown.

Besides selling out whenever governance concerns arise, another possibility has been identified by Claessens and Fan (2002) in their survey of pertinent corporate governance issues in Asia where agency problems[59] are apparently anticipated and priced in by investors. In effect, some individual investors take governance-related concerns into account by "price-protecting" (Skaife et. al., 2004) against it,

[58] This includes various institutional shareholders and also individual retail investors, typically with no distinctions made or indications of respective prevalence given.
[59] For example, those arising from certain ownership structures, particularly significant divergences between control and cash flow rights.

implying that they are only willing to pay a low price[60] for the shares of a poorly governed company. Such a treatment is termed as "discounting" and the degree of discount is dependent upon the magnitude of governance problems that a specific firm exhibits, as perceived by individual investors who actually consider aspects of a firm's governance.

It is unclear whether the governance awareness and/or understanding possessed by some individual investors are based on official guidelines of the mechanisms that the companies should be following[61] or based on their own understanding of which specific attributes make up the key aspects of a firm's governance. Nevertheless, the focus is on whether investors pay less when investing in a poorly governed firm as compared to another similar firm that is better governed, along the particular aspects of governance that they do consider.

Next, Giannetti and Simonov (2006) found some evidence showing that some individual investors are reluctant to invest in firms with weak governance. Hence, the third possible treatment is to simply avoid investing in firms with major governance issues (Bhide, 1993). The particular treatment implied here is that investors treat certain governance attributes as one-off investment evaluation criteria during the pre-purchase stage of the typical investment cycle.

In the course of elaborating the academic perspective regarding the role of individual investors in corporate governance, the study clearly showed that many compelling theoretical arguments/justifications have been advanced as to why these individual investors should be disinterested in corporate governance. Again, as a direct consequence, individual investors are seen to play an insignificant governance role and most empirical studies have ignored them.

An important and notable exception, however, is Strickland et al. (1996). In their study of shareholder activism amongst a big group of individual investors in the US, Strickland et al. (1996: 321) demonstrated that *"monitoring by small shareholders is possible and that it can be successful".* Essentially, they

[60] As compared to the prices that they are willing to pay for the shares of other firms who exhibit a number of similarities with the firm in question but are better governed.
[61] The various governance mechanisms, structures and processes recommended by the latest governance codes, guidelines and best practices such as the Malaysian Code on Corporate Governance (2007).

documented how a sizeable number of individual investors (more than 65,000 individuals) banded together to form the United Shareholders Association (USA) in their attempts to influence the governance of large US corporations.

From the perspective of the current study, Strickland et al.'s (1996) article is of utmost importance as it is one of the very few empirical academic works that challenges the dominant presumptions pertaining to individual investors made by most academics in the field of corporate governance. They clearly showed that at least some individual shareholders are:

(i) concerned with corporate governance (and account for different aspects of corporate governance in their actual investment practices),
(ii) able to unite for collective action,
(iii) able to and do, in fact, monitor management as well as engage in costly activism,
(iv) not necessarily as uninformed as predicted/assumed by academics, and
(v) able to earn better returns by being governance proactive (Strickland et al. (1996: 319) reported that *"the announcement of 53 USA-negotiated agreements is associated with an average abnormal return of 0.9% or a total shareholder wealth gain of $1.3billion, suggesting that USA-sponsored shareholder activism enhanced shareholder value"* even though this overall gain is shared with other non-USA shareholders who own shares in the same companies as well).

Most importantly, Strickland et al.'s (1996) findings support the main contentions of this study that (i) this distinctive investor group deserves attention, and (iii) an empirical study in this area is of value, academically. Relatedly, Claessens and Fan (2002) have highlighted the fact that little is actually known with regards to shareholder activism in emerging markets. The current study takes a step further by arguing that little is actually known about all possible ways by which investors account for governance throughout the entire share investment process (from pre- to post-purchase) and not just costly, proactive initiatives.

Considering the findings of Strickland et al. (1996) (as well as some anecdotal evidence of minority shareholder activism in Malaysia, a detailed elaboration of which is given later in the chapter) and the persuasiveness of the opposing theoretical predictions, the study intends to explore the actual relevance and also prevalence of governance-related tendencies/behaviours of individual investors in Malaysia.

The study now moves on to consider another aspect of individual investors' behaviours that influence their governance inclinations – the contention that some investors are only fixated by share price fluctuations. In this regard, some investors are seen to be gullible as they *"do not get any control rights in exchange for their funds, only the hope that they will make some money in the future"* (Shleifer and Vishny, 1997: 749). More specifically, they have described the possibility of individual investors getting overly excited or optimistic about companies and:

> *…hence finance them without thinking much about getting their money back, simply counting on short-run share appreciation …Nor is it crazy to assume that enormous volumes of equity financing in the rapidly growing East Asian economies are based in part on investor optimism about near term appreciation, and overlook the weaknesses of mechanisms that can force managers to repay investors* (Shleifer and Vishny, 1997: 749).

Indeed, it seems that the sole concern of some individual investors is share price fluctuations. They pay scant attention to the actual governance of the companies (in fact, all aspects of the underlying firm) that such shares are supposed to represent. Low (2004) further highlighted that many developing markets like Malaysia are driven by speculative trading as most investment decisions are based upon speculation, rumours and perceived insider tips, not firm fundamentals.

The inclination above has also been described in a speech by the Honourable Prime Minister and Minister of Finance of Malaysia, YAB Datuk Seri Abdullah Ahmad Badawi (2004) that *"it is probably true that many retail investors participate in the market more in the hope of making a quick profit rather than basing their actions on fundamentals... making investment decisions based on rumours and speculation…" (Source: The official Office of the Prime Minister of Malaysia website – www.pmo.gov.my).*

Considering the argument above, besides scrutinising the many possible ways in which individual investors in Malaysia may account for governance, the study also investigates their relative tendency to purchase shares on the basis of unconfirmed tips/insider info/speculation predicting an imminent rise in share prices. This is because such a tendency is argued to provide an indication of, and also helps to increase our understanding regarding, investors' propensities to make investment decisions that disregard corporate governance. Justification is that speculative investors probably do not distinguish between well-governed firms and poorly governed ones as long as there are profits to be made[62].

More specifically, the above tendency runs counter to other desired shareholder attributes, as conceptualised by proponents of corporate governance and shareholder activism, where shareholders/investors are envisaged/encouraged/ expected to (i) adopt longer-term investment horizons with stable shareholdings, (ii) be concerned with the underlying firms that the shares are supposed to represent and (iii) base their investment decisions on actual firm fundamentals (including how it is governed) rather than unsubstantiated information (i.e. rumours/ speculation). These are outgrowths of the governance mindset that well-governed firms produce good, consistent performance over the long-term which in turn is fairly reflected in their share prices.

Alternatively, for those governance-interested investors who also report being influenced by such unsubstantiated information, it demonstrates that such attention-grabbing "distractions" could compel investors away from conventional governance-based investment practices that are deemed to be ideal[63].

In summary, from an academic perspective, investors could take governance into account through any of the means summarised in Table 2.2 below:

[62] i.e. returns from increases in share prices.
[63] Further elaboration on the influence of attention-based tendencies is given in Chapter 4.

__Table 2.2__ Possible Governance-related Actions/Tendencies (I)

Investment Cycle Stage 1:Pre-Purchase
• Disinterest/Indifference and/or Ignorance – Do not distinguish between well- or poorly-governed firms. • Avoid poorly governed firms. • Only invest in well-governed firms. • Discount the share price when investing (pay less/unwilling to pay more). • Engage in speculative or rumour-based short-term trading (non-governance).
Investment Cycle Stage 2: Post-Purchase
• Disinterest/Passivity in proactive governance (does not exercise ownership rights, monitor managerial actions and/or other aspects of firm governance). • Voting by proxy (typically, voting delegated to management).
Investment Cycle Stage 3: Exit/Sell Off
• Simply exit (sell the shares) when governance problems arise or when corporate performance declines.

The primary underlying motivations and/or justifications for the range of possible behaviours above, as seen from the academic perspective, are economic considerations such as cost viability. Other potentially important motivations/ justifications are explored by (i) scrutinising the literature reviews in Chapters 3 and 4 where environmental and personal influences are considered and (ii) approaching the individual investors themselves (particularly for yet to be identified reasons).

In the following section, the study moves away from the academic perspective to focus on the governance-related roles and tendencies of individual investors, as seen from the standpoint of regulators instead.

2.7 (I) Government/Regulator Perspective (I)

2.7.1 Governance Reforms and the Role of Individual Investors

Since the 1997 Asian Crisis, a range of stakeholders from stock exchanges to governments have endeavoured to improve investor protection through extensive governance reforms. Even though shareholders are often viewed as the innocent and helpless victims of poor governance[64], an increasingly prominent opinion is that these investors have themselves contributed to the exacerbation of the situation (Kim and Nofsinger, 2004). Hence, one of the notions incorporated into governance reforms is that, instead of just doing nothing and expect to be protected, all investors should take more responsibility for the way corporations that they partly own are governed.

Moreover, as governance reforms have resulted in the introductions of new arrays of investor rights and redress mechanisms (in addition to improvements to existing ones), there is a presumption that investors are now empowered to effectively impose corporate discipline through shareholder activism (Gillan and Starks, 1998). Activism is seen as a natural progression from the establishment of mechanisms aimed at mitigating governance problems, pressuring corporations to implement the recommendations prescribed (Gillan and Starks, 1998). It is also regarded as a promising new avenue for addressing governance concerns due to the persistent weaknesses of various established governance control mechanisms such as boards of directors and takeovers.

According to Low (2004: 195):

> *Reforms are urgently required to facilitate shareholder activism and to empower shareholders, if East Asian capital markets are to avoid the perception of being risky places for investment. The focus should be on the minimization and/or removal of legal impediments that prevent shareholders from the effective enforcement of their rights*

[64] Especially when the company underperforms (referring to operating performance and/or share price performance) or when these investors are being exploited/mistreated/ expropriated.

(see also CG Watch: Corporate Governance in Asia (2005) by The Asian Corporate Governance Association in collaboration with CLSA Asia-Pacific Markets).

Consistent with such calls, the Malaysian corporate governance reform agenda included the introduction of new institutional mechanisms for market activism by investors (Anwar, 2007). It would perhaps be fitting to first consider the following quote by the Securities Commission Development Centre (Malaysia) in their Quarterly Bulletin *(2002: 7):*

> *However, rules and regulations can only achieve so much. The most effective discipline comes from the market itself. Shareholders should not sit meekly in silence and watch irresponsible owners or managers drive companies in which they invest into the ground. If they are unhappy with the way companies are run, they should make their feelings known, either through forums such as general meetings or via direct communication to the management.*

Instead of tacitly condoning continued investor/shareholder disinterest/passivity in governance [65], regulators have envisaged a more active role for minority shareholders in governance (Jaafar Sidek, 2006; 2007b). This runs contrary to the passive role that is theoretically predicted, explained and justified by academics (see, for example, Becht et al., 2003; Thompson and Davis, 1997). Therefore, the study must consider the government/regulator perspective as well. This is explored through an understanding of the logic underpinning shareholder activism-related reform measures that have been undertaken in Malaysia thus far.

Since regulators' promotion of a governance role for individual shareholders is influenced by the notions of shareholder activism, an outline of the many facets of activism is provided in the following section to enable better appreciation of the attributes/issues involved before developing the argument further.

[65] Taking into consideration the principles and designs of capital markets, as conceptualised by academics.

2.7.2 Shareholder Activism

At one extreme, investors simply buying and selling shares (as a means of participating and expressing their opinions of a corporation's performance) can be considered as "active" shareholders. On the other end, takeovers also reflect active shareholding (shareholders taking over the firm and forcing fundamental changes in the corporate structure) (Gillan and Starks, 1998).

Even so, the term shareholder activism itself usually refers to any occasions where minority shareholders express their opinions to try to affect or influence the running of a corporation, without a change in control of the firm (Kim and Nofsinger, 2004). These are outcomes of actively monitoring the companies where minority investors have shares. The term minority shareholders refer to the many classes of investors[66] that do not, by themselves, hold a controlling stake in a particular corporation. Individual investors, the vast majority of whom only hold small numbers of shares, are included in this "owners with non-controlling stakes" category.

It has been posited that agency conflicts between the board, corporate management and shareholders provide the basis for shareholder activism (Gillan and Starks, 1998). Normally, shareholder activism-related initiatives arise when minority investors are dissatisfied with the performance of the firm that they own. Under such circumstances, shareholders have three possible courses of action. They could sell their shares (exit); hold their shares and voice their dissatisfaction (voice); or hold their shares and do nothing (loyalty) (Hirschman, 1971).

As is explicit from the explanation given above, shareholder activism is usually seen as a range of behaviours triggered by differences in opinion and/or dissatisfaction with how these publicly-listed firms are run and directed. Even so, this study also considers a more basic form of activism that may be undertaken by individual investors, that is, the general exercise of the basic ownership rights that they possess. For the purposes of this study, such pro-activity is embodied in acts like attending AGMs, posing questions to company management regarding

[66] Other classes of minority investors include institutions such as pension, mutual and insurance funds and also other entities such as banks, the state and also other corporations – these parties are classified as minority shareholders whenever they do not hold a controlling stake in the business.

company specific issues during such AGMs and/or voting on the election of company directors (see, for example, Kim and Nofsinger, 2004). This is because such practices are a few of the fundamental rights accorded to all shareholders[67] and do not specifically require any differences in opinions and/or dissatisfaction with corporate performance before they are exercised.

Having expanded on the argument above, we now focus our attention on the brand of shareholder activism as it is generally known, which refers to intermediate cases where investors try to affect changes to the status quo through the use of "voice", without a change in control of the firm (also known as relationship investing) (Gillan and Starks, 1998; Kim and Nofsinger, 2004). Such voice-based activism can be viewed as a continuum of responses in response to improvement of, and/or dissatisfaction with, the running of the corporation and/or corporate performance.

As monitoring can take many different forms[68], the current study's scope of investigation is strictly confined to exploring investors' propensities of undertaking the kinds of "active" monitoring conceptualised by proponents of governance and shareholder activism[69]. Primary forms of activism include activities such as (see, Gillan and Starks, 1998; Bizjak and Marquette, 1998; Kim and Nofsinger, 2004; Karpoff, 1998):

(i) voting/protesting/questioning managements at AGMs and EGMs,
(ii) writing letters to management,
(iii) submitting shareholder proposals for voting at AGMs,
(iv) engaging in proxy battles,
(v) initiating shareholder litigation/class action suits,
(vi) using the media to publicly target a firm (typically to protest or raise awareness/support in relation to certain firm-specific issues),

[67] As established in corporate and company laws, governance-related capital market regulations and also governance codes/guidelines/best practices.
[68] for example, from not monitoring at all to simply checking the latest share prices to frequently asking the opinions of family/friends to religious following of material company developments.
[69] This treatment is based on the study's idea of making use of the concept of governance itself to provide overall focus and hence, the many boundaries for the research undertaken. Treatments of this nature are also evident in other parts of the study. Examples include considering only governance-related firm-specific variables when investigating which aspects/characteristics of a firm matter to individual investors.

(vii) directly negotiating with firms' managements over specific governance concerns,
(viii) communicating with firms' investor relations departments, and
(ix) drawing up of "focus lists" and targeting of poor performers.

This preliminary list of activist intitatives has been compiled to demonstrate the typical actions that have been utilised by shareholders in general (for both institutional and individual shareholders).

In the case of individual investors, the study regards attendance and voting at AGMs as the gold standard or ideal embodiment of active shareholding. This is because the exercising of ownership rights and/or voicing governance concerns at AGMs are perhaps the most visible sign of an investor being interested and also concerned with governance [70]. The study thus explores the relevance of governance to individual investors in Malaysia in the form of ongoing concerns requiring monitoring/active participation by using AGM attendance as a proxy.

Apart from AGM attendance, the study will also explore the propensities of individual investors to undertake other forms of activist-related behaviour such as communicating with company management (emails/letters/investor relations department); submitting shareholder resolutions; and publicly criticising company managers/directors through the media.

In terms of the issues addressed by these 'voice' activities, they are found to span a wide range of topics (for example, issues pertaining to the environment, corporate social responsibility, etc), but the primary focus of this study is specifically on corporate governance issues.

As individual shareholders in general are not expected to be very sophisticated, only issues that are likely to be of particular interest to them are selected and investigated. Consequently, specific nuances and concerns within certain issues are combined. For example, there is a range of issues that specifically apply to the board of directors such as (i) the number and/or proportion of independent, non-executive directors, (ii) whether the CEO is also the Chairman of the board

[70] At such events, investors are envisaged to speak up/campaign for any improvements deemed necessary to improve the governance and/or performance of such entities.

(role duality) and (iii) the requirements for, and composition of, certain board sub-committees such as the nominations and compensation committees, etc. Instead of exploring investors' interests in relation to each, they are grouped under the more generic "board of directors' structure and composition" category.

The range of issues selected is derived from (i) the reviews carried out throughout Chapters 2 and 3, and (ii) the evaluation and extraction of issues that are deemed relevant to the Malaysian context from lists developed by past shareholder activism studies based in different countries. For example, the study included some of the pertinent governance issues documented by Strickland et al. (1996), Gillan and Starks (2000) and Romano (2000) in their studies of the kinds of issues raised by US investors, as submitted in their AGM shareholder proposals.

More specifically, the following are issues that have been deemed to be of possible interest to retail shareholders who are actively concerned with the governance of public-listed firms in Malaysia (derived from a variety of sources including Strickland et al., 1996; Gillan and Starks, 1998; Romano, 2000):

- Long-term corporate performance (share price or profits).
- Unfair/questionable business decisions; mismanagement; fraud; negligence; etc.
- Executive remuneration – how much/how directors/managers are paid.
- Board of directors' structure and composition.
- Appointment of company auditors.
- Quality, amount and speed of company disclosures.
- The existence of big shareholder managers and steps to limit their scope for abusing or exploiting outside shareholders.
- Company strategy-related issues and other important corporate decisions such as mergers and takeovers.
- Basic shareholder rights such as voting rights.

Having explained the various shareholder activist-related initiatives, further explication of the regulator perspective resumes in the following section.

2.7 (II) Government/Regulator Perspective (II)

Generally, the term “minority shareholders” refers to both individual and institutional shareholders[71] (Kim and Nofsinger, 2004). For the purposes of the current study, however, this term refers specifically to small, individual investors. This distinction is important as, when considering proactive governance initiatives, researchers more often than not use this term to refer to institutional shareholders[72] (Bushee et al., 2004; Strickland et al., 1996). This is because institutional investors are presumed to (i) be sufficiently large[73] to make it viable for them to take an active interest in firm governance (Shleifer and Vishny, 1997; Gillan and Starks, 1998; Becht et al., 2003) and (ii) possess considerable voting clout which, in turn, allows the exertion of significant influence on managerial actions (Bushee et al., 2004). Conversely, it is assumed that individual investors typically hold very tiny and insignificant ownership proportions (Monks and Minow, 2004; Kim and Nofsinger, 2004).

The explanation above is intended to highlight the prevalent notion that small, individual investors play a largely inactive role in governance. Notwithstanding the presumptions above, there seems to be an explicit governance role for individual investors from the viewpoint of government regulators (see, for example, Allen, 2004a). In fact, this was succinctly expressed by Securities Commission Development Centre Quarterly Bulletin [Malaysia] (2002: 7):

> *Retail investors have an important part to play… Institutional investors should not be the only group to practice shareholder activism. Retail investors in Malaysia too have an important part to play. Agencies such as the Securities Commission have allocated substantial resources to educate the investing public of their rights and privileges as shareholders. As such, minority shareholders should not hesitate to exercise their influence if their rights are infringed.*

It is apparent that apart from encouraging individual investors to assume a more active role in governance, the education of investors with regards to governance[74]

[71] The term is applicable to each individual or institution that holds a minority stake in a particular publicly-listed corporation.
[72] Such as pension funds, insurance funds, mutual funds, banks, corporations and other institutions.
[73] Large in terms of relative shareholding sizes.
[74] Especially their basic ownership rights as shareholders.

is also another prominent feature of governance reforms in Malaysia. Hence, rather than being just a mere exhortation to these investors to be more governance-active, substantial resources have been expended and steps have been implemented to reinforce this line of thinking. The many investor education initiatives are undertaken by various quarters, especially the Securities Commission (more specifically, the Securities Industry Development Centre that focuses on educating and increasing the awareness of individual investors regarding all aspects of investing which include aspects of corporate governance[75]) and the government-backed Minority Shareholders Watchdog Group (MSWG)[76].

There is also a discernible trend in Malaysia towards increasing the range of matters where decision making authority is allocated to the shareholders at annual general meetings (The Report on the Observance of Standards and Codes (ROSC): Corporate Governance (Malaysia) by the World Bank, 2005).

The significant measures that have been discussed are driven by a similar underlying logic. Each initiative is designed to spur individual investors to take more responsibility in their investment decision making and to consider and also involve themselves in the governance of publicly-listed firms. The implicit assumption is that shareholders should act in a certain manner – exhibiting long-term commitment; take an interest in the governance of corporations; speaking up and exercising their ownership rights.

Overall, a confrontational stance is evident in the arguments above (i.e., action to be taken by investors only when they are being exploited or if their rights are infringed) rather than a co-operative relationship where managers and shareholders establish effective communications to improve the general running of such entities. This confrontational stance also points to the possibility that governance may start to matter/matter more to some investors under particular

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[75] The Securities Industry Development Centre (SIDC) one-stop website for investors is available at: www.min.com.my/min

[76] It is important to note that besides investor education programmes, MSWG also (i) represents/leads minority investors by attending and voicing out investor concerns at various AGMs of Malaysian publicly-listed firms, (ii) offer subscription services to individual/retail investors that include a wealth of up-to-date general and also firm-specific governance-related information such as governance scorecards, rankings, etc, (iii) provide regular write-ups of pertinent general and firm-specific governance issues in the form of press articles, amongst other initiatives. For selected examples of such initiatives and services, please refer to Appendix 3).

circumstances. For example, the trigger for increased governance involvement is when individual investors are being exploited and/or mistreated.

Chakravarty and Hodgkinson (2001) have argued that the present rush to embrace the idea of shareholder activism especially during AGMs is simply a reflection of the poverty of earlier ideas about addressing the agency problem. As mentioned earlier, conventional governance mechanisms are not strong enough to relieve the agency problems in Asia (see, for example, the detailed survey of governance in East Asia by Claessens and Fan, 2002). Again, due to the lack of other solutions, investors are encouraged to be active in governance monitoring (regardless of whether it is viable/reasonable to actually do so or otherwise).

If the whole notion of encouraging and also expecting investors to be governance-active is due to a poverty of ideas, is it then reasonable to assume/ expect that individual investors can be influenced to behave in such a manner, especially when the utilitarian academic perspective predicts otherwise? In this regard, we first need to take into account the fact that the promotion of shareholder activism in Malaysia, albeit from a low base, is said to be bearing fruit as there is now a discernable trend of rising activism (Minority Shareholders Watchdog Group, 2006). Considering such a purported trend (anecdotal, from the viewpoint of academic research) that stands in contrast to academic predictions, are the expectations of government regulators unreasonable after all? Again, empirical work in this area is essential.

This led the study to then ask, what reasons/motivations, perhaps non-economic or non-utilitarian ones, compel investors to attend AGMs[77]? Are such motivations even related to governance? Scrutiny is on the actual prevalence of (i) attendance/ non-attendance and (ii) each of the reasons/justifications compiled (literature review) and reported (responses from study's respondents) for both attendance and non-attendance.

Returning to the main argument, upon further scrutiny, there are indications of conflicting viewpoints coming from the government/market regulators themselves. In a speech during the Invest Malaysia 2004 event, the Honorable Prime Minister

[77] In this instance, the AGM attendance "gold standard" is used as proxy for proactive governance.

and Minister of Finance, YAB Datuk Seri Abdullah Ahmad Badawi (2004) stated that *"shareholders can give effect to their will by either supporting companies that display good governance, or by voting with their feet and abandoning those that do not." (Source: The official Office of the Prime Minister of Malaysia website – www.pmo.gov.my).*

Investors are advised to either avoid investing in badly governed firms or sell the shares of firms who display poor governance. This runs contrary to the earlier suggestion that investors should instead stay[78], exercise their ownership rights and campaign for better corporate performance/governance (which is more in line with the conceptualisation of shareholder attributes that are deemed "ideal" or "desirable" for corporate governance within the context of the shareholder activism literature stream even though it is mainly geared towards big institutional investors).

Notwithstanding such differences, one consistent element is that these regulators expect and/or encourage individual investors to take a firm's corporate governance into account in some way. Regardless of how investors accommodate governance into their investment practices, the idea is that if every decision made takes it into account, then those decisions would contribute to the betterment of governance. For example, according to Jaafar Sidek (2005), active participation by institutional investors spurs good corporate governance practices by publicly-listed firms in terms of both conformance and performance. In this regard, the study contends that individual shareholders can contribute in such a manner as well.

A number of key assumptions underpinning corporate governance must be emphasised as these collectively justify the relevance of governance to individual investors. First, good governance can only be furthered if investors base their investment decisions on the underlying fundamentals of publicly-listed firms (as opposed to speculation based on rumours and hearsay). Second, firms with good governance will exhibit superior performance, especially over the longer-term. Third, the underlying fundamentals of a publicly-listed corporation will be fairly reflected in its share price over the long-term. Indeed, similar assumptions were

[78] i.e. not selling out/exiting.

made by the Malaysian government-backed and funded, Minority Shareholders Watchdog Group (MSWG)[79] in their official website (2008):

> *The MSWG will adopt a culture of long-term investment and belief in the enhancement of shareholder value over time. It will rely on fundamentals, not rumours and hearsay. It appreciates that wealth creation is brought about by good corporate governance and shareholder equity, and will actively participate in general meetings.*

In summary, from the perspective of regulators/the government, individual investors are encouraged and/or expected to either (Table 2.3):

Table 2.3 *Possible Governance-related Actions/Tendencies (II)*

Investment Cycle Stage 1: Pre-Purchase
• Avoid badly governed firms/Only invest in well-governed firms.
Investment Cycle Stage 2: Post-Purchase
• Exercise their ownership rights as shareholders (e.g. vote during AGMs). • Monitor management and be involved in "relationship" investing (activism) to improve a firm's governance when corporate performance and/or certain aspects of the firm's governance are deemed unsatisfactory. • Complaint, seek redress and accountability by having their voice/plight heard after being mistreated/exploited.
Investment Cycle Stage 3: Exit/Sell Off
• Simply exit (sell the shares) when governance problems arise or when corporate performance declines.

Once again, the range of possible behavioural responses are only identified and compiled in order to subsequently explore their relevance and also pervasiveness amongst investors in reality. In terms of investors' motivations and/or justifications for undertaking/not-undertaking the listed actions or exhibiting/not exhibiting identified tendencies, these will be (i) speculated upon in Chapters 3 and 4 where environmental and personal influences are examined and (ii) solicited from the responses of individual investors sampled.

[79] As mentioned in earlier chapters, a detailed description of all aspects of the MSWG (Minority Shareholders Watchdog Group) is provided in Appendix 3.

In the next section, the study presents some real-world anecdotal evidence in order to obtain some indications of the actual governance-related behavioural tendencies of individual investors. These will be compared and contrasted with both the academic and regulator perspectives.

2.8 The Actual Behaviour of Individual Investors: Some Anecdotal Evidence

Even though the academic arguments presented in building the case for disinterested individual investors seem highly persuasive, the extant literature fails to explain/account for the actual governance-related behaviour of some retail investors (with the notable exception of Strickland et al., 1996). For example, The Report on the Observance of Standards and Codes (ROSC): Corporate Governance by the World Bank (2005) highlighted that attendance at AGMs of Malaysian publicly-listed firms is dominated by retail investors. This is also consistent with the actual observations of the Asian Corporate Governance Association, as mentioned in a presentation given by its Secretary General, Mr. Jamie Allen (Allen, 2004b) and more recently, Schacht et al., 2009 (from the CFA Institute).

In fact, in some other capital markets around the world, retail shareholders have even organised themselves successfully thus increasing their clout as a collective group when engaging in proactive governance. Notable examples include:

- Singapore: Securities Investors Association with almost 66,000 retail shareholders as members. In 2006, they even introduced a "Model Shareholder Award", given to a chosen retail shareholder who participates actively in AGMs and serves as a good role model (suggesting that such an active role in governance should be emulated) for investors (Pulses, 2006).
- Australia: The Australian Shareholders' Association (ASA) with many thousands of individual retail members also taking an active interest in corporate governance.

- United States: The formation of the United Shareholders Association in the 1990s specifically for individual investors that campaigned for better standards of corporate governance (Strickland et al., 1996).

In fact, as mentioned earlier in this study, the Malaysian government has set up the Minority Shareholder Watchdog Group (MSWG), an independent body funded by a national trust fund that is entrusted with the public mandate to inform and educate the investing public, be a voice for as well as act on behalf of minority shareholders. It has undertaken a wide range of initiatives such as attending AGMs[80] to facilitate interaction between corporate managements and the attending shareholders including those from the retail sector (i.e. individual investors)[81].

Within the Malaysian capital market, numerous examples of governance-related individual investor behaviours have also been documented by the popular press, shareholder/investor interest groups (websites/blogs/forums), and the Malaysian political economy literature stream. Examples include the instances of individual investor involvement in well-publicised activist initiatives in scandal-ridden Malaysian publicly-listed firms that were outlined in Chapter 1 (see also Appendix 2).

More significantly, it is claimed by the Malaysian Minority Shareholders Watchdog Group that there is a rising trend of shareholder activism in Malaysia. Further examples are given in Table 2.4 below.

[80] MSWG typically purchase the shares of public-listed firms to attend their AGMs. Hence, MSWG representatives are usually present in the capacity of being proxy shareholders for the MSWG and also assume the role of watchdogs for other minority investors.

[81] In fact, the MSWG offers a cost-effective corporate governance subscription service that is tailored specifically for retail/individual investors. Such an initiative is consistent with the aim of encouraging this investor group to be governance-interested, well-informed and ultimately, proactive (i.e. actively involved in a range of behaviours/initiatives that are commonly grouped under the concept of shareholder activism such as the exercise of ownerhips rights by voting at AGMs). Please refer to Appendix 3 for the relevant details.

***Table 2.4** Examples of Minority Shareholder Activism in Malaysia*

Example 1:
"…Minority Shareholders flexed their muscles and forced the withdrawal of all the three resolutions at the recent EGM of Bandar Raya Developments Bhd (or BRDB) on 23 February 2006… Over the last one year, MSWG noted that minority shareholders have grown in strength either in persons or as proxies to vote against resolutions which are against their interests. Never has this growing power of minority shareholders been truer and effective at the EGM of BRDB to make the board accountable… Public listed companies are only well governed if minority shareholders take their role and voting seriously without fear or favour. Minority shareholders must test their courage to stand against unfair treatment, not to waste their votes but stay united and to appoint proxies to act if need be on their behalf." Abdul Wahab Jaafar Sidek, CEO of Minority Shareholder Watchdog Group (MSWG) Source: www.mswg.org.my [Dated: 8 March 2006]
Example 2:
"Minority shareholders have of late been vocal in voicing out their dissatisfaction when the premium offered is below their expectations… Take for instance the recent proposed takeover of Ranhill Utilities Bhd, where the offer price was at about one-third discount to its NTA, which in minority shareholders' view, grossly undervalued the profitability, business potential and good prospects of Ranhill Utilities." Source: The Star Newspaper (Online Version), 26 Jul 2008. Available at: http://thestar.com.my/news/story.asp?file=/2008/7/26/bizweek/1660570&sec=bizweek
Example 3:
"Similarly, minority shareholders were upset with the takeover of PK Resources Bhd, where the offer price was below the closing price (when the proposed takeover was announced) and also far too low compared to the NTA of the company… Interestingly, the Board decision was not unanimous, with a few directors of PK Resources advising minority shareholders to reject the offer. At the end of the day, pricing must be attractive to ensure that the company will be successfully taken private. Otherwise, minority shareholders can hold out, and reject the privatisation plan. That happened in the proposed privatisation of Edaran Otomobil Nasional Berhad (EON) by DRB-Hicom Bhd. At the recent EGM held in June 2008, minority shareholders rejected the proposed de-listing of EON as they felt that the offer price was unattractive." Source: The Star Newspaper (Online Version), 26 Jul 2008. Available at: http://thestar.com.my/news/story.asp?file=/2008/7/26/bizweek/1660570&sec=bizweek

The various examples and observations given in this section thus far provide some real life anecdotal evidence that, contrary to what utilitarian economic and finance theories have predicted, at least some individual shareholders do engage in governance-related investment behaviour and that they do seem to be playing an active role in the governance of publicly-listed corporations (again, Strickland et al.

(1996) is an exception). This ranges from attending AGMs to exercise their ownership rights to campaigning against corporate deals that undermine minority interests. Consistent with this, Thompson and Davis (1997) and Davis and Thompson (1994) argued that these activities severely challenge the contractarian perspective and its efficiency orientation which predicts rational ignorance/ disinterest on the part of these investors.

This puzzle is even more intriguing as literature surveys on shareholder activism in developed economies by Black (1998), Gillan and Starks (1998), Karpoff (1998) and Romano (2000) have all concluded that such activities, irrespective of form or aim, have negligible impact on corporate performance. As mentioned earlier, if it is not worthwhile for individual investors to even monitor the governance of publicly-listed firms that they own[82], much less engaging in such proactive initiatives, what economic/non-economic factors/motivations actually compels them to do so?

Towards this end, there is currently little academic evidence on the phenomenon of shareholder activism in emerging markets (Claessens and Fan, 2002). As such motivations are as yet unexplored; the current study aims to contribute to filling this gap. Even so, it does not investigate the effectiveness of such activism in terms of subsequent improvements in corporate performance.

A key contention at this stage is that the examples above have portrayed a rather active governance role for individual shareholder that, as many academics rightly points out, are likely exceptions to the rule as the majority are not interested in proactive governance. This is consistent with the World Bank – ROSC (2001) finding that, even though the AGMs of publicly-listed firms in Malaysia are dominated by individual retail shareholders, attendance is generally poor. Consistently, Haniffa and Hudaib (2006) and Othman (1999) have argued that the choice made by most Malaysian domestic investors to play a passive role in demanding improved governance practices constrained the development of good governance practices among publicly-listed companies.

[82] This is based on the utilitarian agency perspective that it is not economically viable for individual shareholders to engage in governance monitoring.

Furthermore, Low (2004) has speculated that there is no shortage of apathetic Malaysian individual investors. Once again, this prompts the questions of (i) what is the proportion of governance active investors amongst the wider individual shareholder class and (ii) whether and how else corporate governance might feature or be factored into individual investors' share investments. Taking into account these contentions, when investigating AGM attendance levels (as outlined in the Regulator Perspective section), the proportion of non-attendees is expected to be much higher than those investors who do attend.

Another related issue is individual investors' awareness of their basic ownership rights as shareholders. It has been the dominant presumption that a significant proportion of retail investors in emerging markets are ignorant or poorly informed (Shleifer and Vishny, 1997) of the fundamental rights accorded to them as shareholders of publicly-listed firms. In fact, the The Securities Commission Development Centre Quarterly Bulletin [Malaysia] (2002) contended that a significant proportion of investors do not know their basic rights as shareowners. Such rights are inclusive of (see, for example, Low, 2004; The Malaysian Code on Corporate Governance, 2000):

- The right to receive timely and material information from the company whose shares they own.
- The right to attend and vote at AGMs.
- The right to share in the proceeds of the corporation.
- The right to seek redress when they are being unfairly treated/exploited.
- The right to take part in deciding upon fundamental changes to the firm (in the event of mergers, takeovers and the winding up of business).

The study investigates the indicative proportions of individual investors who are uninformed of their basic share ownership rights as opposed to those who are informed (regardless of whether they actually exercise such rights or otherwise).

Next, the study evaluates selected anecdotal evidence which uncovers the general nature of individual investors' practical understanding of the governance phenomenon. Consider the example provided in Table 2.5.

Table 2.5 *Individual Investors' Practical Understanding of Governance*

Example
On 16 December 2006, Encik Abdul Wahab Jaafar Sidek, the Chief Executive Officer (CEO) of MSWG and minority shareholders of Malton Berhad dressed down the board for the absence of their executive chairman and executive director for two consecutive annual general meetings (AGMs) as well as their excessive remuneration when shareholders received no dividends. At several points during the three-hour shareholders' meeting, the aggrieved shareholders put pressure on the board, demanding the whereabouts of the Executive Chairman and the executive director. In the annual report, they are both substantial shareholders via a private limited company, Malton Corporation Sdn Bhd which has a 37.91 per cent stake. Encik Abdul Wahab Jaafar Sidek pointed out that their absence did not reflect well on their attitude and their responsibility for not taking minority shareholders seriously at once a year's shareholders' meeting. He and minority shareholders present at the AGM found that the Deputy Chairman, chairing the AGM (also an independent director)'s explanation is totally unacceptable by saying that they were overseas and that he would convey shareholders' sentiments to them. As he tried, chairing the AGM not even passing the first resolution in tabling the company's financial statements, the CEO of MSWG and shareholders viewed their absence with skepticism and the chairman's explanation unconvincing. Also noted in the directors' profile in the annual report, the Executive Chairman has been described as the executive director's spouse. MSWG then brought up several critical issues to the board's attention and shareholders followed up vociferously, demanding for answers. The most critical ones, among others, are as follows:- • The Group's five-year summary showed that year-on-year comparison, the group's profit before taxation shrank by 88.7 per cent although turnover was rising by 36.2 per cent. The Group's profit margins declined to as low as 2.6 per cent from 4.1 per cent on the back of rising operating expenses, that eroded earnings of the Group while executive directors' remuneration kept rising; • Two related party transactions comprised the insurance premium of RM800,000 paid to a company controlled by one Lim Bin Hooi, a sister of the Executive Chairman and the purchase of corporate gifts (or hampers) of RM400,000 from a company controlled by the Executive Director (i.e. the Executive Chairman's spouse), both were absent from the AGM. The directors tried to clarify that even if such transactions were given to outside parties, the same amount of expenses would still be incurred and it made no difference whether related or not. However, the shareholders doubted, especially the purchase of corporate gifts (or hampers) whether it was necessary to be so much. Much argument, persuasions and exchange of words between shareholders and the Chairman of the AGM prevailed, culminating with directors requesting to meet among themselves for ten minutes. Only then, they reluctantly decided to adjourn the AGM to another date. MSWG is of the view that the affairs at Malton Bhd's AGM have, if nothing else, shown that minority shareholders have 'teeth' and will bite whenever their patience is over-tried or over-tested. In this case it is the unsatisfactory absence of both Executive Chairman and Executive Director (his spouse) for two consecutive AGMs and their high remuneration besides other critical issues as mentioned above.

Source: www.**mswg**.org.my

The example in Table 2.5 demonstrates the aptness of the study's earlier prediction, that individual investors' concern regarding aspects of a firm's governance is at a more rudimentary level than the detailed definitions and considerations contained within governance codes, guidelines as well as typical academic conceptions. For instance, investors are seen to question why overall executive remuneration is increasing while the business suffers rather than scrutinising the specific aspects of such pay packages like the proportion of compensation linked to performance.

Put simply, their understanding of governance is based more on common sense rather than on specific processes, rules, regulations or provisions. It is then appropriate to explore firm governance from the viewpoint of individual investors rather than concentrating on soliciting their opinions regarding fine nuances of each aspect as many of them are unlikely to possess such detailed knowledge/ expertise.

An indication that lends credibility to the contention above is the rather consistent finding reported by a number of past researchers such as Bartlett and Chandler (1997) and Lee and Tweedie (1977) that most individual shareholders/investors do not understand much of the information contained in many parts of annual reports well. As these studies are conducted in Western countries where both capital markets and shareholding culture are more established, this study expects individual investors in Malaysia to be similarly (if not more) unsophisticated.

Reflecting further on the example given in Table 2.5, another key consideration is the argument raised by some quarters that governance is akin to a police force (Keasey et al., 2005). When there is no pressing or specific need for it, it does not matter much but when it matters, it is of critical importance. High impact, controversial examples of this phenomenon are numerous – the fall of Enron in the U.S. and the strings of corporate scandals and abuses of executive power reported across the globe. Malaysia too has had its fair share of corporate scandals. As detailed in Chapter 1, recent episodes include Megan Media and Transmile[83] that have led to serious questioning of the actual substance of governance reforms

[83] For the specific details pertaining to the two cases mentioned as well as other relevant examples please refer to Appendix 1.

undertaken and also the very efficacy of the country's system of corporate governance.

Undoubtedly, the incidences above have given rise to scores of very angry and disgruntled shareholders (investors who directly suffered massive investment losses, as highlighted by Leong, 2009). These incidents also negatively impact the wider investor population's trust and confidence in the market (Bushon, 2009; Jaafar Sidek, 2007c). The salient point is that only when things go wrong do investors start questioning, where is the governance?

In the ways described above, investors are myopic in their investment behaviour (Keasey et al., 2005). When the company is performing well (company's operating performance is solid or its share price is steadily rising), they apparently can tolerate, exhibit disinterest and/or not question the way such entities are run or even managerial abuses (Philippon, 2006). On the contrary, when things start to unravel (when performance declines or when corporate fraud is detected), the situation that was acceptable to them suddenly becomes unpalatable. The arguments above provide the basis for scrutinising investors' propensities for governance under differing circumstances. Specifically, when does governance start to matter or, if it already matters, become more important to individual investors?

Each governance-related investor tendency identified throughout this section (and, as summarised in Table 2.6), similar to those offered in the academic and regulator perspectives, are investigated by this study as not much is known in reality.

Table 2.6 ***Possible Governance-related Actions/Tendencies (III)***

Investment Cycle Stage 1: Pre-Purchase
• Avoid badly governed firms/Only invest in well-governed firms.
Investment Cycle Stage 2: Post-Purchase
• Exercise their ownership rights as shareholders (e.g. vote during AGMs). • Monitor management and be involved in “relationship” investing (activism) to improve a firm’s governance when corporate performance and/or certain aspects of the firm’s governance are deemed unsatisfactory. • Complain, seek redress and accountability by having their voice/plight heard after being mistreated/exploited.
Investment Cycle Stage 3: Exit/Sell Off
• Simply exit (sell the shares) when governance problems arise or when corporate performance declines.

Lastly, the underlying actual motivations/justifications for the observed individual investor behaviours/motivations are as yet unknown and will be empirically explored by the current study.

2.9 Integration of Key Research Elements (I)

This section draws together and integrates the various governance attributes/ issues explored thus far. Emphasis is on how each element features and also links/ relates to others. One of the main intentions of this section is to explicate the underlying logic for the subsequent lists and also groupings of questions posed to respondents in the interviews conducted and also questionnaires distributed[84]. Elements are broadly aligned by the study’s research questions and the stages of the investment cycle. All actions/tendencies are segregated into the stages of the cycle where they are most likely to feature.

[84] For detailed explication of the design and also content of both research methods, please refer to Chapter 5: Research Methodology.

All three primary research questions are tackled concurrently as each identified governance-related tendency/treatment/issue is followed by an exploration of (i) the underlying justifications for such an inclination and (ii) the various influences that compel individual investors to think and also act in the observed manner.

2.9.1 Does Firm-level Corporate Governance Matter to Individual Investors?

Authors such as Nofsinger (2008) have argued that investment decisions made by individual investors are mostly firm-specific. Hence, the study first considers firm-level governance attributes. Investigating only governance attributes provides necessary focus as general individual investor studies such as that by Nagy and Obenberger (1994) showed that investors consider a wide range of financial and also non-financial firm variables (they reported as many as 34 distinct variables).

In exploring whether firm-level governance matters to individual investors, the study must take into account its multi-faceted nature. Since (i) there is a range of firm-level governance attributes and (ii) an investor may not regard all such attributes as relevant/important; the question above then becomes what aspects of a firm's governance actually matter?

Considering the key assumption of conventional governance mindset that good governance results in good, consistent corporate performance, certain fundamental factors such as company growth prospects, projected future performance and industry outlook[85] are not directly considered as they are seen as outgrowths/ consequences of good governance[86].The various interlinks and also integration of research elements are presented in Tables 2.7 and 2.8.

[85] Most studies have listed similar company prospects/performance-related factors.
[86] As good governance implies the right decisions are being made to ensure that the companies are in the right industries, have good overall performance and effectively capitalise on growth opportunities.

***Table 2.7** Integration of Key Research Elements (I)*

Investment Cycle Stage 1: Pre Purchase **Corporate Governance as Firm-Specific Evaluation Criteria**
Individual investors may firstly evaluate certain firm-specific aspects of governance. Essentially, the study explores the relative importance of each of the firm-level governance variables listed towards the end of Page 71 in Section 2.7.2: Shareholder Activism to individual investors in Malaysia. In addition, the study also gauges the importance of how transparent and accountable company managers are in their actions in general to individual investors. For those investors who actually do such evaluations (consider any of the said variables), subsequent actions may include: (i) avoid investing in badly governed firms (as determined by their evaluations) (ii) only invest in well-governed firms (as determined by their evaluations) and/or (iii) discount the amount that they are willing to pay for firms exhibiting any governance weaknesses. The possible treatments above are similar in that certain aspects of firm governance are typically considered in the form of investment evaluation criteria. In addition, the study considers a specific non-governance tendency that is argued to be (i) a fair indicator of investors' propensities to act contrary to governance ideals and (ii) a "distraction" to governance "interested" investors. This is when investors purchase shares solely on the basis of unconfirmed tips/insider info/speculation predicting an imminent rise in share prices.
Investment Cycle Stage 2: Post Purchase **Governance as Concerns requiring Monitoring/Active Participation**
After buying specific shares, an investor enters the post-purchase stage of the investment cycle. Here, the relevance of governance in the form of ongoing concerns requiring monitoring/active participation is explored (using AGM attendance as proxy). Possible reasons for attending identified thus far include (i) to vote/have a say in how the firm is run and (ii) to protest after being exploited[87]. For investors who are knowledgeable, non-attendance may be a rational response as (i) attendance may be too costly and (ii) perceptions that their vote/presence won't materially influence management decisions. Conversely, non-attendance may stem from lack of awareness, disinterest and/or indifference. Possibilities include: (i) ignorance (not aware that they are entitled to attend) or (ii) unsure of what to say/do or (iii) simply not interested. Investors' propensities for other forms of activist-related behaviour such as communicating with firm management; submitting shareholder resolutions; and publicly criticising firm

[87] Further elaboration is given under the "When does governance start to matter/matter more" subsection.

managers/directors through the media, are also investigated. Issues deemed to be of possible interest to proactive individual investors are listed under Section 2.7.2 (pg. 48)[88].
Investment Cycle Stage 3: Exit/Sell Out
At this stage, a possible treatment identified earlier is where investors exit/sell out whenever governance weaknesses/concerns are detected[89]. This includes (i) exit rather than pressuring management to improve performance and (ii) sell out when firms' recent operating performances or fundamentals are deteriorating. Next, the study gauges investors' awareness from another dimension – their basic share ownership rights, regardless of whether they exercise them or not. Proxies to investigate their general awareness include (i) the right of investors to receive annual reports from the company that they partly own every year, (ii) the rights of shareholders to vote through the post, and (iii) the rights of shareholders to access/tour the company's head office at any time that they see fit.

Table 2.8 *Integration of Key Research Elements (Ia)*

When does governance matter/matter more to individual investors?
The study found that governance may become more relevant when (i) investors are being mistreated/exploited and (ii) corporate fraud/scandals happen often. Other differing general situations are identified in the review on the Malaysian institutional environment in Chapter 3.

2.10 Chapter Summary

The study first defined corporate governance and explained its relevance as stemming from the separation between ownership and control inherent within all publicly-listed firms. From the agency perspective, shareholders are shown to be a core concern and firms' ultimate aim is to maximise their wealth. Governance is then portrayed as an integrated set of external and internal mechanisms that serve to mitigate agency conflicts. The various aspects of governance can be divided into

[88] As argued earlier, since individual shareholders in general are not expected to be very sophisticated and also considering the intuitive governance argument, issues/attributes that are more nuanced or multifaceted are combined.
[89] as encouraged by certain market regulators.

firm level and country-level attributes. The study then identified all major governance attributes that may be important to individual investors.

The study then explained its adoption of agency theory in making sense of the Malaysian corporate governance environment and the behavioural tendencies of investors operating within such a context. Specifically, agency theory forms the underlying foundation for (i) the various governance mechanisms established, (ii) the design of the Malaysian capital market, (iii) conceptualising and also guiding extensive governance reforms, and (iv) investor primacy in capital markets. The aim was to show that the various governance measures discussed are in existence and form the current status quo. Hence, this choice of governance lens is pragmatic. Alternative perspectives such as stakeholder and transaction cost theories were also evaluated.

Next, justifications are given for the sole focus on the individual investor group in Malaysia by arguing that they are prone to exploitation, are numerous thus economically significant and are largely ignored in the literature. The reasons why individual investors may find governance to be important are then outlined.

Subsequently, the study explored the governance roles and tendencies of individual investors, as seen from three distinctive viewpoints. The academic perspective views investor behaviour on an economic utility basis, predicting that individual investors have no proactive role to play in governance. Even so, investors may consider governance in their investment evaluations such as adopting certain governance-related criteria.

From the regulator perspective, at least some individual investors are encouraged and/or expected to play active governance roles. In fact, much resource has been expended to compel investors to become more proactive and new governance mechanisms have also been introduced to facilitate shareholder activism. The study then questioned how reasonable such expectations are considering the persuasive academic arguments suggesting otherwise.

In the last major section of the chapter, the study presented the practitioner perspective by the use of anecdotal evidence in the popular press and actual observations by interested/informed parties that at least some individual investors are seemingly proactive and apparently do play a role in governance. Such observations even resulted in reports that individual investors dominate attendance numbers at AGMs.

The study compiled a list of (i) all possible governance-related actions and tendencies from all reviewed predictions, observations, findings and also expectations and, (ii) the various reasons and also influences for both undertaking/not undertaking observed/reported range of behaviours.

Lastly, the study provided an integrated outline of all the governance elements and issues considered throughout the chapter. This is to show how all attributes inter-relate, influence one another and are also categorised into different stages of the investment cycle. The main aim is to demonstrate how and why all such attributes feature the way they do in the interviews conducted and questionnaire distributed. Operational aspects are explained further in the Research Methodology chapter.

In the next chapter, the various governance-related environmental and institutional attributes distinct to Malaysia are explored, especially in terms of how they (i) shape investors' opinions with regards to various governance attributes/issues /market participants and (ii) impact individual investors' propensities to consider governance and/or undertake governance-related actions.

Chapter 3 Review 2: Environmental and Contextual Influences on Investors' Governance-related Behaviour

3.1 Chapter Outline

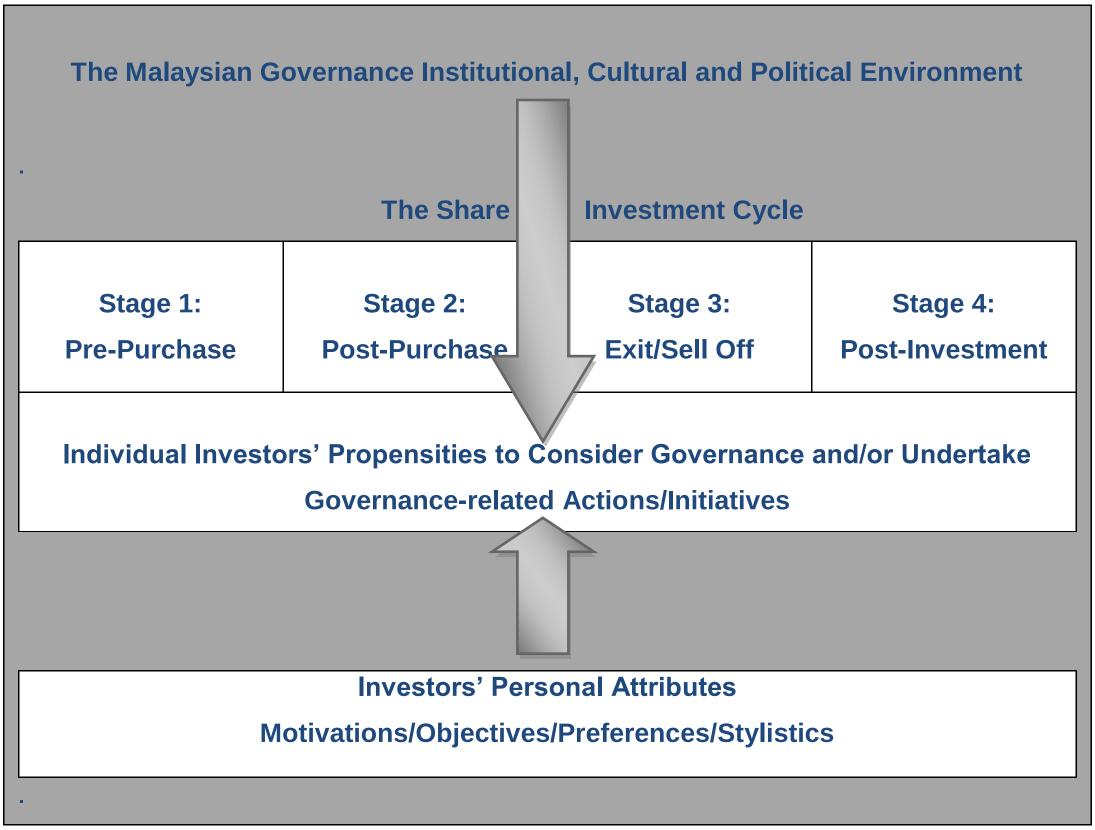
This chapter explores Malaysia's unique cultural, political, institutional and governance environment. An appreciation of these attributes is vital to make sense of the propensities of individual investors to consider governance-related factors and/or undertake governance-related activist behaviour within such a context.

Specifically, investors' governance-related behaviours/tendencies are seen to be adaptations and/or responses to the environmental and institutional influences that they are subjected to rather than being generic practices that are largely unaffected by such country-specific peculiarities. Political involvement in business, concentrated corporate ownership structures and relationship-based business culture and ethnic-based cultural norms are given particular emphasis.

Next, the notion that individual investors' awareness, perceptions, opinions and experiences of corporate governance are reflected through their views regarding the motivations and actions of various capital market participants are proposed and explored. These are formed from their exposure to and also experiences of the Malaysian institutional, political, corporate and cultural environment. Individual investors are expected to exhibit a range of behaviours/actions/tendencies that fairly reflect the kinds of perceptions/opinions reported.

In terms of the conceptual framework established, the relevant aspects being dealt with are highlighted (shaded) in Figure 3.1.

Figure 3.1 *Focus of Chapter within the Conceptual Framework of Study (II)*



3.2 Investor Behaviour and the Governance Institutional Environment

While certain countries may be grouped along a few common major governance attributes such as those exhibiting concentrated corporate ownership and relationship-based business culture, the specific causes, developments, forms, functional mechanisms and other nuances of such characteristics are unique to each country. Indeed, Demirguc-Kunt and Maksimovic (2002) and La Porta et al. (1998) have posited that legal, regulatory and institutional environments of different countries do fundamentally affect the very process, working mechanisms and implications of governance.

The contention above is also supported by Cornelius and Kogut (2003) and Haniffa and Hudaib (2006) who viewed each national corporate governance system as distinctive since each country differs in its cultural and historical background and political conditions. For example, Cornelius (2004) contended that corporate ownership structures in a particular country are partly determined by the interaction between legal, historical and cultural factors.

Consistently, Kuada and Gullestrup (1998) contended that the process of cultural development in every society creates a unique governance configuration, that is, governance culture and institutional mix in every country is path-dependant (Licht, 2001; Bebchuk and Roe, 1999). Some researchers have even argued that the diversity of governance practices around the world nearly defies a common definition (Aguilera and Jackson, 2003).

In terms of interactions between capital market participants, Gabrielsson and Huse (2004: 24) contend that "*systems of corporate governance and cultural, legal, and institutional contingencies are inextricably linked, and different sets of institutions support different sets of interactions among actors.*"

Hence, in order to make sense of the governance-related behavioural tendencies of individual investors in Malaysia, the nature of interactions between the different market participants must be understood. Aguilera and Jackson (2003) described this focus on interactions between major capital market constituents/groups as actor-centred governance, with emphasis on the context within which such relationships take place (Gomez-Mejia et al., 2005; Bruce et al., 2005).

The study concurs with Thompson and Davis (1997) who argued that investors' governance-related behavioural tendencies are not determined solely by capital market pressures but also by political and social structures that determine the balance of rights and power between them and other market participants. In fact, the legal and regulatory rules of the game are posited to be neither neutral nor outside the control of market participants (as assumed by academics in the agency tradition). Further elaboration is provided in the later sections of the chapter.

Lending credibility to the arguments above, Huse (2005), Gomez-Mejia et al. (2005) and Aguilera and Jackson (2003) have all acknowledged that governance should be viewed as embedded in the social context that exists. Gedajlovic and Shapiro (1998) also concluded in their study that institutional context matters and more importantly, much more research directed at identifying the micro processes of the relevant institutional influences is warranted and needed. Hence, Malaysia's national and cultural nuances; corporate and political environment; and corporate ownership structures (Huse, 2005) are given due attention by the current study.

It must be emphasised that it is not the intention of this study to evaluate the effectiveness of the design or state of the current corporate governance regime in Malaysia. Instead, the behavioural tendencies of individual investors are seen to be logical/reasonable responses to the prevailing governance regime. This is consistent with the pragmatic stance adopted where understanding and lessons are drawn within the status quo.

In essence, the study aims to develop a principle-agent based view of corporate governance that acknowledges contextual influences in its attempt to operationalise key constructs from an agency theory perspective in the Malaysian capital market setting. This includes variants of aspects described by Gomez-Mejia et al. (2005) such as who the actual principals are (rather than who the legitimate ones should be, as proposed by Gomez-Mejia et al., 2005), the nature of "self-interest" and the forms/degree of oversight available to principals.

3.3 The Malaysian Governance Environment, Culture and Institutions

The study begins its explication of the Malaysian governance environment by briefly outlining a few important findings of the law and finance governance literature (see, for example, La Porta et al., 1998 and La Porta et al., 2000) that concentrated on identifying broad-based commonality in certain country-level corporate governance attributes across countries around the globe. For example, the kinds of general shareholder rights accorded and the types of legal systems/traditions and also their consequent influences on corporate ownership structures and capital market development.

A summary of a few of its primary findings (focusing specifically on those that generally describe corporate East Asia) serves to provide an initial overview of some of Malaysia's major governance characteristics. This is because, by itself, this literature stream is too descriptive and does not go far enough in terms of increasing our understanding of the specific governance processes, nuances and implications pertaining to Malaysia. Even so, certain commonalities exist (Claessens and Fan, 2002).

One of the main findings is that most countries around the world have highly concentrated corporate ownership structures (La Porta et al., 1999) and this includes corporate Malaysia (Du and Dai, 2005; Thillainathan, 1999; Haniffa and Hudaib, 2006; Claessens et al., 2000; Claessens et al., 2002). According to the World Bank - ROSC (2001), approximately 85% of Malaysian publicly-listed firms had owner/managers and 37.4% had only one dominant/majority shareholder. Since corporate ownership structures in most countries are found to be largely stable over time (Claessens et al., 2002), such concentrated ownership is unlikely to have altered much today.

Haniffa and Hudaib (2006) and Claessens et al. (2000) contend that the domination in most companies by large shareholders who exercise significant control rights put minority shareholders at high risk. This is because when corporate managers are also owners of large blocks of shares, the scope for pursuing private benefits at the expense of outside investors is inherently wide (Doidge et al., 2001; Claessens et al., 2002).

In the Malaysian capital market, such a tendency is exacerbated by the significant divergence between cash flow rights and control rights (Du and Dai, 2005; Haniffa and Hudaib, 2006). This is where the largest shareholders have controlling rights[90] that are disproportionately more than their direct ownership share[91], typically through the use of pyramid structures and cross holdings (Khatri et al., 2002; Claessens et al., 2000; Thillainathan, 1999).

Oman et al. (2003: front page) highlighted that *"pyramidal corporate-ownership structures, cross shareholdings and multiple share classes are widely used by corporate insiders in the developing world to extract corporate-control rents, exploit other investors and resist pressures to improve corporate governance".* In this regard, the law and finance literature did find that the protection of minority

[90] Percentage of voting rights.
[91] Percentage of actual direct shareholdings.

shareholders is generally the weakest for countries exhibiting combinations of such attributes. Hence, the primary governance concern in Malaysia is the potential conflict between majority and minority shareholders.

The concerns above are further compounded by the single most prevalent governance attribute exhibited by East Asian capital markets, that is, a business culture based on relationships (Rajan and Zingales, 1998). Rajan and Zingales (1998) argued that this relationship-based nature of corporate systems served as the nexus of the institutional structure of most country-specific studies of governance and economic histories. Similarly, Searle (1999) and Gomez and Jomo (1999) concentrated on the nexus of business, politics and the state in their analysis of the Malaysian political economy. Links between politics and corporate governance, albeit of a slightly different nature, have also been made by past authors such as Roe (1994). The current study thus places great emphasis on the aforementioned cultural and institutional dimensions for the purposes of its review.

Besides referring to the extensive works of Gomez and Jomo (1999) and Searle (1999), in terms of the specific institutional and cultural influences being examined, the study also draws considerably on the works of Pye (1985) and Crouch (1996). This is to obtain a richer and more in-depth insight as they have provided detailed accounts of the Malaysian cultural scenario from the dimensions of authority, power and politics rather than from a strictly political economy dimension (as per Gomez and Jomo, 1999).

3.3.1 Relationship-based Corporate Culture and Political Involvement in Business

The governance-related behavioural tendencies of individual investors in the Malaysian capital market can be better understood with an appreciation of the distinct character of Malaysian capitalism. This is because the Malaysian political and corporate environment has undergone fundamental changes since 1970 which resulted in the forging of distinct political-economic linkages at the national level (see, for example, Searle, 1999; Gomez, 1999). Throughout the past few decades, Malaysia’s corporate governance practices and norms have also undergone significant evolution, in tandem with changes on the political and economic fronts.

Here, the study attempts to make the case that the developments above profoundly influenced and shaped (i) the perceptions, expectations and also behavioural tendencies of individual investors who partly own Malaysian publicly-listed firms and, (ii) the underlying corporate environment itself that propagates such behavioural responses.

Scrutiny of the largest publicly-listed corporations and also the major capital market participant groups in Malaysia are supported by McVey (1992) and Searle (1999) who opined that, in understanding the Malaysian capitalist system, it is in big public-listed businesses that the nexus between business, politics and the state is most clearly displayed.

As the issues of politics and race/ethnicity are inextricably intertwined in multiracial, plural societies like Malaysia with subsequent impact on publicly-listed firm governance (see, for example, Gomez, 1999), the study first provides a brief historical context. Firstly, the Malaysian population is made up of three major ethnic groups. The Malays form the majority comprising more than 50% of the total population, the Chinese constitute approximately a quarter, Indians around 8% and the rest is made up of various other ethnic groups (Department of Statistics, Malaysia, 2008).

Originally being immigrants, the Chinese and Indians have been an integral part of Malaysian society for over a century. Typical of former British colonies, the local population were subjected to a “divide and rule” regime (Verma, 2004). Consequently, Malays are mostly confined to the villages being farmers, civil servants and fishermen; the Chinese are more entrepreneurial and dominate business/trading in urban areas; and the Indians mostly work in plantation estates (Crouch, 1996; Verma, 2004). As their ethnic group comprise the majority, ethnic-Malay elites have traditionally been the ruling class and they dominate both politics and the bureaucracy even today (Heng, 1997).

The Chinese, being the more business oriented and entrepreneurial ethnic group, controlled most of the Malaysian economy (Gomez, 1999). More importantly, their share of the economy greatly outweighed that of the Malays. To provide a better historical context, Snodgrass (1980) demonstrated this disparity by using household income as an indicator of income inequality showing that in 1957/58 the Malays had the lowest mean monthly income ($139) compared to Chinese ($300) and Indians ($237). As a consequence, the Malays (while constituting a majority of the population) are mindful and insecure about the significant economic power possessed by the Chinese.

Hence, when negotiating the terms for Malaysia's independence in the 1950s, an arrangement was made where in return for a tacit acceptance that Chinese economic interests would not be hindered/disadvantaged, the non-Malays agreed to Malay political paramountcy (Crouch, 1996). Malay anxieties regarding their economic backwardness were reflected in the Malaysian Constitution, which contained provisions for the "special position" of Malays in terms of receiving preferential treatment in the fields of education, bureaucracy and business (Crouch, 1996; Verma, 2004). Horii (1991) described this situation as the fundamental contradiction of Malaysian society where economic wealth is largely in Chinese hands while the Malay ruling groups monopolises political power.

At this juncture of the review of Malaysia's history (i.e the pre-independence period in the mid 1950s) from the economic, political and social angles, the researcher will divert briefly from the exposition to address another pertinent issue (i.e. the role of Syariah law within the context of this study).This is owing to the fact that the role of Syariah law within the secular, common law-based Malaysian society was also established during this time period. Here, the roles of both Islam and Syariah law are set within the general context of inter-communal bargaining with regards to the terms of independence and provisions within the Federal Consitution. Lastly, the resultant impact of Syariah law on the Malaysian capital market is highlighted.

Subsequent historical developments from the amalgamation of political, economic and social forces post-1950s on (i) the distinctiveness of the Malaysian capital market and (ii) the subsequent development of a relationship-based corporate culture and extensive political involvement in business will be continued thereafter.

3.3.1.1 The Influence of Syariah Law on the Malaysian Capital Market

Since the Federal Constitution of Malaysia provides for a dual system of civil (based on British common law) and religious or Syariah courts (based on Islamic law) (Neo, 2006), the researcher needs clarify the role of Syariah law within the context of this study. Specifically, the relevance of Syariah law for the Malaysian capital market and corporate sector is examined. To do so, a brief historical context of Islam (which forms the very foundation of Syariah law) within Malaysian society is essential. This is because only by understanding the position of Islam, as enshrined in the Federal Constitution of Malaysia, can one begin to comprehend the status and reach of Syariah law in the country.

Neo (2006: 101) highlighted that *"at the time of independence, Malaya was largely secular and its legal systems were based on common law. Islam governed only personal and customary matters, i.e. in marital, family and inheritance laws, and applied only to the Malay community"* (i.e. Syariah law does not apply to non-Muslims). The British were anxious to preserve the status quo. Consequently, when drafting the Malayan Constitution, the British initially rejected the controversial recommendation to entrench Islam as the country's official religion (Neo, 2006).

What became Article 3 of the Federal Constitution[92] (specifically, Article 3(1) provides that "Islam is the religion of the Federation, but other religions may be practiced in peace and harmony in any part of the Federation.") was accepted only after political leaders at the time gave assurances that *"they had no intention of creating a Muslim theocracy and that Malaya would be a secular state"* (Neo, 2006: 102). Neo (2006) further explained that Article 3 was accepted by all parties on the basis that Islam would be limited to the sphere of Muslim personal and customary law. The designation of Islam as the Federation's religion was widely understood to be strictly symbolic and the nation's character would remain multi-ethnic and secular (Neo, 2006).

[92] According to Smith (2004), Malaysia's Constitution itself dates from 1957 (Constitution of the Federation of Malaya (1957)), which later became the Federal Constitution of Malaysia (1963).

Therefore, although Article 3(1) provides that Islam is the official religion, it is acknowledged that Islam is established as such only for the purpose of conducting state ceremony (i.e. Islam plays only a formal role in the Constitution) (Smith, 2004). In fact, according to Smith (2004: 362), the *“Constitution of Malaysia does not establish Syariah as the primary or principal source of legislation, or indeed a source of legislation at all at the federal level.”* In Che Omar bin Che Soh v. Public Prosecutor, the Supreme Court of Malaysia focused their interpretation of the meaning of “Islam” or “Islamic Religion” within the meaning of Article 3(1). Based on Malaysian history, the court concluded that “Islam”, as used in Article 3(1) affected only a personal law applicable to Muslims (Smith, 2004)[93]. In Malaysia, therefore, Syariah does not constrain legislative power (Smith, 2004). Practically:

> *Civil courts exercise general jurisdiction over all civil and criminal matters as well as non-Islamic customary laws where applicable. Syariah courts are state courts created by statute and apply Syariah laws to Muslims only, with respect to a limited range of matters relating to marriage, inheritance and other personal laws (Neo, 2006: 100).*

The most obvious demonstration of this fact is in a recent legal battle where the High Court [Malaysia] has ruled that the Syariah Court has no jurisdiction over a company as it is a corporate entity (Hamdan, 2010). Based on the arguments put forth, therefore, this study disregards Syariah law.

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[93] The Supreme Court judges provided the following written grounds for their judgement: “*The concept of sovereignty ascribed to humans is alien to Islamic religion because in Islam, sovereignty belongs to God alone. By ascribing sovereignty to the ruler, i.e. to a human, the divine source of legal validity is severed and thus the British turned the system into a secular institution. Thus all laws including the administration of Islamic laws had to receive this validity through a secular fiat... Thus, it can be seen that during the British colonial period, through their system of indirect rule and establishment of secular institutions, Islamic law was rendered isolated in a narrow confinement of the law of marriage, divorce and inheritance only... In our view, it is in this sense of dichotomy that the framers of the Constitution understood the meaning of the word “Islam” in the context of Article 3. If it had been otherwise, there would have been another provision in the Constitution which would have the effect that any law contrary to the injunction of Islam will be void. Far from making such provision, Article 162, on the other hand, purposely preserves the continuity of secular law prior to the Constitution, unless such law is contrary to the latter” (Smith, 2004: 362).*

3.3.1 (II) Relationship-based Corporate Culture and Political Involvement in Business

Here, the review of Malaysia's political, economic and social history and their impact on the Malaysian capitalist system resumes from the time period right after the country gained its independence (post 1957).

Since any radical actions to expand greatly the Malay share of the economy would upset the status quo thus undermining the very basis of the ruling coalition's cooperation and rule, the state initially did not aggressively promote Malay advances into the capitalist sector (Searle, 1999). By 1970, Malay households still had the lowest mean income ($177), while Chinese mean income ($399) was approximately twice that of the Malays (Snodgrass, 1980, Crouch, 1996). At that time, per capita Malay income was $34 compared to $68 for the Chinese (Heng, 1997). A clear illustration of this persistent economic disparity is provided in Table 3.1 below.

Table 3.1 *Mean Income per Household by Ethnic Group, 1957/58 - 1970 (Malays, Chinese and Indians only)*

Ethnic Group	**Mean Income per Household ($/month)**	
	1957/58	**1970**
Malays	139	177
Chinese	300	399
Indian	237	310

Source: Adapted from Snodgrass (1980) and Crouch (1996)

Also, Malay ownership in the corporate sector remains "negligible" (Gomez and Jomo, 1999) at a mere 2.4% in 1970, compared to the Chinese share of 34.4% (Heng, 1997).

Fundamental changes to the Malaysian political, economic and corporate landscape were triggered by the race riots of 1969 (see, for example, Horii, 1991; Searle, 1999). The then Malaysian government concluded that it was mainly caused by the economic deprivation of the Malays (Crouch, 1996). A system with an explicit policy of favouring Malays/Bumiputeras[94] in seeking greater economic equality was needed. This ultimately resulted in the adoption of the New Economic Policy (NEP) that seeks to "*restructure the Malaysian society to reduce and eventually eliminate the identification of race with economic function…*" (Crouch, 1996: 25)

Second, it is aimed at correcting the inter-ethnic imbalance in the ownership/ control of wealth in the country (Searle, 1999; Pye, 1985) through affirmative action. Various policies/measures explicitly benefiting the Malays/Bumiputeras[95] were implemented such as quotas in corporate ownership as well as a variety of subsidies, licenses, and credit schemes. Some aspects of the NEP were exceedingly ambitious, aiming, for example, for Malays to acquire 30% of corporate share ownership and management by 1990, even though they had only 1.5% then (Pye,1985).

The active distribution of wealth in the country was initially channelled through state development agencies and government-linked funds (Gomez and Jomo, 1999). Attention, however, must be directed at the United Malays National Organisation (UMNO), the dominant party within Malaysia's ruling[96] National Front coalition government. As described by Gomez and Jomo (1999: 103)

> *The growth of UMNO's corporate investments in the 1980s meant that the party itself played an increasingly important role in the restructuring of ownership in the economy and in contributing to the creation of a Malay business and commercial class*[97]...*from the mid 1970s to the mid 1980s, UMNO changed from a passive to an active corporate investor whose interests spanned the entire economy*.

[94] The term Bumiputera translates into "sons of the soil" (see, for example, Gomez, 1999 and Verma, 2004) or indigenous peoples of Malaysia, a vast majority of whom are Malays. In fact, the term Bumiputera is often used to mean "Malay".

[95] It must be noted that the NEP, even though touted as a policy that would explicitly benefit the Bumiputeras through affirmative action, was designed very much with the particular interests of Malays in mind rather than those of other indigenous minority peoples who are also classified as Bumiputeras. In fact, Horii (1991) explained that the NEP is also known as the Malay first policy as it puts Chinese and Indians in a weaker position than the Malays who are the main policy target group.

[96] Since independence to the present day (1957 – present).

[97] Roles that in the 1970s had been largely played by the government and the state sector.

In fact, few political parties in Asia have become so closely involved in business as UMNO (Gomez and Jomo, 1999).

Gomez and Jomo (1999) have further described UMNO, with its extensive powers and privileges of long-term incumbency, as seeming like a one-party state. Jomo (1986: 52) also noted a change in UMNO itself as *"the position of those who stood for a more active promotion of Malay capitalism was strengthened*". Essentially, concentration of power gradually shifted within the Malay elite circles from politicians as well as administocrats to a combination of politicians and businessmen, ancillary to which were the bureaucrats and regulators (Gomez and Jomo, 1999).

The power shift was clearly reflected in the increasingly dominant view within UMNO (and therefore, the government/state) in the 1980s that the spheres of government, party or private interests are no longer regarded as distinct entities. National, political, and private interests may be pursued simultaneously or in tandem, an arrangement described as "commonness" rather than "conflict of interest" (Gomez and Jomo, 1999). Practically, means of implementation included the use of common directorships between companies controlled by the party and publicly-listed companies controlled by the government as a mechanism used to affect a shift of assets from the government sector to the party or UMNO-related business groups in the private sector.

Clearly, in administering the policies of the NEP to create Malay capitalists, an intimate relationship was forged between the state, the dominant political party (UMNO) and business (Searle, 1999). Searle (1999) argued that this growing intimacy has resulted in the enmeshing and blurring of the boundaries between business, politics and the state with profound implications for the character and development of Malaysian capitalism and also corporate governance (for extensive and detailed documentation/evidence, please refer to Gomez, 1994; Gomez and Jomo, 1999; Searle, 1999; amongst others).

Extensive evidence shows, therefore, that the state no longer merely played a supportive role for private capital; it assumed centre stage by becoming a medium for capital accumulation and also serving the particular interests of the governing class (Jomo, 1986; Gomez and Jomo, 1999). Groups that consist of Malay politicians, bureaucrats and businessmen emerged which control capital accumulation by virtue of their access to state power/apparatus.

According to Gomez and Jomo (1999), increased government intervention in the economy has promoted rent-seeking activities leading to increased incidences of corruption and economic waste. Crouch (1996) argued that, while the NEP succeeded in bringing Malays into business, it failed to stimulate development of an independent Malay entrepreneurial class. Malay businessmen were essentially individual clients preoccupied with maintaining individual links with political patrons. In fact, Jomo and Gomez (1999: 128) argued that "*the creation and disbursement or allocation of resources and their protection have been crucial for continued political hegemony*".

Consequently, a cartel-like domination of the NEP by interlocking networks of elites has had a marginal net impact on poverty eradication (i.e. state funds have not reached the Malay grassroots) while concentrating income and wealth amongst this select group of ruling elites and their associates (Gomez and Jomo, 1999; Mehmet, 1988; Verma, 2004). In short, the system is subject to manipulation by the rich and powerful seeking quasi-rents and other forms of unearned rewards.

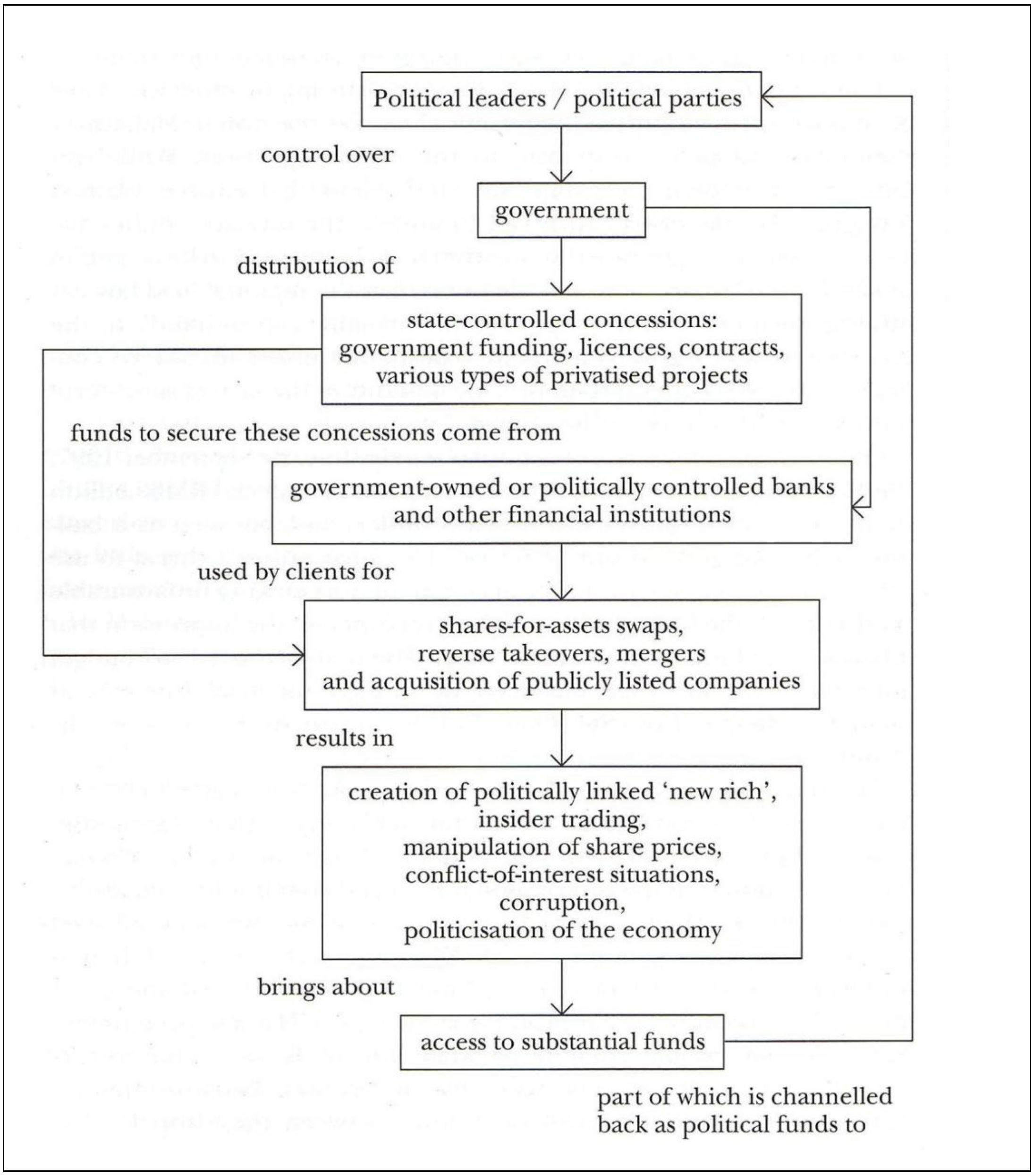
Similarly, Gomez (1999) found that political involvement in business (especially UMNO's investments in business) has entrenched cronyism, patronage and money politics. These also contributed to other undesirable consequences such as corruption and this has the effect of sapping the confidence of "genuine" investors (see also Gomez and Jomo, 1999).

There is no denying that corruption and cronyism in East Asian countries such as Malaysia are deep rooted (Nikomborirak, 1999). Indeed, according to Crouch (1996), by 1994 money politics had become so rife that UMNO amended its constitution to empower its Supreme Council to draw up a code of ethics that prohibits the abuse of power and money with the intention of securing votes or support. In fact, the money politics problem has persisted or may even have worsened despite its eradication being one of the primary agendas of the current Malaysian government (The Star, 2008b).

These developments are relevant to corporate governance because they culminated in a culture where the ruling elite and their corporate patrons/ clients/proxies (most being major shareholders/owners of public-listed firms) as well as captive market regulators are involved in numerous blatant scandalous, manipulative and even fraudulent activities in the capital markets, often to the detriment of minority shareholders. For example, Low (2004) highlighted various instances of corporate abuse through related-party transactions, incidence of capricious decision making, shifting of assets within the corporate group, undertaking transactions without proper disclosure and poor financial management by directors.

In fact, the workings of capital market-related manipulations are well documented in the political economy literature on Malaysia, a clear illustration of which is provided below (Figure 3.2).

Figure 3.2 *Diagram of Political Patronage in Malaysia* (*patterns and channels of corruption, money politics and stock market manipulation*)



Source: Adapted from Gomez and Jomo (1999: 190)

In addition to the channels and means above, various specific examples have been described in vivid detail by authors such as Searle (1999), Gomez and Jomo (1999), Gomez (1999). The selected extracts below illustrate the persuasiveness of the arguments presented thus far:

Table 3.2 *Examples of Political Involvement in Malaysian Publicly-listed Firms*

Example 1:
A more important aspect of the government-party relationship that has facilitated UMNO's business activities was the influence wielded by the party leadership over appointments to key institutions and agencies charged with the implementation of the restructuring goals of the NEP in the corporate sector. Confidence that such departments and agencies as the MTI, Bank Negara, the Capital Issues Committee (CIC) and the Foreign Investment Committee (FIC) would facilitate UMNO's corporate ambitions gave the party a decided advantage against other competitors, particularly in the stock market. So, whenever UMNO-linked public companies such as NSTP, UEM or Aokam sought to acquire assets through share swaps, the high premiums generally attached to the shares of those companies were in large part predicated on market confidence that such deals would be supported by the various regulatory agencies concerned. This factor, together with the blurring of government and party interests, also seems to have enabled UMNO to ignore the spirit, if not the letter, of government procedures and regulations when they posed obstacles to the promotion or protection of its corporate interests.
Example 2:
Political criteria were also apparent in the appointment of Tan Sri Basir Ismail to a number of powerful corporate and regulatory bodies. Political criteria and the changing role of the "regulators" were most apparent, however, in the appointment of Basir in August 1990 as chairman of the powerful CIC. Basir, who had extensive interests in the corporate sector and was at the same time the chairman of the Capital Issues Committee, epitomised the blurring between the regulators and the market.
Example 3:
As a member of the Bumiputra Malaysia Finance (BMF) Committee of Inquiry observed, 'the right connections' can facilitate the relisting of a suspended company and minimise the time taken to obtain the necessary approvals from the regulatory authorities concerned. In a number of other important respects, apparently little regard was paid to required procedures and regulations, indicating again the extent to which the party was able to use the levers of government to promote and protect its corporate interests.
Example 4:
In a failed attempt to corner the tin market which cost the Malaysian government $600 in 1982, the government attempted to cover up the losses by secretly forming a company, Makuwasa Securities Sdn Bhd, in mid 1984. Makuwasa, a $2 company, was given some of the privileges of Bumiputra trust agencies, most importantly allotment of public share issues at preferential prices. In order to maintain the cover-up, allotment of such shares that should have gone to the government-managed Employees Provident Fund (EPF) was instead channelled to Makuwasa. Apparently, the idea was that Makuwasa could then sell the shares at the market rate on the KLSE and make windfall profits to cover the tin losses. Eventually the government admitted that Makuwasa had been formed in an attempt to recover the losses from the tin scheme.

Source: Adapted from Gomez and Jomo (1999)

In relation to the examples above, particularly to instances where regulators are captive and lack independence, Othman (1999) posited that such mechanisms for ensuring compliance and enforcement have been generally deficient and associated penalties for breaches are insufficient to be deterrents.

Of greater concern is that there seems to be utter disregard and indifference by the political and business elites to the outcries, plights and complaints of individual investors and the investing public in general. A few notable examples are provided below (Table 3.3).

Table 3.3 *Examples of Mistreatment of Individual Minority Investors*

Example 1:
In June 1986 MMC, together with its subsidiary Tronoh Mines, sold its entire 42.9 per cent interest in Aokam Tin Bhd to a then unknown company called Halimtan Sdn. Bhd. The sale went through despite vociferous objections from minority shareholders that Aokam Tin was being sold for half its market value.
Example 2:
It is hard to see how public interest alone could justify the UEM takeover. Nor is this takeover part of his [Dr. Mahathir Mohamad, The Prime Minister of Malaysia] government's attempt to create a more transparent and accountable corporate environment, as practically every analyst quoted in Malaysia's docile domestic media has argued… The domestic press has also argued that a restructuring of Renong/UEM will help alleviate corporate governance concerns that have affected investor confidence in the Kuala Lumpur stock market. In response to the financial crisis, new institutions and regulations were put in place to help promote greater transparency and accountability in the corporate sector. The Renong Group and its controlling shareholder Halim Saad were seldom subject to these regulations, however.
Example 3:
The scandals were frequent. In March 2001, when the initial public offering of a Renong subsidiary, TimedotCom, was poorly received, much of the company's leftover equity was taken up by a few public institutions. On another occasion in 1997, UEM was used to buy up a massive 32.6% stake in Renong for 2.34 billion ringgit. This acquisition, implemented partly through a 800 million ringgit loan provided by government-owned and politically well-connected banks, upset UEM minority shareholders. The bailout looked like continued abuse of the domestic financial sector for vested interests.
Example 4:
Tan Sri Tajudin Ramli's claim in his court document that he was directed by the two Tuns (former premier Mahathir and his then economics tsar, Daim Zainudin) to buy shares in Malaysia Airlines (MAS) as a form of 'national service' is nothing less than a bombshell. According to Tajudin, the transaction was to help Bank Negara recover from foreign exchange losses in 1994. It was however disguised as a commercial deal because the

government did not want to undermine investor confidence or create undue public anxiety, he said, adding that he was only a nominee/agent of the government in MAS.

Tajudin alleged that the two Tuns had repeatedly assured him that he would not suffer any losses or be held liable for anything arising from his purchase of MAS shares. This special arrangement was to be a 'secret', he claimed, although the Official Secrets Act was apparently not invoked. But he was spilling the beans now because the government had not honoured the agreement, he said.

If his claim is true, it explains why he bought, through his firm Naluri, a 32 per cent stake in MAS at RM8 per share in 1994, well above the then market price of RM3.50. It was hailed as the biggest ever privatisation exercise at that time.

After the 1998 financial crisis, the government bought back the MAS stake from Naluri at RM8 per share, when the market price was about RM3.

Source: Adapted from Gomez (2001) and Searle (1999)

The trends in the capital market described above are also closely related to the general national Malaysian political scenario. In this regard, Jomo (1993) has pointed to the heightening concentration of power and discretion in the hands of the political executive mostly at the expense of the bureaucracy, the legislature and the judiciary (resulting in weak and compromised institutions, as argued by Verma, 2004). This resulted in greatly enhanced state autonomy in operational terms, enabling the executive to make bold initiatives without seeking prior endorsement or support even within the state, let alone society at large (Gomez and Jomo, 1999).

In fact, various authors have described Malaysia as having a “semi-democratic” (Case, 1993) or “quasi-democratic” or “semi-authoritarian” political system (even though the system itself is stable). General political accountability is therefore lacking. Verma (2004: 159) aptly described the overall political situation:

> *In the call to national unity, all ethnic communities are expected to subordinate their interests to the cause of political stability... in giving primacy to the reconciliation of ethnic interests the leaders of ethnic communities have subordinated individual rights and civil liberties in favour of religious-community rights.*

This led Crouch (1996) to describe the Malaysian political system as an amalgamation of both democratic and authoritarian characteristics. Another clear indication of this tendency is also seen in the Malaysian electoral process. Gomez and Jomo (1999: 3) have summed up the opinions of authors such as Crouch et al. (1980), Gomez (1996) and Kassim (1979) that:

> *Gerrymandering and other 'unfair' electoral practices are considered almost routine facts of life by an increasingly cynical populace unaccustomed to expect otherwise. Such limitations on political participation have fostered a political culture with rather modest expectations of democracy, civic rights and public accountability*

Moreover, Gomez and Jomo (1999), Verma (2004) and Crouch (1996) have argued that strict control and also ownership of the docile press by both politically-linked businessmen and the politicians/political parties themselves, alongside restrictive government regulations resulted in limited public accountability. They further described the general intolerant official attitude towards criticism by ignoring and even discrediting political opposition, NGOs, public interest groups and trade unions through various means that include repression and manipulation (see Verma, 2004).

Consequently, Crouch (1992), as cited in Gomez and Jomo (1999: 2), contends that there is

> *Minimal protection for the individual from arbitrary state power... even the minimal civil liberties and democratic procedures that exist are only allowed as long as the position of the ruling elite is not seriously threatened, let alone undermined... such rights have been quickly modified or abolished when elite interests were threatened...Much of this has been legitimized by reference to the threat of ethnic conflict and the necessity of making such political sacrifices in the interests of political stability, ethnic harmony, economic redistribution, economic growth and accelerated modernisation...*

Translating such experiences to the corporate sector and also capital market, individual shareholders in Malaysia who are used to such repression probably do not expect corporate managers[98] to behave in an accountable manner. Due to the very close and mutually-beneficial relationship between politicians and their client/patron majority shareholder/managers, effective actions are rarely (if ever) taken even after the reporting of corporate abuses. Indeed, it was found that most existing arrangements benefit powerful parties such as politicians and certain

[98] Most of whom are politically well-connected if not a proxy or client of politicians.

entrenched economic interests, to the detriment of the minority shareholders (La Porta et al., 2000). Also, integrity levels amongst certain Malaysian businessmen are observed to remain at 'developmental' levels (Jaafar Sidek, 2007c).

In terms of practical consequences, it is conjectured that the propensity of individual shareholders in Malaysia to undertake governance-related initiatives is significantly reduced by (i) a lack of effective avenues to voice their grievances and (ii) the perception that, even if they did campaign for better governance practices and/or complain of mistreatment, company management, the government and market regulators would be mostly unresponsive (due to the fact that politically-linked major shareholder/managers are likely to be able to influence enforcement of sanctions).

Therefore, it is predicted that individual shareholders (being powerless) will not complain or voice their grievances, even after being blatantly mistreated. Reporting of corporate abuses to the press and/or authorities is regarded as either defeatist or futile as no concrete actions would ensue. More generally, the lack of accountability also means that investors' efforts in championing for better general corporate governance standards within firms would probably be ignored or simply paid lip service to.

The study also considers investors' perceptions regarding the likely actions/ motivations of other informed market participants such as brokers and auditors. Firstly, regulations require all share transactions to be carried out by authorised brokerages. Within each brokerage, each individual investor is assigned to a particular broker to carry out their buy/sell instructions.

Many brokers/brokerages in Malaysia does (i) offer investment advice and (ii) send newsletters and analyst reports, to their clients. Even if a broker does not offer such advice formally, the relationship established between the broker and his individual investor clients over time is likely to be significant (in terms of influencing clients' share buy/sell decisions). As brokers profit through commissions that are calculated as a fixed percentage of the value of buy/sell transactions, there is an incentive for them to frequently promote a range of stocks to their clients solely to earn more profits.

Odean (1999) has highlighted the fact that excessive trading recorded for the brokerage accounts of retail individual investors probably resulted from brokers' efforts to promote churning of shares to generate more commissions. The study investigates investors' opinions regarding such an inclination that may be carried out at their expense.

As for external auditors, Goodwin and Seow (2002) and Wallace (1980) have explained that they have traditionally played a key role in maintaining and improving the credibility of firms' financial disclosures. Their main function is to verify whether firms' financial statements reflect the actual states of the businesses in a fair manner. In fact, Fan and Wong (2005) have found that they do perform a corporate governance role in emerging markets such as Malaysia.

Even so, external auditors have lately been implicated in a number of cases (such as the Transmile scandal in Malaysia) that damaged their reputations and also the trust that investors place in them to carry out their responsibilities with integrity and without conflict of interest. Basically, the study gauges individual investors' perception regarding the proper conduct of external auditors.

3.3.2 Race- and Ethnic-based Influences

Racial and ethnic considerations are particularly relevant as Malaysia is a multi-cultural and multi-ethnic society, with Muslim Malays in the majority and Confucian Chinese in the minority (Pye, 1985). Even though the Malays, Chinese and Indians have been living together in Malaysia for more than a century, each race has largely preserved its own identity, traditions and cultural distinctiveness (Verma, 2004). Indeed, differences in inter-ethnic culture have been posited to be more pronounced in Malaysia compared to many other countries (Gomez and Jomo, 1999). In fact, when comparing the Malays to the Chinese in Malaysia, Pye (1985: 248) has described the situation as a *"confrontation of two incompatible cultures"*.

More specifically, Pye (1985: 249) further explained that:

> *The Confucian spirit demands that leaders stand up for their rights and proclaim their grievances…The Chinese value harmony and correct etiquette, but they find it exceedingly difficult to suffer perceived injustice without voicing anguish to somebody. Ideally they would like to shame the one who hurt them, but if that is impossible any bystander will do. It is not just that one can gain face by being an innocent victim, but a public scolding can also cause the misbehaving party to lose face. By contrast, the Southeast Asian (Malay, in this instance) style in dealing with unpleasant and even dangerous situations is one of avoidance and silence, of repressing emotions in the hope that the problem will go away if matters are smoothed over. The Malays resemble the Indonesians and Thais in eschewing harshness and seeking gentleness and refinement in human relations.*

In this regard, Pye (1985) provided a number of illustrations where these cultural differences constantly surface in the Malaysian political scene. For example, the factional politics of the Malaysian Chinese Association (MCA) routinely become public feuds that are frequently reported in the press as every actor/group tries to garner sympathy for, and draw attention to, their mistreatment, claiming that they are completely correct in their conduct and thus innocent of all wrongdoing (Pye, 1985: 249).

On the contrary, relations among Malay leaders remain mostly unreported. This conveys the impression that all is harmonious, which certainly is not the case (Pye, 1985). The Malay defence mechanism is also reflected in the tendency to make troublesome and/or delicate issues taboo as subjects for public debate. For them, talking about trouble only serves to make matters worse. It is the norm not to provoke authority and to attempt to stay out of its way as much as possible. In reality, whenever trouble arises:

> *The Malays respond only with silence which, of course, egged on the Chinese to become more vocal in articulating their fears and their sense of injustice – a reaction which made the Malays even more withdrawn in their need to practice denial… At a deep psychological level the extreme contrasts between the ways in which both cultures handle anxiety are not only different but profoundly antagonistic. And even on the surface these cultures present numerous points of conflict that make Chinese and Malays scornful of each other. The Chinese are urban people, interested in money and market activities… the Malays are rural*

> *and are contemptuous of merchants, prefer service careers in the army and police…* (*Pye, 1985: 250).*

From the viewpoint of governance, such marked differences in ethnically-based responses challenge the very expectations regarding the governance-related behavioural tendencies of individual investors.

As a brief reminder, in the preceding chapter, the exercising of a shareholder's fundamental ownership rights has been shown to be an important notion in corporate governance (Gillan and Starks, 2000; Romano, 2000). Shareholders are encouraged to voice out any concerns and to communicate with management to improve aspects of it. This standing up for one's ownership rights is closely linked to the Western concepts of political democracy, human rights and equality (such as the one share, one vote concept) (Monks and Minow, 2004).

From the description of ethnic-based differences in behavioural tendencies above, to expect or insist that investors outside of the US/UK act in a similar manner, however, may not be realistic. The earlier argument suggests that individual investors who are ethnic Chinese have a much higher likelihood of having their voices heard as compared to ethnic Malay ones. In fact, Malay investors are likely to be reserved and suffer in silence, even after being exploited or mistreated. This is due to their highly tolerant nature, tendency to avoid voicing of trouble and general reluctance to provoke authority. The study therefore predicts a much more active governance role being assumed by ethnic-Chinese investors as compared to ethnic-Malay ones, especially if they become victims of mistreatment.

Considering the overall governance environment that these individual investors are exposed to, however, ethnic/racial influences are likely to provide only a partial picture of how cultural nuances could impact on individual shareholders' propensities to exhibit governance-related tendencies. This is because such presumptive behaviours are also moulded by the conditioning of these investors' experiences from sustained exposure to the Malaysian political, business and economic environment (as detailed in the preceding sections of the chapter). The portrayed scenario, the study contends; significantly distorts the impact of ethnic-based influences on individual investors' propensities to undertake governance-related investment behaviour.

3.3.3 Asian Financial Crisis and Unfolding Corporate Scandals

The overall Malaysian corporate governance scenario described above, however, may have shifted in the past decade as a significant number of individual investors suffered massive share investment-related losses during the 1997 Asian Financial Crisis. Incidences of corporate frauds/scandals such as the aforementioned Enron and Transmile have also shown that rapid destruction of shareholder value can happen within a very short span of time whenever corporate abuses are discovered.

Logically, for those disgruntled investors who are directly affected, they are more likely to undertake proactive governance-related behaviours to seek redress, justice and/or accountability. It is intuitively appealing to consider the possibility that, if governance didn't matter before, it would matter more than ever now.

More generally, it is presumed that most individual investors have witnessed or are aware of the many waves of accounting scandals and corporate fraud incidences around the world since the turn of the 21st century (of which, Malaysia has got a number of its own major corporate scandals) and their devastating impacts. This implies that minority shareholders' awareness of governance concerns in East Asian markets should have risen. When corporate failures and abuses happen often, they would presumably start paying attention to or take governance-related factors into account. This prediction is made by also considering Malaysian investors' exposure to a decade of sustained governance reforms since the 1997 Crisis.

Such a trend can clearly be detected from the practitioner literature:

> *Companies in emerging markets often claim that Western corporate governance standards don't apply to them. Our results, however, show that investors the world over are looking for high standards of corporate governance and will pay a premium for shares in companies that meet them... high standards of corporate governance are crucial to the value of companies, especially in emerging markets. (Newell and Wilson, McKinsey Quarterly, 2002: 23)*

Furthermore, Malaysia has a common law legal tradition, an important element that should be considered as the basic governance rules/regulations (such as basic shareholder rights) are relatively well-established as opposed to them being new imports (see, for example, Allen, 2000; La Porta et al., 2000). In addition, Low (2004) has highlighted the fact that the Malaysian capital market is relatively mature within the East Asian region. Individual investors in Malaysia should therefore be relatively well exposed to certain aspects of governance (such as the right to attend AGMs and being sent proxy voting forms yearly by the various firms that they invest in). Put simply, awareness should be there in some shape or form.

In a separate development, it is often mentioned in the financial media (Bloomberg, CNBC, etc) that when the economic outlook for a country worsens or the stock market is in a bearish phase, investors flock to companies that have strong fundamentals and are well-governed. Hence, governance may become more important in times of general economic uncertainty and/or in a bearish/declining stock market.

Lastly, increasing investor sophistication worldwide and the decreasing cost of collating relevant share investment-related information (through the use of the internet, for example) has resulted in easier monitoring of publicly-listed corporations. For example, even a quick and casual search on the internet by the researcher has revealed that the numbers of share investment-dedicated public websites, blogs and investor chat forums is considerable and has been growing rapidly. There is also provision of governance-based updates/information by informed or interested parties such as the Minority Shareholders Watchdog Group (MSWG).

The increasingly prominent trends detailed above may be fundamentally changing investor behaviour from the governance perspective.

3.3 (II) The Malaysian Governance Environment, Culture and Institutions (II)

Returning to the main institutional environment, it must be stressed that not all publicly-listed corporations in the Malaysian capital market are badly governed by default. In fact, the literature on Malaysia's economic history did highlight the existence of such firms which do not rely on political patronage or have broken away from it. Gomez and Jomo (1999: 26) explained that *"even though Malay capitalism is a complex amalgam of state, party and private capital, a core of productive investment and entrepreneurial activity is emerging from within the cocoon of state/UMNO-supported patronage networks and rent-seeking activity".*

A new breed of publicly-listed firms that are both competitive and more resilient is also in existence. These are companies that seemingly demonstrate a genuine interest in improving themselves.

Nevertheless, considering governance at the country-level, the importance of policymakers giving adequate attention to regulatory reform and the establishment of competent regulatory bodies cannot be overstated (Oman, 2001). This importance is amplified by the regulatory "capture" phenomenon (occurs when those with responsibility to regulate a given market are corrupt or otherwise unduly influenced by one or a number of participants in that market). As shown by this study, regulatory capture is a significant and ongoing concern in Malaysia.

Also, the relevance of considering the political structure and norms in Malaysia and their impact on publicly-listed firm governance is further justified by the following arguments. First, the very strength of resistance to many of the changes needed significantly to enhance the protection of minority shareholders' rights and to improve corporate governance often exerts itself most strongly through clientelistic relationship–based systems of political governance[99]. Corporate governance reforms (as detailed in Chapter 2) that are seemingly impressive in the letter but not the spirit is a major concern (termed as "window dressing" measures).

[99] Even where corporate insiders may give lip service to the need for better corporate governance.

Gomez (2001) argued that while the selective imposition of regulations on some enterprises has helped create the impression of a well-governed corporate sector, a number of oddities continue to occur. Oman (2001: 11) explained that:

> *The close interaction between the institutions of political governance and those of corporate governance is clearly reflected in at least three ways: in the central roles of the legislative, regulatory and judicial bodies listed among the institutions of corporate governance; in the extent to which distributional cartels exert their power in both the economic and political spheres of activity in a country; and in the importance of the enforcement issue.*

As mentioned earlier, all three are characteristic of Malaysia. For example, the issue of captive regulators has been confirmed by the World Bank – ROSC (2001: 6) report on the Malaysian capital market which reported that *"there has been criticism about lack of autonomy and transparency of the regulatory authorities in Malaysia"*.

Oman (2001) contended that it is virtually impossible to move to an essentially rules–based system of governance in one of those sets of institutions without doing likewise in the other. Ultimately, they are inseparable. This situation is similar to that of Indonesia where Rosser (2003) found that the state apparatus and the owners of the major domestic conglomerates sought to block or subvert reform making substantive changes not possible. Political preconditions must therefore be suitable in order for effective reforms to take root.

Consistent with the viewpoint above, Monks and Minow (2004) opined that, to the extent that corporate governance standards are established by public law, one could argue that these provisions' greatest value is in providing the illusion of accountability. Professor Park Kyung Suh (Park, 2005) also revealed at the Asian Roundtable on Corporate Governance the fact that there is no significant difference in the rules and regulations among these countries, but there is significant difference in terms of market perception of their governance practices.

Notwithstanding such contentions, the study acknowledges the fact that there seems to be an increase in, or improvements to, enforcement actions by the Securities Commission of Malaysia (for relevant examples, please refer to Appendix 4). Indeed, according to CG Watch: Corporate Governance in Asia (2005) (by The Asian Corporate Governance Association in collaboration with CLSA Asia-Pacific Markets), there seems to be much stronger political resolve in Malaysia to improve corporate governance standards in the country of late.

From the arguments presented in Chapter 3 thus far, the study has clearly attempted to present a more socialised variant of agency theory. Thoughout the entire study, principals (i.e. investors) and also the principal-agent relationship remained the core concerns even though a number of contextual/institutional influences are introduced. Once again, this is in keeping with the viewpoint of Gomez-Mejia et al. (2005: 1512) that *"there must be a balance between recognising unique contextual factors and the theory of principal-agent relations".*

In terms of operationalising the various issues/arguments identified thus far for an empirical study that explores governance from the viewpoint of individual investors, these are seen to lead ultimately to the issues of investors' trust and confidence in the workings of the Malaysian capital market (specifically, its various participants). The trust and confidence in various market participants, in turn, are argued to exert a profound influence on investors' governance-related tendencies. Elaboration is provided in the following section of the study.

3.4 Trust and Confidence in the Malaysian Corporate System

As investors' general experiences/expectations of governance have been shaped by the conditioning of the governance institutional environment over many years, the likely cynicism and negative perceptions regarding the likely behaviours/ actions of the various market participants are immensely difficult to change. Furthermore, reforms that may only serve as a window dressing initiative further cast doubt on their effectiveness in enhancing investors' trust and confidence in the market. Hence, the predicted behavioural tendencies outlined earlier are regarded as the entrenched, dominant norm.

The study adopts the viewpoint of Ryan and Buchholtz (2001) that the concept of trust is inextricably featured in individual investors' decision-making. They contend that an investor's willingness to invest is dependent upon generalised trust and also trust in the investment specific situation. The generalised trust of the overall governance environment for this group of investors is seen to be above a minimum required threshold. This is because, obviously, the individual investors being studied are not deterred enough to stay away from the capital markets altogether. Giannetti and Simonov (2006: 1509) have argued that *"when fear of expropriation is not so extreme as to hinder stock market participation, an analysis could be carried out to evaluate whether investors take governance characteristics into account when they select stocks."*

From the governance environment painted earlier, the underlying governance characteristics, constraints and/or weaknesses are seen to be reflected in the actions/motivations of the various capital market participants. For example, pervasive political involvement in business has resulted in shareholder/managers who are political proxies/clients being likely to undertake a range of actions that are detrimental to the welfare of individual investors (such as covertly siphoning assets and resources out of the firm) with minimal subsequent sanctions.

On the other hand, individual investors are also contended to focus on certain market participants in directing their trust/mistrust. From the example given in the previous paragraph, some individual investors may be concerned with the governance of firms with such manager/shareholders possibly to the extent of avoiding such firms.

Hence, investors' awareness, perceptions and/or opinions of the various likely actions/motivations of market participants must be explored as these profoundly influence their subsequent governance-related behavioural propensities. For example, the lack of trust in the actions/motivations of majority shareholder/ managers may be concentrated on those managers seen as political clients/proxies of UMNO, resulting in the adoption of the criterion of not investing in politically- or government-linked companies.

The contentions above are supported by Giannetti and Simonov (2006) who demonstrated that investors enjoying only security benefits (and not private benefits) are reluctant to hold stocks of companies where the potential for expropriation is expected to be large. Consequently, for companies where outside investors feel less protected, they tend to have narrower shareholder bases.

Conversely, some investors may only invest in politically-connected firms. As is implicit throughout the arguments presented in the earlier sections of the chapter, politically-connected firms are favoured in terms of getting state/government funds and projects as well as have considerably higher chances of being bailed out in the event of corporate failure. In their empirical study on the value of political connections in Malaysia, Johnson and Mitton (2003) have shown that such connections accounted for approximately 9% of the estimated $60 billion loss in politically-linked Malaysian firms' market value during the height of the Asian Financial Crisis (1997/1998). This was mainly due to the reduction in expected value of government subsidies.

Johnson and Mitton (2003) explained that as the subsequent imposition of capital controls in September 1998 coincided with a major political realignment, with Prime Minister Mahathir Mohamad winning and Deputy Prime Minister Anwar Ibrahim losing (sacked and thus, lost political power and ability to provide further patronage), any ''excess'' gain for firms connected to the winner should provide a good measure of cronyism when capital controls measures are adopted. Specifically, even though firms with stronger political connections suffer more when a macroeconomic shock reduces the government's ability to provide privileges and subsidies, they also benefit more when capital controls are imposed as these allow a higher level of subsidies.

In fact, Johnson and Mitton (2003) showed that when capital controls came into effect, approximately 32% of the estimated $5 billion gain in market value for firms connected to Prime Minister Mahathir can be attributed to the increase in the value of their connections (the value of such connections was approximately 17% of their total market value at the time). In terms of individual investors' general investment criteria, they may adopt the strategy of only investing in politically-connected firms. This arguably hampers improvements in governance as they "reward" such firms with capital.

Overall, the study will initially gauge individual investors' awareness and subsequently, opinions on various capital market participant motivations/actions. If they are found to exhibit such awareness and/or have formed particular opinions regarding such motivations/actions, the study then determines whether these are taken into account in the form of the specific investment criteria discussed above. Daniel et al. (2002) contended that (perhaps due to investor credulity) investors typically do not discount the political motivations of more informed market participants. Even if they do, they tend not to discount sufficiently.

Please note that the purpose of this study is not to evaluate how accurate and/or rational the opinions of individual shareholders of the other market participants are. Each opinion is seen to be equally valid as it is assumed to result in a subsequent concrete behaviour/decision/tendency that reflects those opinions. For example, an individual investor who trusts majority shareholder/managers not to exploit them in general would not avoid investing in companies with such dominant managers.

From a review of relevant literature, some of the likely motivations/actions of the various market participants are listed in Table 3.4. Investors' perceptions and opinions regarding their likelihood of undertaking each of the listed motivations/actions are sought.

Table 3.4 The Possible Motivations/Actions of Market Participants

Corporate Managers
• Run the company poorly resulting in disappointing overall performance. • Make decisions that are against shareholders' interest (e.g., taking on unprofitable pet projects). • Exploit small shareholders (secretly transfer assets out of the company). • Involved in illegal acts (self dealing and share manipulation). • Providing insufficient important company information.
Political Parties/Leaders/the State
• Using certain companies to raise political funds through share price manipulation and other corrupt practices.
Capital Market Regulators
• Are independent (free from political influence) in carrying out their duties. • Carry out effective enforcement all the time.
Brokers
• Can be trusted not to give biased/self-interested advice to clients (honest and proper conduct).
Auditors
• Can be trusted not to approve fraudulent/misleading financial statements (honest and proper conduct).

Source: Adapted and integrated from various sources including Low (2004), Oman et al. (2003), Searle (1999), Gomez and Jomo (1999) and Gillan and Starks (1998).

Alternatively, similar to aspects of firm-level governance outlined in Chapter 2, some individual investors are expected to be indifferent or ignorant of the governance problems within the particular investment environment. This is expected to be rather prevalent as many authors have argued that developing capital markets are driven by the focus of making quick profits by trading/making investments based on rumours, tips and speculation.

3.5 Integration of Key Research Elements (II)

Unlike in Chapter 2, most governance attributes considered here are country-level variables rather than firm-specific ones and emphasis is on how these impact investors' governance inclinations. Since the review in this chapter introduced various new elements to the study, integration with intentions similar to those provided towards the end of the previous chapter is necessary. As only notable additions are outlined, elements already mentioned in Tables 2.7 and 2.8 are not repeated.

In Tables 3.5 and 3.6, some of the categories have no new added elements. This is mainly due to the fact that a lot of the influences discussed throughout this chapter are meant to explain, and make sense of, (i) observed investor behaviours and (ii) reported underlying reasons for such behaviours. For example, no new major motivations for attending/not attending AGMs were identified. In Chapter 2, a possible reason for non-attendance (behaviour) is due to the perception that their presence won't change management behaviour (reason). In Chapter 3, one of the factors influencing the said reason for non-attendance is the presence of politically-connected shareholder/managers who are likely to be able to prevent any sanctions/enforcement actions if even outside investors lodge complaints with market regulators.

Table 3.5 *Integration of Key Research Elements (II)*

Does country-level corporate governance matter to individual investors? **Awareness/Perception of Market Participants' Motivations/Actions**
Investors' awareness of market participants' probable motivational/actions listed in Table 3.3 are explored. For those who are aware/opinionated, the nature of their perceptions/ opinions regarding each considered motivations/actions is then investigated (i.e. positive or negative). These are evaluated in terms of the typical pubicly-listed firms and/or market participants that investors encounter. The aptness of opinions is not the primary concern. Instead, they are assumed to result in behaviours/tendencies that fairly reflect such perceptions.
Investment Cycle Stage 1: Pre Purchase **Corporate Governance as General Investment Criteria**
Investors' perceptions may result in certain investment screening criteria being applied when making evaluations, likely to be as minimal acceptable risk thresholds in determining the subset of investable stocks/firms. The possible criteria are detailed below.

- *Only invest in well-run/governed companies* – Regarded as the ideal general governance-related criteria as the crux of governance is being concerned with the proper running of public-listed firms. The proportion of individual investors adopting this criterion will likely provide a good preliminary indication of the general relevance of corporate governance amongst this group.
- *Only invest in companies run by professional managers rather than big shareholder/managers* – This is because majority shareholder/owners, by virtue of their majority shareholding stakes, possess much power and discretion in mistreating/exploiting individual investors.
- *Only invest in government/politically-linked companies* – This is because such firms are given preferential treatment, especially in terms of securing lucrative government contracts. Also, there is a relatively higher possibility that the government/ruling coalition would not allow such entities (owned and run by their associates/cronies/ clients/proxies) to fail (implying bailouts when necessary). Hence, investing in such entities, while it exposes investors to higher likelihoods of abuses/mistreatment/ exploitation, may be deemed safer and/or more lucrative.
- *Only invest in non-government/non-politically linked companies* – Most of these majority shareholder/owners are either politically well-connected or proxies/clients of UMNO/the government and thus, are in a position to exploit outside investors with minimal consequent sanctions.
- *Adopt No/No fixed investment criteria* – This may be due to a lack of awareness, disinterest, indifference and/or lack of investor sophistication.

These country-level governance criteria can be seen somewhat as a precursor to considering firm-specific governance factors. For example, investors who adopt the criteria of not investing in politically-connected firms would subsequently (i) select non-politically-linked firms and (ii) perhaps apply a few of the firm-specific governance criteria detailed in Chapter 2.

Investment Cycle Stage 2: Post Purchase
Governance as Concerns requiring Monitoring/Active Participation

No new key elements identified.

Investment Cycle Stage 3: Exit/Sell Out

No new key elements identified.

__Table 3.6__ Integration of Key Research Elements (IIa)

When does governance matter/matter more to individual investors? **Governance as Investment Criteria under Differing Circumstances**
On whether governance may become more relevant under differing general circumstances, more scenarios have been identified. First, publicised incidents of corporate fraud reinforce the perception amongst investors that corporate managers are prone to manipulative, self-interested, fraudulent behaviour. Hence, they may pay more attention to governance when public company fraud happens often, especially when their general trust/confidence in the market is shaken. Second, the study also identified the possibility of individual investors attaching greater importance to firm governance in times of economic uncertainty and/or declining stock markets. **Governance under Extreme Scenario** The study contends that many investors do not have first-hand experiences of, or are not aware of, being outright victims of massive, outright expropriation. This is because of the covert/secretive nature of various forms of exploitations of investors. Therefore, to gauge the likelihood of individual investors undertaking governance-related behaviours after having suffered massive investment losses due to blatant exploitation, an extreme case scenario is developed. The scenario's design is deliberately generic so that it resonates with investors exhibiting varying levels of expertise and experiences. The study explores (i) investors' tendency to either keep or dispose of affected shares and (ii) their latent propensity to complain. Ethnic-Malay investors are expected to keep quiet and suffer in silence while Chinese ones are likely to complain to family and friends. Responses are also contingent upon investors' perceptions regarding the likely actions/motivations of other market participants. In terms of more formal responses, the shareholder activism literature has indicated a few possibilities. One is simply to do nothing (take no formal/official/legal action). Probable reasons include investors being unsure of how to seek redress; expectations that corporate managers will not respond anyhow; perceptions that authorities will not take any actions (failing/unwilling to carry out their enforcement duties); or it is simply not in one's culture to complain. The alternatives to doing nothing include (i) attend the company's AGM or demand an EGM (to voice dissatisfaction and demand accountability), (ii) send a formal complaint letters to firm management, (iii) file a formal complaint with market regulators (e.g., Securities Commission) and/or (iv) use the media (e.g., newspapers) to protest or highlight one's plight.

3.6 Chapter Summary

The chapter began with an exploration of Malaysia's unique cultural, political, institutional and governance environment. The attributes of environmental factors are argued to be unique for each country (path dependent and embedded within the social contexts). Actor-centred governance, which emphasises the nature of interactions between the different market participants, was then introduced. Understanding of these factors is essential in order to make sense of investors' governance propensities in the Malaysian capital market.

In the following section, an outline is given of the major characteristics of Malaysia's capital market, that is, (i) primary governance concern is the potential conflict between majority and minority shareholders, (ii) a business culture based on relationships and (iii) substantial political involvement in business. The study then showed that the Malaysian political and corporate environment had undergone fundamental changes in the past few decades which profoundly shaped and/or altered investors' perceptions, expectations and also behaviours.

The study subsequently examined some of the most important environmental factors beginning with political involvement in business. Due to wide disparities between the majority Malays who are economically backward and the economically-dominant minority Chinese, the NEP was adopted. Various policies explicitly benefiting the Malays were implemented to correct the imbalance. In administering NEP policies, an intimate relationship was forged between the state, the dominant political party (UMNO) and business resulting in the blurring of boundaries between business, politics and the state.

With UMNO being the main medium for both capital accumulation and distribution, instead of producing a Malay middle-class, created a select (elite) group of Malay businessmen being clients/proxies of powerful political patrons seeking quasi-rents and other forms of unearned rewards. Political involvement in business has entrenched systems of patronage and money politics. This contributed to widespread corruption that sapped the confidence of "genuine" investors.

Indeed, the ruling political elite, their corporate clients/proxies (most being major shareholder/managers) and market regulators were involved in numerous blatant scandalous, manipulative and even fraudulent activities in the capital markets. There seems to be utter disregard and indifference to the outcries, plights and complaints of individual investors. Various examples and also the channels/means by which these are carried out were then provided.

More generally, strict control, discrimination and also intimidation of stakeholder groups in society coupled with the limited imperative to demonstrate public accountability have produced individual shareholders who are used to such repression. These investors are likely not to protest or even expect market participants (especially politically-linked majority shareholder/owners) to behave in an accountable manner. Clearly, country-level governance attributes/concerns /issues do impact investors' governance propensities.

The second concern is race- and ethnic-based influences. The study attempted to make the case that investors belonging to a particular ethnic group have inclinations that are very different to those of other groups; this includes the likelihood of complaining and demanding accountability after being exploited. Even so, these inclinations are also moulded by the conditioning from sustained exposure to the Malaysian institutional environment.

The study also suggested that individual investors' perceptions may have shifted post 1997 Asian Crisis. When corporate failures and abuses happen often, investors would presumably start taking governance into account. Increasing investor sophistication and the lowering cost of collating investment-related information may also be fundamentally changing investors' governance tendencies. As basic governance rules and mechanisms have been established for some time, investors are likely to possess some degree of awareness of them.

Next, the researcher elaborated on the notion that individual investors' awareness, perceptions, opinions and experiences of corporate governance (from their exposure to the Malaysian governance environment) are reflected through their views regarding the motivations and actions of various market participants. Individual investors are expected to exhibit a range of behaviours/actions/ tendencies that fairly reflect the kinds of perceptions/opinions reported.

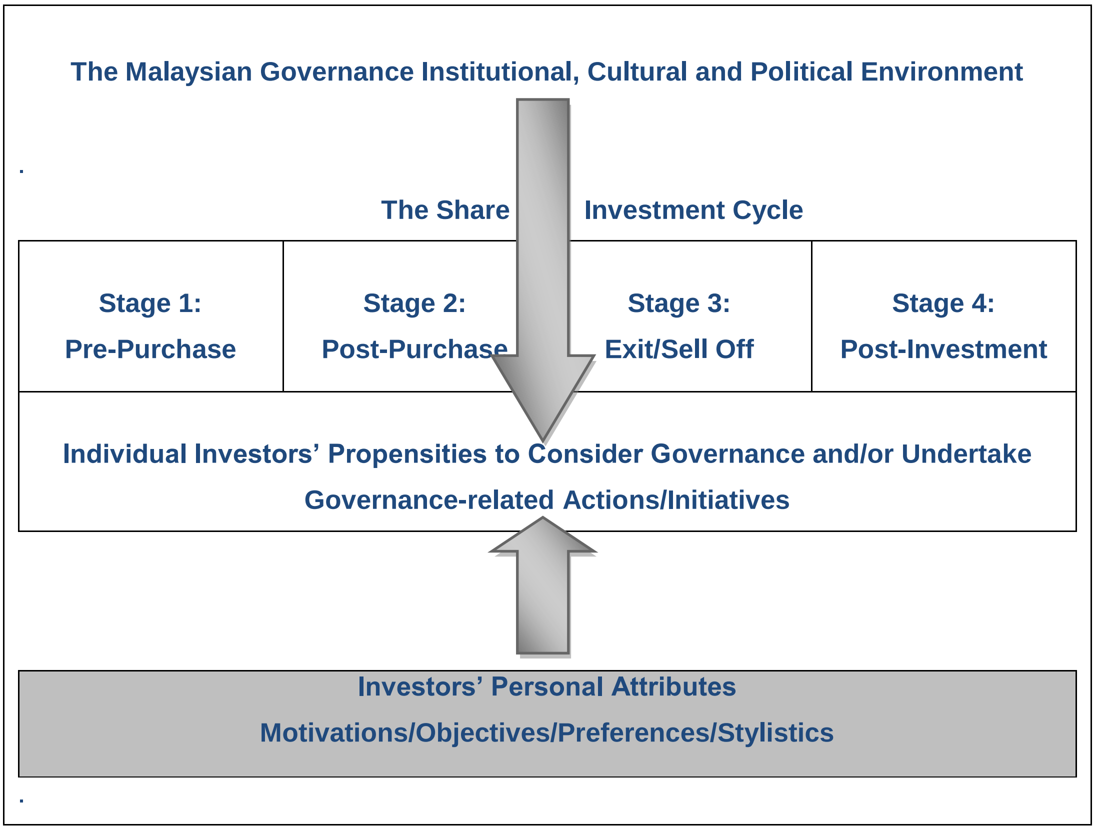
In the next chapter, the study explores investors' personal attributes and tendencies instead. Specifically, scrutiny is on their demographic attributes, psychological tendencies and other investment-related preferences and stylistics. Similar to the aims of the current chapter, individual attributes are utilised to make better sense of investors' propensities to consider governance and/or undertake governance-related actions.

Chapter 4 Review 3: Personal Attributes and Preferences Influencing Investors' Governance-related Behaviour

4.1 Chapter Outline

This chapter explores various aspects of investors' personal investment-related attributes and tendencies. These include demographic attributes, psychological tendencies, investment motivations/objectives and investment preferences/ stylistics (for example, preferred investment strategies). In terms of the conceptual framework established, the relevant aspects being dealt with are highlighted (shaded) in Figure 4.1.

***Figure 4.1** Focus of Chapter within the Conceptual Framework of Study (III)*



The exploration of individual investor attributes is geared toward (i) determining their respective influences on investors' propensities in considering governance or undertaking governance-related actions and (ii) utilising them as test variables to uncover potential biases within the study's sample of respondents.

Subsequently, in order to make better sense of and integrate the various personal attributes considered, the study examines whether investors who adopt a particular investment strategy also exhibit distinctive (i) governance inclinations and (ii) combination of personal investment preferences/inclinations/stylistics, as compared to those adopting other strategies. Distinctiveness stems from the intrinsic nature of each investment strategy which is seen to be the embodiment and/or outgrowth of particular sets of behavioural tendencies/preferences. Put simply, the researcher investigates the indicative qualities of the main investment strategies to determine whether they can be used as grouping/anchor variables.

Since very little is known about this investor group and access to them is difficult to establish, the study takes advantage of this opportunity to explore (i.e. to collect data on) other aspects of their investment-related attributes/practices for future studies. These are summarised towards the end of the chapter.

Finally, similar to the integrative treatments accorded to the various attributes/ inclinations/issues in Chapters 2 and 3, an attempt is made systematically to link the many personal investment-related inclinations, preferences and stylistics detailed throughout the chapter. Again, this serves to provide an explication of how they are featured in the interviews and questionnaire.

4.2 Investors' Personal Attributes and Corporate Governance

Apart from the argument that individual investors' governance-related behavioural inclinations are rational responses to external influences such as (i) the general governance institutional environment and/or (ii) the particular firm-specific governance concerns faced/perceived, identified inclinations may also be consequences of distinctive individual investment-related practices. Specifically, personal attributes such as an investor's share investment objectives, preferences, stylistics and/or psychological tendencies may explain the relative probabilities of them undertaking governance-related behaviour.

The contention that individual investors' personal biases/preferences/stylistics influence their decision-making processes throughout the typical investment cycle clearly departs from the classic assumption of perfect investor rationality in both modern economics and standard finance (Hong and Stein, 1999; Shapira and Venezia, 2001; Nicolosi et al., 2004; Brown et al., 2006). Nofsinger (2008: 1) explained that *"traditional finance theory assumes that people make rational decisions to maximise their wealth in the face of risk and uncertainty. Because money is involved, reason and logic will overcome emotion and psychological biases".*

This study does not subscribe to the rationality assumption as it endeavours to capture real-life behavioural tendencies of actual investors who likely do not conform to such ideal theoretical standards (see, for example, Quill, 2001). Fisher and Statman (1997: 45) argued that *"it is no more reasonable to expect investors to be concerned only about risk and return when constructing a portfolio than it is to expect them to be concerned only about cost and nutrition when deciding what to eat."*

Indeed, Brennan (1995) stressed the need to distinguish between the conceptual rational-representative investor who is perfectly knowledgeable with real-life investors who frequently do not possess such expertise. Moreover, investors are faced with limitations in terms of attention, time, resources and information processing capacity (Brennan, 1995; Tversky and Kahneman, 1981) suggesting that they do not consider (or, more practically, could not possibly consider) all publicly available information (Barber and Odean, 2006). In economics, such limitations in human capacity are typically described by the term "bounded rationality" (Letza and Sun, 2002; Williamson, 1985b).

Investors' irrationality is well-reflected in the growing prominence of behavioural finance, the literature stream that documents various psychological biases exhibited by investors. Various studies in this tradition have supported the many arguments and predictions made in Chapter 3 of the study where investors (i) who operate within a particular context and (ii) with different personal attributes (such as ethnicity) have differing investment-related behavioural tendencies and biases. For example, Grinblatt and Keloharju (2001) have shown that individual investors in Finland are more likely to invest in the stocks of Finnish firms that (i) communicate in the investors' native tongue and (ii) have CEOs of the same background.

Overall, there is a strong body of evidence showing that investors are irrational in the aggregate rather than being just random/chance events (Subrahmanyam, 2007; Hirshleifer, 2001; Barberis and Thaler, 2002; Daniel et al., 2002; Statman, 1999; Jackson, 2003; Shleifer, 2000). In fact, Jackson (2003) has clearly demonstrated that the peculiar actions of millions of individual investors in Australia are highly correlated across 56 unrelated brokerage firms. Highly correlated investment behaviour of retail investors has also been documented across a number of distinct studies (see, for example, Feng and Seasholes, 2004 – investors within a certain geographic region within China; Barber et al., 2003 – sample of individual investors based in the US; Kumar and Lee, 2006 – retail investors at a major US discount brokerage house). For an extensive review of the behavioural finance literature stream, please refer to Daniel et al. (2002).

Even so, barring select studies such as those by Lease et al. (1974), Lewellen et al. (1977), and Schlarbaum et al. (1978), previous individual investor studies have mostly disregarded investors' initial investment motivations, objectives and how they actually go about evaluating their share investments.

Mayall (2006: 126) explained that:

> *...in the field of behavioural finance, research tends to have focused not on share traders' initial motivations, influences or overall stylistic practices, but rather upon their decision frameworks once they embark upon specific buying and selling strategies (and particularly decisions which appear "irrational", such as overtrading or not maximizing profit opportunities, for example Shefrin and Statman (1993), Odean (1998), Barber and Odean (1999; 2000)).*

Hence, exploration of personal attributes such as investment goals, mindset and other preferred investment practices on a firsthand basis is also partly spurred by the fact that little is actually known about individual investors (Vieru et al., 2006; Clark-Murphy and Soutar, 2004; Warneryd, 2001) along the aforementioned dimensions. The classic description by Lewellen et al. (1977: 288) given below remains valid to this day:

> *...virtually all we believe we know about the individual investor's circumstances and decision processes has been inferred from either broad trading statistics, general security price movements, or portfolio simulations. With few exceptions, very little in the way of explicit observation has been attempted – due undoubtedly to the fact that the necessary data are exceedingly difficult to acquire.*

Further substantiating the claims above, Wood and Zaichkowsky (2004) highlighted that only a handful of studies have attempted directly to approach individual investors thus far (e.g. Dorn and Huberman, 2002; Dorn and Huberman, 2005; Clark-Murphy and Soutar, 2004; Nagy and Obenberger, 1994). Indeed, how individual investors in reality form their mental models of the operations of capital markets remains a mystery (Brennan, 1995).

In fact, Giannetti and Simonov (2006) showed that some individual investors do consider other company characteristics besides risk and returns and that governance may matter in such a context (i.e. investors' equity selection process).

This study is also the first attempt to explore a range of individual investor behaviours and interpret as well as integrate them from a distinct, unifying perspective, that of corporate governance. Moreover, Kim and Nofsinger (2003) highlighted the need to explore further individual investor behaviour in cultures that are entirely distinct from Western culture. Notable exceptions include the study of individual investors' investing behaviour in China by Chen et al. (2005) and in Taiwan by Lin (2005).

The current study addresses all the gaps identified above. Besides viewing them as potential influences on investors' general propensities to consider governance or undertake governance-related actions, the various individual investor attributes also serve a few specific purposes. First, they are utilised to act as test variables for potential significant biases within the study's individual investor sample. This treatment is necessary largely due to the way the study's investor sample is drawn, especially considering the study's claim of partial representativenes[100]. Specifically, investor respondents are drawn from a number of participating brokerages, each being geographically distinct and have clients (i.e. investors) who may be distinct from those of other brokerages in certain respects[101].

Second, the study examines the suitability of investors' primary investment strategies being indicative variables that fairly predict investors' relative propensities to consider governance and/or undertake governance-related behaviours. If such strategies are indeed shown to exhibit indicative qualities, the study will be able to gauge the prevalence of governance amongst the wider individual investor population in Malaysia. In addition, governance researchers in the future could easily obtain preliminary indications of the overall relevance/ importance of governance amongst any population, groups or subgroups of individual investors operating within different environments by the use of such anchor variables.

4.3 Investors' Demographic Attributes

This study has highlighted the fact that little is actually known about individual investor characteristics in developing capital markets such as Malaysia. Notable exceptions are the recent work by Feng and Seasholes (2005) who presented certain demographic attributes of individual investors in China and Lin (2005) who investigated investor overconfidence in Taiwan.

Through a review of literature on individual investors, personal attributes that are typically of interest are – age; gender; race; income; wealth (net worth); level of education; years of share investment experience; state/region of residence; and amount of financial knowledge (see, for example, Dorn and Huberman, 2005). Clark-Murphy and Soutar (2004) have referred to these as the background characteristics of investors.

[100] For more details regarding the claim of partial representativeness, please refer to Chapter 5.
[101] For detailed explication, please refer to Chapter 5.

The collection of individual investors' demographics aids in achieving the study's primary aims. For example, the contention that ethnic-Chinese investors exhibit a higher propensity for governance in terms of seeking redress post exploitation[102] can only be explored if respondents can be divided along the ethnic dimension.

Secondly, as mentioned in Section 4.2, these demographic attributes are also utilised to test for significant differences and/or potential biases between individual investor respondents that are attached to the different participating brokerages.

4.4 Investors' Psychological Attributes

The consideration of some of the major psychological attributes typically exhibited by individual investors (as theorised, described and empirically explored by the behavioural finance literature stream) is aimed at satisfying objectives that are similar to those for demographic attributes.

4.4.1 Risk-taking Propensity

The field of finance subscribes to the notion that *"risk is at the centre of all investment decisions" (Bernstein, 2007: ix).* Another fundamental idea in traditional finance is the trade-off preference between risk and return (Baker et al., 1977). Hence, the greater the amount of risk that an investor is willing to take on, the greater the potential return. Investors view this as compensation for taking on additional risk.

Notwithstanding the very detailed and specific examination of investors' risk-taking propensities (ex post risk-return relationships) in past empirical studies, the current study only explores the risk-averse/seeking tendencies of individual investors in Malaysia in a generalised manner. As emphasis is on investment behaviours arising out of individual preferences, the variable of interest is investors' pre-investment (ex ante) risk preferences through their self-reported general

[102] Please refer to Chapter 3.

investment risk attitude (broadly along the lines of Baker et al., 1977 and Cohn et al., 1975).

In terms of the interplay between governance and risk, the study subscribes to the view of Monks and Minow (2004) that corporate governance should be properly understood as an element of risk. An implication is that for those investors who take certain aspects of governance into account, regardless of whether they are risk-seeking or risk-averse (i.e. irrespective of their individual risk preference levels), such considerations are meant to lessen the relative amounts of risk that they would otherwise have taken.

Alternatively, some risk-seeking investors may be more inclined to purchase speculative shares and/or are solely concerned with fluctuations in share prices, regardless of what goes on in the companies that shares are supposed to reflect. It is also possible that some investors who do consider certain attributes of the underlying firms may not consider governance-related aspects.

Investors' relative risk-propensities will be examined within the context of their primary investment strategies later in the chapter.

4.4.2 Mental Accounting

Individual investors' actual share portfolios are likely to be made up of distinct subdivisions (Nofsinger, 2008; Kahneman and Tversky, 1982). It is intuitively appealing to expect that certain tranches of shares are bought with different intentions in mind. For example, some may be aimed at generating stable dividend streams to build up savings for retirement while some are for gambling/speculative purposes.

Undoubtedly, investors would likely treat certain tranches of shares within their portfolio intended for short-term speculation in a markedly different manner than those that he/she intends to keep for the long-term. This practice is termed by proponents of behavioural finance as "Mental Accounting". This concept is explained by Nofsinger (2008: 50) in that *"…mental accounting leads to building of* *portfolios layer by layer. Each layer represents the investment choices that satisfy various mental accounts. This process allows investors to meet the goals of each mental account separately..."*

According to Shefrin and Statman (1985), mental accounting is where decision makers tend to segregate and apply decision rules to each investment that they make separately. Each investment decision is largely independent of the natures, goals and also performances of other shares in his/her overall portfolio. Similarly, Kumar and Lim (2007: 1) mentioned that

> *The extant evidence from psychological research suggests that people tend to consider each decision as unique, often isolating the current choice from their other choices. In other words, people often engage in narrow framing (e.g., Kahneman and Lovallo (1993), Kahneman (2003)), where the interactions among multiple decisions are often ignored.*

The above arguments justify the study's focus on firm-specific governance in Chapter 2.

Practically, the study explores the prevalence of such "divisions" within investors' portfolios by scrutinising the general proportions of investors' share portfolios that are devoted to speculative/gambling purposes. This is because it is argued that developing capital markets such as Malaysia are normally rife with rumour/ speculation driven trading (Low, 2004). Implicit is the suggestion that the gambling mindset is likely to be prevalent amongst Malaysian investors. This, in turn, would mean that segregation along the gambling vs. investment dimension is likely to be applicable to most sampled investors' portfolios.

From a governance perspective, investors are encouraged to make investment decisions based on company fundamentals and not listen to unsubstantiated, short-term and attention-grabbing rumours and speculation. Hence, it is predicted that the higher the proportion of an investors' portfolio being devoted to gambling/speculation, the more compelled he/she generally is in disregarding corporate governance.

4.4.3 Overconfidence

One of the most well-established phenomena in investor psychology is overconfidence. It points to the tendency of an investor overestimating his/her ability in performing specific actions/tasks. According to Odean (1999), share selection can be a difficult task, and is it mainly in such difficult activities that people tend to show the greatest overconfidence. Overconfidence usually occurs when investors have experienced a degree of success in their investments (Nofsinger, 2008). It is also found that culture can breed overconfidence as reflected by evidence that people raised in Asian cultures exhibit more overconfidence than people from the US (Yates et al., 1997). It would be interesting to explore such a tendency amongst Malaysian investors.

As overconfidence can be the result of a number of psychological biases, the study will try to capture this phenomenon by jointly investigating three of the main sources of overconfidence attributable to investors who actively make their own share investment decisions. According to Nofsinger (2008), these include:

- Self-Attribution – describes the situation where investors believe that investment successes are attributed to their own skill while any failure is caused by bad luck.
- Illusion of Control – People often believe they have influence over the outcome of uncontrollable events. Key factors that foster the illusion of control are choice, outcome sequence, task familiarity, information and active involvement.
- Illusion of Knowledge – This refers to the tendency for people to believe that the accuracy of their forecasts increases with more information; that is, more information increases one's knowledge about something and improves one's decisions. However, this is not always the case. Relative financial knowledge is also treated as representation of individual investors' general levels of investment sophistication (Dorn and Huberman, 2002; Daniel et al., 2002).

From the perspective of corporate governance, the variable of particular interest is the degree of perceived knowledge (proxied by the Illusion of Knowledge bias outlined above). This is because, due to the fundamentals-based evaluation required for taking certain aspects of governance into account, investors who are more knowledgeable are predicted to be more likely to be able to take governance into account (implying higher probabilities of possessing the necessary knowledge and expertise to evaluate aspects of a firm's governance). The study explores indications of such a relationship indirectly, through the use of primary investment strategies.

Moreover, the degree of perceived knowledge will be compared to another related variable that is Degree of Actual Knowledge (by testing investors' actual ability to explain certain market-related financial concepts). This is to explore whether investors who perceive themselves as more knowledgeable than the average investor do indeed possess more financial knowledge rather than just being a consequence of overconfidence. In addition, the study also investigates whether investors who possess higher amounts of actual knowledge/financial expertise are more likely to consider governance.

4.5 Individual Investor Preferences and Stylistics

4.5.1 Investment Motivations and Objectives

From previous studies on individual investors, economic considerations such as increases in share prices and also stable income streams from dividend payouts form the dominant motivations and/or objectives of investors investing in shares. This makes perfect sense as the very act of investing is mainly to generate acceptable returns. The major investment objectives considered by this study, as proposed by Lease et al. (1974) include (i) short-term share price increase, (ii) long-term share price increase and (iii) dividend income.

From the perspective of corporate governance, it is predicted that investors who are more concerned with long-term increase in share prices and dividend income are more likely to consider governance-related factors and/or undertake governance-related behaviours. This is because governance is concerned with corporate managers/directors displaying accountability and putting in place the right systems and processes to ensure that the right decisions are made at the right time; and the focus is on improving the company's operations with the ultimate aims of generating superior returns for shareholders in a sustainable manner over the long-term. Indeed, Bushee et al. (2004) explained that the benefits of good governance usually manifest/materialise over the longer term.

On the contrary, investors with relatively short investment horizons are predicted to play no role in proactive governance. This is because such investors would have sold out long before any discernable benefits/impact of better governance practices and/or corporate performance (as a result of proactive investor efforts) could materialise.

An alternative to either being indifferent towards governance or being proactive in considering and/or furthering it; individual investors with both short- and long-term investment motivations/objectives may simply take aspects of governance into account in the form of general investment criteria.

In their respective samples of individual investors, Lease et al. (1974) and Jackson (2003) found that respondents were primarily concerned about long-term gains in share prices and had little interest in short-term increases. The two studies are based in the US and Australia respectively. The current study expects to find relative importance attached to each of the major investment objectives to be different in the case of Malaysian investors considering the prevailing viewpoint that such developing capital markets are driven more by speculative and rumour-based trading (Low, 2004).

Furthermore, some of these individual investors are portrayed as being solely transfixed by fluctuations in share price over the short term while paying scant attention to the underlying companies whose values these shares supposedly reflect (Shleifer and Vishny, 1997). This suggests that investor indifference towards governance is likely to be a significant tendency.

4.5.2 Attention-based Trading and the Exit Decision

In this section, the study considers a range of market signals and also psychological tendencies that specifically influence investors' decision on whether or not to sell the shares that they already own. In particular, the impact of attention-grabbing information circulating in the market on at least some of the sell-out decisions is explored. This phenomenon of attention-induced share trading (i.e. buying and selling) is well documented by many behavioural finance researchers (see, for example, Barber and Odean, 2006). The main idea is that at least some of investors' sell-out decisions are influenced by the receipt of certain attention-grabbing information circulating in the market.

Consistent with the earlier prediction that certain non-governance influences may affect investors' share purchasing decisions (i.e. rumours predicting an imminent rise in share prices) and also how such influences impact investors' governance-related tendencies, the study scrutinises the influences of unconfirmed tips/insider information/rumours predicting (i) an imminent fall in the share price or (ii) that the company's business operations are declining on investors' propensities to sell out/exit. These often sensational but unsubstantiated pieces of information undoubtedly grab investors' attention.

The current study views these as "distractions" (to proactive governance in particular) as they trigger a heightened tendency to sell as the perceived risk of an imminent fall in share price increases even at the expense of good potential long-term value appreciation (as well-governed firms presumably exhibit superior long-term firm performance). It is intuitively appealing to assume that, from the standpoint of investors, regardless of whether such rumours/speculations are well-founded or otherwise, negative news/speculation are equated to higher chances of share price declines. Within the described context, it is deemed more preferable to lock-in gains or incur less losses (by selling out) rather than adopting a seemingly more risky, wait-and-see attitude to confirm the validity of such information.

Investors who value governance would ideally only rely on actual company announcements and other substantiated/official sources of information rather than basing their investment decisions on unsubstantiated/speculative information.

Similar to the influence of rumours/speculation on the share purchasing decision, attention-based psychological biases are regarded as distractions to more stable, long-term ownership of shares and points towards short-termism. As investors in emerging markets are seen to be more speculative and prone to rumour-driven trades (Low, 2004), the tendencies above are expected to be rather pronounced amongst individual investors in Malaysia.

Next, the study considers the decision to exit when a company's recent operating performance or other fundamentals have in fact taken a turn for the worse. It is presumed that for investors who are solely concerned with share price fluctuations rather than the companies that the shares supposedly represent, worsening fundamentals or operating performance would not have a significant impact on their selling decisions. They are simply not interested in these developments.

As for individual investors who do report a heightened tendency to sell out due to worsening fundamentals, this is an indication that they do take firm governance- and/or performance-related factors into account (this tendency is also considered in Chapter 2). Higher probabilities to sell out also point to two further possibilities.

One possibility is that aspects of governance, as argued earlier, are mostly used as investment criteria where investors choose firms that are well-governed[103] or well-performing. When these aspects deteriorate, decline and/or are found to be ineffective, they would simply sell out (the famed "Wall Street Walk", as explained by Kim and Nofsinger, 2004) rather than engaging in governance-related activist behaviours to campaign/lobby for the necessary improvement to be made. In addition, this particular tendency acts as a complement to investor's self-reported propensities to sell their shares rather than pressuring management to improve performance.

Lastly, as individual investors are often seen as being unsophisticated and possibly irrational, there is a possibility that the decision to sell out is due to other motivations/reasons not consistent with rational analysis, reasoning or significant company-related developments (the notion of noise trading, as explained by Shleifer and Summers, 1990). This is where investors exit without any attention-grabbing information (substantiated or otherwise). In behavioural finance,

[103] Along the specific dimensions that they do consider

the phenomenon where an investor makes financial decisions depending on background feelings or mood that are unrelated to the investment itself is termed as misattribution bias (Nofsinger, 2008).

4.5.3 Average Shareholding Period

Average Shareholding Period provides an indication of the likely timeframe a typical tranche of shares is owned. It is duly acknowledged that this is a rather crude measure as ownership length for each tranche of shares is dependent upon what and when various changes take place (for example, changes in price trends and announcements of new and significant company developments). Even so, the average shareholding period could serve as a useful indication of the underlying preference/mindset that an investor adopts in terms of share ownership. For example, an investor with an average shareholding period of two years would clearly have a very different investment approach to one who own shares for a typical timeframe of days.

It is also acknowledged that authors such as Hull (1997) have argued that these differing timeframes attributed to the trader/investor versus owner/shareholder mindset is overlapping and misleading. Nevertheless, such typical shareholding periods can be compared to these individual investors' initial investment objectives and mindset to gauge their perceptions of what the term "long-term" and "short-term" really entails. Hence, the average shareholding period is only evaluated in terms of the exhortation of governance in adopting long-term, stable shareholdings where shareholders see themselves more as long-term owners.

This measure is also related to the concept of portfolio churning or turnover (Shapira and Venezia, 2001; Dorn and Huberman, 2005) which calculates the percentage of shares held a year before that are still being held at the present day. For example, an average shareholding period of six months would imply that the share portfolio is turned over approximately twice per year.

4.5.4 Primary Investment Strategies

One of only a select few empirical studies that directly investigated the issue of individual investors' investment strategies is Lease et al. (1974) which investigated often-pursued investment strategies of US household investors. These approaches are found to be highly similar to those often mentioned in, and are the subjects of choice for, many publications in the popular business and investment press (see, for example, Elder, 1993; Tier, 2006; Lynch and Rothchild, 2001; Graham and Dodd, 2009; Graham, 2006). Such strategies include the fundamental approach; technical approach; a combination of fundamental and technical approaches; and reliance on outside parties such as stock brokers and investment newsletters.

Another indication of their widespread popularity is the frequent use of such terms and also discussions of such strategies in (i) the financial and business media (including CNN, CNBC and Bloomberg) and (ii) share investment-related blogs, chat forums and user communities on the internet (including Malaysian-based investment sites).

Each of these investment strategies can be seen as an expression of an investor's fundamental beliefs of how capital markets work and subsequently, the means to exploit such workings to generate above average returns (to "beat the market", as explained by Statman, 1999 and Bernstein, 2007). A good description of the critical impact of individual investors' investment philosophy, and consequently strategy, is given by Tier (2006: 14):

> *Think about what you believe moves markets. Do prices reflect fundamentals? If so, in the short-term or the long-term? Or both? …Or maybe you believe that prices have little or nothing to do with fundamentals at all; that what moves prices is investor psychology. Or the balance between the number of shares of a particular stock being offered for sale and how many buyers are interested in it at any particular moment. If you're a technical analyst you might believe that all of this is irrelevant and everything is "in the chart".*

Hence, whether investors actually consider governance-related factors and their relative propensities for undertaking governance-related behaviours partly depends on their personal investment philosophy/understanding regarding the workings of the market, expressed through their choices of investment strategies.

This study contends that the primary investment strategies pursued by investors offer fairly good indications of the relevance/importance of governance to them. In addition, each primary investment strategy is presumed to be utilised by investors who share certain distinctive characteristics.

The first two major strategies considered by Lease et al. (1974) are the fundamental and technical approaches which require individual investors to conduct their own analysis on certain information available that is relevant to the stock being evaluated. Some investors are also found to adopt strategies that involve elements of both fundamental and technical approaches.

As an alternative to the three strategies which require some degree of effort (carrying out analysis, however simple or complicated it may be), an individual investor might take “short cuts” and adopt easily implementable strategies when choosing which shares to purchase (Tversky and Kahneman, 1974). The behavioural finance literature has coined the term *Heuristic Simplification* to describe such a phenomenon (Nofsinger, 2008; Kumar and Lim, 2007).

The assumption for these strategies is that no significant amounts of research/analysis are involved. Indeed, Kumar and Lim (2007) and Kahneman (2003) have explained that when people use simple heuristics and make decisions in an intuitive manner, they adopt the most readily available decision frame. For the purposes of this study, such simplified approaches are divided into attention-based, reputation-based and reliance-based strategies.

The validity/rationality of investors’ respective views of how markets work is of lesser importance, rather emphasis is on the fact that such views are expressed in their investment behaviours through use of particular strategies.

Each of the aforementioned investment strategies is discussed below.

4.5.4.1 Fundamental Analysis

Fundamental analysis of a public-listed firm involves analysing its financial statements and health, its management and competitive advantages as well as the firm's competitors and markets. According to Penman (2004: 3), for investors who purchase shares in such firms, their primary concern is *"the amount to pay – the value of the shares... the analysis of information that focuses on valuation is called* ***valuation analysis, fundamental analysis****".*

As described by Lease et al. (1974) in their study of individual investors in the US, aspects of a firm that are normally scrutinised by those investors adopting this strategy include company prospects and outlook, earnings, dividends, quality of management, amongst others. Obviously, the strategy is primarily based on the notion of generating good investment returns by selecting publicly-listed companies that are stable, well-run, have solid performance and also bright future prospects.

Alternatively, fundamentals-based investors look for companies whose shares are seen to be mispriced by the market (specifically, undervalued) in the sense that its price level does not fully account for the perceived underlying strength of its fundamentals and/or its future prospects/performance. Profits can be made by investing in the mispriced shares and then waiting for the market to recognise its "mistake" and re-price the security (see, for example, Penman, 2004). The contention is that, at some point in the not-too-distant future, share prices will shift to a level that broadly reflects what the investor perceives as the firms' respective fundamental values.

Due to its very nature (i.e. being concerned with quality of management, for example), investors who make use of fundamental analysis for investment decision-making are naturally inclined to place great importance on aspects of publicly-listed firm governance. This is because governance provides the underlying facilitative structures and processes. For example, being concerned with the quality and capability of firm managers can be supported by considering the appropriate incentive/compensation structures to actually motivate these managers to exert enough effort to achieve the appropriate targets and objectives.

Some academics and practitioners, however, see fundamentals-based investing as being largely confined to analysing publicly-listed firms' financial statements. The study posits that even for those who take this view, corporate governance is of relevance to them. At the very least, good governance improves the timeliness of corporate disclosures and dissemination of material information (i.e., fundamentals-based information) in order for them to make effective evaluations and hence, informed investment decisions. In addition, good governance also aids in enhancing the reliability of the figures reported within the financial statements that these investors are dependent upon. Again, the study contends that corporate governance may matter within such a context as well.

Also relevant to fundamentals-based investors, however, is the contention of proponents of corporate governance that better governed firms are more valuable and generate superior investment returns (there is a considerable volume of empirical research regarding the relationships between corporate governance or particular aspects of it with corporate performance, some of which is mentioned in Chapter 2). Second, share prices will fairly reflect a firm's underlying characteristics over the long-term. Most importantly, corporate governance ultimately provides investors with better assurances that they will ultimately receive the anticipated returns on their investments (as per Shleifer and Vishny, 1997)

In a related development, individual investors who opt for fundamental analysis are also argued to be influenced by tips/speculations/rumours to a lesser degree as compared to other more speculative strategies as they presumably make investment decisions that are largely based on official/substantiated information.

In their sample of US investors, Lease et al. (1974) found that 42% of their study's respondents adopt this approach to investing. This is by far the most popular investment strategy reported by their respondents. Hence, the study expects fundamental analysis to be one of the more popular strategies adopted by individual investors in Malaysia as well. Even so, considering the likely possibility that investors in developing markets are generally less sophisticated than those based in developed capital markets, the proportion of fundamental analysts is expected to be lower compared to that reported by Lease et al. (1974).

Generally, there are numerous publications in the practitioner/popular business and investment press (especially "how to" investment books) offering different variations of this particular investment strategy (see, for example, Tier, 2006; Graham, 2006; Graham and Dodd, 2009) that are readily available to individual investors.

The study predicts that a majority of fundamentals-based investors take at least some aspects of corporate governance into account. On whether or not they do and, if they do, the particular means to account for governance is subject to empirical scrutiny.

4.5.4.2 Technical Analysis

The philosophical thinking behind technical analysis (also known as charting or Chartism due to its focus on detecting trends and recurring patterns in share prices using stock charts; see, for example, Mayall, 2006) is very different from that of fundamental analysis. This is aptly described by Shleifer and Summers (1990: 23):

> *Technical analysis typically calls for buying more stocks when stocks have risen (broke through a price barrier), and selling stocks when they fall through a floor. "Adam Smith" (1968) refers to the informal theorem of Chartism that classifies phases of price movements in terms of categories – accumulation, distribution and liquidation. The suggested trading strategies then respond to the phase of the cycle the security is supposed to be in. These trading strategies are based on noise or "popular model" and not on information.*

Shares are thus evaluated purely from data generated by market activity. This is because the patterns in share price, volume and other trends represent the aggregate sentiment/thinking of other investors in the market. More importantly, such patterns/trends can suggest future movements of the corresponding shares (Steen and Kendall, 2005). In other words, individual investors making use of technical analysis aim to predict the behaviour of other active investors/traders in the market. Thus, price predictions are essentially extrapolations from historical price patterns.

As the famous adage "it is all in the charts" implies, individual investors making use of such a strategy obviously make no attempt to consider the underlying fundamentals of the companies that the shares are supposed to reflect. Similarly, Mayall (2006: 124) explained that *"this orientation assumes that any information necessary can be gleamed from the market itself – rather than looking, for example, at company fundamentals".* In fact, Shleifer and Summers (1990) highlighted that so-called technical analysis is an example of demand shifting without a fundamental rationalisation. This means that individual investors "create" noise or information and trade even without any news/changes to the underlying fundamentals of the stock.

The main implication of this is that governance-related factors probably matter very much less/do not matter at all to this investor group.

Lease et al. (1974) found that only 4% of their sampled population portray themselves as technical traders. This study would expect a similarly low percentage of respondents to be purely technical traders as the degrees of expertise required are relatively high (Mayall, 2006). This is because it involves technical concepts which require understanding of the working mechanisms/logics underlying such techniques. Popular amongst these include use of support and resistance levels; moving averages; Moving Average Convergence and Divergence (MACD); Relative Strength Indexes (RSI); and Bollinger Bands.

4.5.4.3 Combination of Technical and Fundamental Analyses

Even though the two strategies outlined above seem to adhere to opposing views of how markets work or might be exploited, some investors can and do (please refer to Lease et al., 1974) combine these strategies in a complementary manner for stock picking. Elements of both fundamental and technical analyses serve as mutually moderating influences since both occupy extreme and opposite ends of the "relative importance of governance (fundamentals)" spectrum.

On the one hand, fundamentals-based investors may use technical analysis for deciding entry and exit points (invest in well run/performing companies when the price is right). On the other hand, some investors relying on technical analysis use fundamental analysis to limit their universe of possible purchasable stocks to 'good' companies (those perceived to have lower risk). Lease et al. (1974) found this to be the second most popular investment strategy in their sample of individual investors.

Expanding further on such an investment strategy, the key to investment success is not just predicting future fundamentals, but also predicting the movement of other active investors. Resources spent tracking price trends, volume and numerous other gauges of demand for equities makes no sense if prices are believed to respond only to fundamental news and not investor demand. This practice makes perfect sense, in contrast, in a world where investor sentiment moves prices – it pays to track (Shleifer and Summers, 1990).

The study expects individual investors who make use of a combination of fundamental and technical analyses to take governance-related factors into account, albeit with varying degrees of importance. Even so, as fundamentals such as firm governance are only used as maximum acceptable risk thresholds, the relative degrees of importance of governance should be lower than for pure fundamentals-based investors.

4.5.4.4 Attention-based Strategy

Many studies in both standard and behavioural finance literature have focused on how investors react to attention-grabbing news, company announcements (e.g. quarterly financial results or announcement of the securing of major contracts/ projects) and other company-related information. Kumar and Lee (2006) contend that individual investors engage more in attention-based trading compared to investment professionals. Hirshleifer et al. (2002) and Lee (1992) have reported that individual investors exhibit the tendency to buy shares following earnings surprises, both positive and negative. Odean (1999) contended that investors may consider purchasing shares that they come across in the newspapers or hear about in the news.

Also, investors' attentions are probably drawn towards the most actively traded shares, those with large price movements or those that are reported in the financial media (Odean, 1999). Such stocks tend to generate a lot of excitement and interest. Busse and Green (2002) have demonstrated that stocks mentioned on a specific investment-focused programme on CNBC around midday are subject to in a fivefold increase in trading volume on average within minutes after the mention. Seasholes and Wu (2004) reported that individual investors in the Shanghai Stock Exchange are net buyers of particular stocks the day after such stocks hit an upper price limit. Similarly, Jackson (2003) reported that individual investors in the Australian Stock Exchange are also net buyers after high individual stock volatility.

Consistently, Barber and Odean's (2006) study has shown that investors are net purchasers of attention-grabbing stocks (inclusive of stocks in the news; stocks experiencing high abnormal trading volume; and stocks with extreme one day returns). They contended that attention-based buying tendencies arise from the formidable difficulty that investors face in searching the thousands of stocks they can potentially purchase.

Barber and Odean (2006:1) explained that:

> *Human beings have bounded rationality. There are cognitive – and temporal – limits to how much information we can process. We are generally not able to rank hundreds, much less thousands, of alternatives. Doing so is even more difficult when the alternatives differ on multiple dimensions. One way to make the search for stocks to purchase more manageable is to limit the choice set. It is far easier, for example, to choose among 10 alternatives than 100… Odean (1999) proposes that investors manage the problem of choosing among thousands of possible stock purchases by limiting their search to stocks that have recently caught their attention...*

Hence, due to resource constraints (time, expertise, memory, information processing capacities etc), it is almost certainly not possible for individual investors to consider all potential stocks that are available to them. Again, heuristic simplification makes such decisions manageable. This study would argue that attention-induced trading, being well documented by various studies, merits its inclusion as an investment strategy/style by itself.

Whether they consider governance obviously depends on the kinds of attention-grabbing information that investors are drawn toward (as some are indiscriminate – focusing more on the attention generated per se and not on the factors that form the basis of that attention). Investors pursuing an attention-based strategy are assumed not to do any significant amounts of analysis to learn more about the stocks/companies that they invest in. They are also assumed to pay cursory attention to the news/information that has grabbed their attention in the first instance.

4.5.4.5 Reputation-based Strategy

Shleifer and Vishny (1997:749) have highlighted that reputation is certainly an important reason why publicly-listed firms are able to raise money. They argued that *"managers repay investors because they want to come to the capital market and raise funds in the future, and hence need to establish a reputation as good risks in order to convince future investors to give them money."* This seems to imply that being reputable creates the perception that such companies are less risky or are relatively safe to invest in. It is intuitively appealing to argue that a long-established corporate reputation is even more important in developing capital markets where legal institutions are weaker, contracts are much harder to enforce and the scope for exploiting small shareholders is wide. In such an environment, reputation building could be vital in gaining the trust and confidence of investors to invest.

The notion that, for individual shareholders/investors who may (i) be relatively uninformed, (ii) not possess much financial knowledge or (iii) simply be looking for a convenient stock selection method (heuristic simplification), the strategy of investing in firms that are household names in terms of long-established reputations seems reasonable. Frieder and Subrahmanyam (2003) suggested that either investors prefer to hold stocks in which the precision of their information about cash flows is high (implying lower information asymmetries) or they use simple rules of thumb when making decisions under conditions of uncertainty (Kahneman and Tversky, 1982)

Frieder and Subrahmanyam (2003) further argued that investors may naively associate product quality with superior stock price performance (therefore, use the heuristic of investing in stocks with strong brands). Put simply, investors' propensity to invest increases in relation to stocks/companies with perceived high brand recognition. Indeed, they found that individual investors prefer to invest in stocks with easily-recognised products and also a strong brand name.

In essence, such a strategy relies on familiarity and convenience. Indeed, Daniel et al. (2002) described this familiarity or "mere exposure" effect where investors perceive what is more familiar to be more attractive and less risky. Another indication of this is the finding by Huberman (2001) that employees of publicly-listed firms tend to invest in their own company's stock (with evidence suggesting that it is not based on advantages of superior insider knowledge) as they are likely to be more familiar with it and thus, perceive the stock as low in risk. This may be similar to huge Western publicly-listed companies in the past such as AT&T or General Electric which are household names possessing solid and lasting reputations for being good businesses.

Also, reputation building is a long-term and complicated process, thus once a firm/manager attains a certain level of reputation, it could be treated as a valuable commodity that warrants protection (Easterbrook and Fischel, 1984). As it is far harder consistently to build upon a solid reputation over time as it could be easily destroyed with a few detrimental actions, investors would be fairly certain that firms with such track records take considerable effort to safeguard their economic interests. Kreps (1990), as quoted by Davis (2002), has argued that managers' desire to maintain reputation in the market will help to protect shareholders.

Becht et al. (2003:16) noted that *"interestingly, although reputation building is an obvious way to establish investor protection, this type of strategy has been somewhat under-emphasized in the corporate governance literature."* In this regard, the current study argues that investments based on reputation have an indirect impact on governance.

Generally, the biggest and most well-established publicly-listed firms have higher visibility and are relatively more transparent. This is partly due to the fact that they must adhere to the most stringent governance guidelines and regulations besides being under the scrutiny of many investors. Moreover, these firms are often regarded as better governed (popularly known as “blue chip” stocks) compared to emerging small firms that are usually seen as more speculative. Thus, insofar as these big firms have both, better reputation and governance, then investors basing their investment decisions on the good reputations of publicly-listed firms would serve to advance corporate governance. Again, this is based on the assumption that at least some of the reputation gained is based upon the good governing of such entities.

Another related consideration is the governance attribute of capable management. This is because, in many countries and firms around the world, the major shareholder/managers who are also firm founders represent the public face of these entities. Investors may invest based on these prominent business leaders’ reputations, especially considering their track record of success.

4.5.4.6 Reliance-based Strategy

All of the investment strategies outlined above require the individual investor to adopt certain actions to reach an investment decision. The study now considers the situation where shares are purchased due to recommendations made by other parties. As we are dealing with active investors, this simply means that the purchasing decision itself is still made by the individual but the choice of purchases is based on the advice of third parties (as opposed to surrendering capital to institutional investors for administration on his/her behalf).

Lease et al. (1974) broke down this approach into two distinct categories, that is, either relying on brokerage firms/brokers or the advice of investment newsletters/investment counsellors. As investment reliance can potentially develop with multiple sources (from professionals to family and friends), this study would make a different distinctive tendency. In essence, rather than breaking down the various sources of reliance, this study would only differentiate between individual investors who make their own investment decisions and those who depend on other parties to do so.

As individual investors are usually perceived to be relatively unsophisticated, the tendency to depend on third parties is expected to be fairly significant. With respects to this investor group, how governance features in their investments is indirect. This is because, unlike other investment strategies that by nature compel investors toward or away from governance, relying on others for investment advice/decision making is suitable for investors exhibiting a wide range of tendencies and/or attributes. In essence, it is dependent upon the importance of governance to those who offer them advice rather than these investors being particularly interested in governance per se. Another implication is that, if they depend on multiple sources of external advice, governance may feature in a haphazard and inconsistent manner.

4.5.4.7 Primary Investment Strategies as Indicative/Anchor Variables

The study has thus far considered various behaviours, tendencies, environmental factors and also personal attributes. Undoubtedly, the subsequent analyses of findings relating to those behaviours/tendencies and their underlying influences/ motivations will be fruitful in helping us to better understand the relevance and prevalence of each amongst respondent investors. They also provide certain indications regarding the likely behavioural tendencies of the wider individual investor population in Malaysia. For example, findings pertaining to the proportion of individual investors actually attending AGMs and the proportion of attendee investors actually concerned with corporate governance.

Even so, analysis on a variable-by-variable basis (i.e. along the lines of each behaviour/tendency) is not the ideal configuration when it comes to illustrating investors' many attributes in an integrated, person-centred manner. This was evident when the study attempted to reconcile and make sense of all the tendencies, actions and motivations reported by any one individual investor. How can the study best build, segment and illustrate some of the most typical/dominant behavioural profiles based on exhibited inclinations, as reported by individual investors?

The study contends that the complication above can be solved by the utilisation of certain broad indicative/anchor variables. Such variables will act as overarching, unifying components and also the reference by which other variables are viewed and evaluated in both the person-centric and also collective manners. In the course of identifying potential indicative/anchor variables, however, the study faced two further problems.

First, most variables are found to influence a host of other variables while concurrently, are also influenced by a number of other variables. This makes the choice of suitable anchor variables difficult. Second, chosen anchor variables must persuasively be portrayed to represent/reflect/embody a range of behavioural inclinations and implications while at the same time not require strict conformance to a set of fixed and prescribed actions/tendencies. This is because the study is concerned with uncovering certain dominant/typical/prevalent general behavioural regularities and not how each investor specifically deviates from, or conforms to, pre-defined fixed behavioural patterns[104].

The only variables found adequately to address the complications above are investors' primary investment strategies. This is because, as argued earlier in the chapter, investment strategies are not mere tendencies/preferences per se but they also possess certain distinctive, intrinsic natures that compel investors towards certain behaviours and away from others. At the same time, they are also not so rigid and prescriptive to require that investors must exhibit all aspects of a certain set of specific actions/tendencies in order to merit classification.

As is obvious from the arguments put forth for the phenomenon of mental accounting earlier in the chapter, the study acknowledges that investors do exhibit some other tendencies some of the time. Even so, the study contends that each individual investor possesses a predominant, primary set of investment practices, preferences and behavioural tendencies (that are collectively and broadly consistent as to be fairly reflected by a particular primary investment strategy) that are adopted most of the time. This conception of how investment practice actually takes place in reality is contended to be pragmatic. Consistently, the choice of

[104] For a detailed explication regarding the justifications for such arguments and also the statistical analytical aspects of it, please refer to Chapter 5.

statistical procedure for analysing the study's empirical data was also made with this need for flexibility in mind (detailed justifications are provided in Chapter 5).

Essentially, the study evaluates the indicative qualities of primary investment strategies to determine whether or not they make good indicative variables. The main idea is that each investor inclination/action is interpreted by considering the intrinsic nature of the investment strategy and as a component of a particular set of distinctive behaviours (as complements to the lens of corporate governance).

In applying the above procedure, a necessary requirement is to disregard whether investment strategies are the factors being influenced (i.e. chosen partly as a consequence of particular combinations of preferences/tendencies/stylistics) or the influencing factors (i.e. compelling investors towards certain behaviours/ tendencies/preferences). As mentioned, the unique intrinsic qualities possessed by primary investment strategies make this non-distinction reasonable.

4.6 Governance or Performance?

Partly for ease of analysis, the study has thus far worked along the assumption that well-governed publicly-listed companies would have superior performance (in terms of generating shareholder value). This is the primary assumption that academic proponents and also practitioners are working on. Even so, Gillan and Starks (1998) have raised the issue that many investors are actually interested strictly in corporate performance rather than how such entities are governed.

As argued in earlier review chapters, individual investors are likely to be myopic. Hence, when the company is registering strong performance and/or generating good profits/returns, investors may be more inclined to tolerate, overlook or disregard indications that managers are abusing their power even to the point of stealing company assets. When corporate performance declines, however, the prevailing governance attributes become unacceptable. It is at this point that the study makes a distinction in order to explore the tendency of investors being concerned only with corporate performance. Specifically, the study solicits investors' opinions regarding (i) how much they are actually concerned about company governance and (ii) managerial abuse of power; when their investment in a particular firm is profitable.

Another dimension to this issue relies more on the beliefs of an individual investor of how the market works and consequently, what share prices actually reflect. If they perceive that share prices are mainly driven by investor sentiment rather than the underlying fundamentals of the firms that the shares supposedly represent/reflect; then whether or not good governance results in superior company performance doesn't matter since it is not reflected in corresponding share prices. Put simply, there is then less incentive to consider governance-related factors. The study therefore explores investors' perception of whether company operations/ fundamentals are less important in a speculative market.

4.7 Integration of Key Research Elements (III)

In this section, the study integrates key research elements discussed throughout the chapter. Elements already covered in Chapters 2 and 3 are not repeated.

Since most personal attributes and preferences of individual investors are argued to affect their respective governance-related tendencies over the entire share investment cycle, selected general predicted influences are outlined below:

- The higher the proportion of an investor's share portfolio devoted to speculative/gambling purposes, the less important is the overall importance of governance to that investor.
- Investors who do consider governance are generally more likely to be relatively knowledgeable compared to their average peers.
- Investors with shorter-term investment horizons are less likely to undertake pro-active governance-related initiatives.

The various predictions above are investigated within the confines of primary investment strategies (acting as anchor/grouping variables). The influences and also impact of other attributes are not entirely clear as yet and will be explored by closely examining the relevant data obtained.

In terms of identification of new governance-related behaviours/treatments and possible underlying motivations, please refer to Tables 4.2 and 4.3 below.

Table 4.1 *Integration of Key Research Elements (III)*

Does country-level corporate governance matter to individual investors? **Investment Cycle Stage 1: Pre Purchase** **Corporate Governance as General Investment Criterion**
In this chapter, another distinct general governance investment criterion has been identified, that is: To only invest in penny/speculative stocks – This is expected to be the preferred criteria for investors who trade mainly on speculation/rumours/perceived insider information. Specifically, Daniel et al. (2002) explained that for those investors who are only transfixed by share prices and trade mainly on speculation and rumours, the probability is higher that they would speculate on low-priced, riskier penny stocks. Justification is that these investors are able to purchase bigger tranches of shares (as they are cheaper) in the hopes that positive price fluctuations would result in more profits.
Investment Cycle Stage 2: Post Purchase **Governance as Concerns requiring Monitoring/Active Participation**
Another possibly important motivation for non-attendance of AGMs is that such an action is not relevant to the investment style adopted (for example, those investors opting for technical analysis).
Investment Cycle Stage 3: Exit/Sell Out
Possible triggers of selling: • Irrational emotions – whenever an investor feels like selling. • Unsubstantiated rumours predicting an imminent fall in share prices.

Table 4.2 *Integration of Key Research Elements (IIIa)*

When does governance matter/matter more to individual investors? **Governance as Investment Criterion under Differing Circumstances**
Governance may not matter/matter more under any differing circumstances because it is (i) irrelevant to investment style or (ii) not considered (ignorance, indifference or lack of investment expertise).

4.8 Chapter Summary

The chapter aimed to explore various aspects of investors' personal investment-related attributes such as (i) demographic attributes, (ii) psychological tendencies, (iii) investment motivations/objectives and, (iv) investment preferences/stylistics. Secondly, to utilise these attributes as (i) influences that helps explain individual investors' governance propensities and (ii) as test variables to uncover potential biases within the study's sample of respondents.

Individual investor biases, tendencies and preferences are embraced even though it is a departure from the rationality assumption of traditional finance. The main justification for such a choice is that the study is interested in capturing real-life behavioural tendencies of actual investors who clearly do not conform to such ideal theoretical standards. Furthermore, instead of just being chance/random biases, the field of behavioural finance has offered a body of evidence that investors are irrational in the aggregate and in systematic ways as well. The final supporting point is that not much is known about investors' behavioural tendencies.

Subsequently, the study introduced and also described the characteristics of various personal attributes. They include:

(i) various demographic variables such as age, race, years of share investment experience,
(ii) psychological biases such as risk-taking propensity, mental accounting and overconfidence,
(iii) investment preferences such as investment motivations/objectives, primary investment strategies and average shareholding periods.

Each variable is also evaluated in terms of its respective potential influences on investors' governance propensities.

In order better to appreciate the bigger picture and to make sense of the interplay between the various personal attributes considered, the study examines the potential of investors' primary investment strategies being indicative or anchor variables. Specifically, investors who adopt a distinct investment strategy are predicted to exhibit (i) a unique combination of governance-related tendencies and (ii) a peculiar set of general underlying behavioural tendencies, when compared to those pursuing other strategies. The study then contended that this is due to the intrinsic nature of each strategy. Indicative/grouping variables provide a simple means by which to segment investors along the dimension of dominant tendencies.

The study subsequently provided (i) an outline of other relevant individual investor attributes where primary data has been collected for future, post-doctoral research. Included are (i) investors' investment mindset, (ii) sources of information used, (iii) share portfolio performance benchmarks, (iv) share portfolio returns and (v) degree of diversification. Lastly, an integration of the many elements introduced throughout the chapter is presented.

In the next chapter, the study will elaborate on the philosophical stance of the researcher, the research design as well as the many steps taken both to collect and analyse primary data.

Chapter 5 Research Methodology

5.1 Chapter Outline

This chapter begins with an elaboration of the epistemological and methodological positioning of the study. The primary focus is on explaining the researcher's pragmatic stance. A detailed description of the study's overall research design is then provided, especially in justifying the use of an exploratory, sequential mixed research methods procedure. This is followed by a brief outline of the theoretical underpinnings of the study within the context of a pragmatic piece of research.

Next, the actual steps taken in carrying out the research are laid out. This is inclusive of the way the study's individual investor sample is drawn and how various bias-related concerns are dealt with. The study then moves on to consider the various design-related issues that are specific to (i) the semi-structured interviews developed and subsequently, (ii) the main questionnaire constructed. In addition, important considerations pertaining to issues of reliability, validity and generalisability are also dealt with. The data analysis procedure utilised is then explained. Lastly, limitations of the study are discussed.

5.2 Pragmatist Research Philosophy

The philosophical underpinning that expresses a researcher's worldview or paradigm is an essential starting point for any piece of research undertaken (Creswell, 1994). This is because a researcher's paradigmatic stance largely determines how he/she designs and conducts an inquiry (Creswell and Clark, 2007).

First, with regards to the nature of reality (ontology), researchers traditionally subscribe to either one of two major ontological positions[105] (Reichardt and Rallis, 1994; Guba and Lincoln, 1994). On the one hand, the positivist/objectivist camp

[105] Even though there are a number of distinctive positions somewhere in between the two major camps, these are usually seen as being aligned, are more inclined towards and/or nestled within the sphere of one camp or the other.

posits that a single, objective and detached reality exists while on the other, the constructivist/subjectivist researchers argue that there are only multiple, subjective and individually constructed realities (Cherryholmes, 1992; Goles and Hirschheim, 2000). The current study, however, subscribes to an alternative perspective of reality – that of a pragmatist (Tashakkori and Teddlie, 1998).

The pragmatist position begins with the acceptance of the existence of an external reality independent of the human mind (Cherryholmes, 1992), a physical world without meaning[106] (James, 1907). Pragmatists contend that it is not possible to research this physical reality in a completely objective manner as researchers are grounded and confined by their individual experiences and values (Cherryholmes, 1992). As there is no way to determine what reality is (which renders all efforts to mirror/represent it futile), the practical usefulness of specific representations of it is desired rather than the accuracy of representation (Gibson, 1979).

A more extreme position was advocated by Rorty (1982) who suggested discarding the very notion of representativeness altogether and instead, researchers should simply "cope" with the world around them. This study, however, adopts a less extreme stance, by emphasising the practical usefulness of the particular representation that is produced through the current empirical research. Even with such a stance, being a pragmatist, the resultant representation should be subjected to future re-tests of how practically useful or applicable it still is at those particular points in time.

In terms of epistemology which deals with the nature of knowledge, pragmatic researchers shun the traditional divide that forces them to choose between the objectivity[107] and subjectivity[108] of knowledge. Tashakkori and Teddlie (1998) have referred to this entrenched divide as the grand "Either-Or" mindset. Instead, pragmatists readily embrace both points of view. Objectivism and subjectivism are simply opposite ends of a spectrum rather than two opposing, mutually exclusive positions. It is perfectly acceptable to switch back and forth along this continuum (Goles and Hirschheim, 2000) as relative amounts of objectivity and subjectivity exist at any one time during an inquiry (Tashakkori and Teddlie, 1998).

[106] Referring to the absence of intellectual intelligence.
[107] The stance of the positivist camp.
[108] Philosophical position of subjectivist researchers.

Instead of outright rejection of all philosophical considerations, however, pragmatists simply do not see much point in extensively debating and searching for metaphysical concepts such as "truth" and "reality" (Creswell and Clark, 2007). Since these concepts are highly abstracted from the concrete world, the outcome of such debates is regarded to be largely inconsequential to the actual research undertaken (Howe, 1988; Rorty, 1982). Epistemological arguments should therefore be absolved [109] rather than resolved. Indeed, for pragmatists, the meaning of any concept *"is determined by its **practical implications**; and that the truth of any judgment is determined in and through **practical activity**" [Emphasis added*] *(Lewis-Beck et al., 2004:847).*

Clearly, pragmatism emphasises the practical over the epistemological and the empirical over the conceptual. Knowledge derives its meaningfulness and relevance from its capacity to initiate positive change/action (Wicks and Freeman, 1998 and Goldkuhl, 2004). Legitimacy is derived by being a servant to practice and pragmatic changes are progressive as they seek to induce gradual improvements of the status quo (Goldkuhl, 2004).

Pragmatist philosophy's emphasis on "practicality" and "usefulness" complements the contention of authors such as Shleifer and Vishny (1997) and Khan (2003) that the subject of corporate governance is of enormous practical importance. In fact, governance researchers are presented with unique opportunities to influence corporate practices directly through the careful integration of theory and empirical study (Daily *et al.*, 2003). The study's focus on (i) the real-life behavioural tendencies of investors and (ii) understanding the phenomenon of governance as it is being practised, is consistent with conventional pragmatist thought.

Pragmatic research is value-laden. A researcher's personal values and also experiences are acknowledged to inevitably influence and impact on every study that he/she undertakes. These are, however, not necessarily seen as drawbacks or impediments. In fact, relevant personal experiences could aid in understanding the practicalities of the situation at hand. Therefore, the researcher's years of experience of investing in Malaysian publicly-listed firms as an individual investor and also the fact that he is Malaysian (implying deep appreciation of the race- and ethnic-based values and norms outlined in Chapter 3, for example) are positive

[109] Or abandoned.

attributes. These values and experiences are invaluable in interpreting and also understanding observed individual investor behaviours/tendencies.

In terms of research methods, the use of quantitative methods largely defines positivist research while qualitative methods dominate within the subjectivist camp. Similar to the earlier rejection of rigid epistemological and ontological stances, pragmatic researchers shun the notion that there is a guaranteed methodological path to the “Promised Land” (as described by House, 1994). Instead, pragmatists favour and adopt certain methods because they have specific conceptions as to what they are trying to achieve in their research (Morgan, 1998).

Basically, the research questions should dictate the choice of methods utilised. The main criterion is that the methods used should be the most appropriate ones in giving a reliable answer to the specific inquiry being undertaken (Wicks and Freeman, 1998; Creswell and Clark, 2007) rather than emphasising the methods themselves or the worldviews underlying such methods (Goles and Hirschheim, 2000; Tashakkori and Teddlie, 1998).

The breaking of the entrenched epistemology-method link (Howe, 1988) typically results in the use of different combinations of quantitative and qualitative research methodologies and methods within a single study. This flexibility in mixing methods is a hallmark of pragmatic research in generating knowledge (Creswell, 2003). In fact, Tashakkori and Teddlie (1998) have formally linked pragmatism with mixed methods research (Rocco *et al.*, 2003). The current study makes use of a mixed methods approach as well.

By mixing and matching, however, pragmatic researchers have often been accused of lacking consistency by researchers from the other philosophical traditions. This is because pragmatists, by embracing and changing their worldviews and methodologies as and when they see fit, seem frequently to shift their basic assumptions from one piece of research to another. Consequently, it is hard to evaluate their findings within a rigorous philosophical and methodological context with any significant degree of consistency.

Pragmatists respond to the above criticism by ensuring that each stage of their research is carried out with scientific rigour. For example, each research method employed would adhere to its corresponding accepted protocols of research quality such as those pertaining to validity, reliability, credibility and/or trustworthiness. Transparency of the research process is also another key measure. In this regard, Crotty (2003: 40/41) opined that: *"in the end, it is our account of the research process that establishes the credentials of our research…The process itself is our only justification"*.

Towards such an end, Crotty (2003) suggested that the research process must be explicated in a faithful and comprehensive manner. These practical steps are demonstrated in the following sections.

5.3 Mixed Methods Design

The study adopts a two-stage, sequential mixed methods procedure that combines the use of semi-structured interviews and questionnaires. In this section, justifications for the need to adopt both research methods to tackle the research questions posed by this particular study are provided. It also outlines the reasons for conducting interviews before distributing questionnaires. Certain philosophical arguments are used to highlight the logic behind such choices. Arguments are presented on a conceptual level as the specific attributes of adopted methods are explicated later in the chapter.

Firstly, pragmatists contend that *"the analysis of meanings (of signs, i.e., ideas, concepts, statements) is an analysis of* ***certain kinds of actions*** *in* ***certain contexts****… For the pragmatist, therefore, meaning has reference… to* ***the ordinary situations and conditions in which actions occur****" [emphasis added] (Thayer (1968), as cited in Crotty, 2003: 73).*

This justifies the study's focus on exploring the governance-related behavioural tendencies of individual investors (*certain kinds of actions*) within the Malaysian capital market (*certain context*). As the meanings behind observed investor actions must be appreciated within their overall social context, such an exploration is carried out by taking into account the various cultural, institutional and political influences distinct to the Malaysian investment environment (*the ordinary situations and conditions in which actions occur*).

Attempting to understand governance as it is being practised is important as previous shareholder-centred studies relied largely on statistical inferences drawn from aggregate market data or individual trading records (Kumar and Lee, 2006 and Daniel et al., 2002). These studies are plagued with the statistical problems of potential omitted variables and undetermined causality (Daily et al., 2003) leading to inconclusive findings. Downes et al. (1999) argued that these design drawbacks show the need for qualitative exploration of investor attitudes/perceptions toward governance, especially investment-related practical and philosophical issues and their impact on corporate governance to a degree unattainable through research confined to traditional statistical analysis and extant literature surveys.

Moreover, inconsistencies found with regards to investors' governance-related behavioural tendencies between predictions in the literature, the expectations of regulators and anecdotal real-life observations suggest that (i) the actual prevalence of each considered behaviour/tendency is unknown and (ii) there are other important, yet unidentified motivations/justifications behind observed behaviours/tendencies. Indeed, Creswell and Clark (2007:30) contended that *"the literature may be used to identify… the specific questions that remain unanswered in the literature and that* ***must be asked of the participants****" [emphasis added].*

Miles and Huberman (1994: 17) also suggested that *"the researcher has an idea of the parts of the phenomenon that are not well understood and knows where to look for these things –* ***in which settings, among which actors****" [Emphasis added].*

For the current study, the elements that are not well understood are the actual governance-related behavioural tendencies of individual investors and the underlying justifications/motivations for identified tendencies, inconsistencies that can only be adequately addressed by approaching first-hand individual investors (*among which actors; must be asked of the participants*) in the Malaysian capital market (*in which setting*)[110].

Building on the above themes, pragmatists have stressed the need *"for always considering situations from the* ***viewpoint of the actor****… when sociologists refer to meaning, it is to* ***the subjective meaning actors impute to their actions****" [emphasis added]* (Coser, 1971 as cited by Crotty, 2003: 75).

Hence, the study considers governance (i) from the standpoint of individual investors (*viewpoint of the actor*) and (ii) accepts the meanings offered by respondents at face value (*the subjective meaning actors impute to their actions*) and base systematic interpretations on such foundations (Mitchell, 1977 as summarised by Crotty, 2003). Each opinion is seen to be equally valid in the sense that they are assumed to result in subsequent, concrete behaviour.

The arguments above justify the choice of conducting interviews with selected market participants, especially individual shareholders. In particular, semi-structured interviews are regarded as the most suitable as questions posed to respondents are open-ended which enables the identification of yet unknown key motivations/reasons underlying observed governance-related tendencies. At the same time, each question is guided by specific themes, contexts, issues and actions to inject an accepted degree of focus[111].

The study's overall governance focus is both preserved and refined by (i) only considering the range of potentially important governance-related behaviours/ tendencies compiled earlier, (ii) considering each issue/factor/attribute/tendency within the particular stage of the investment cycle where they most likely feature and (iii) framing the issues/responses/motivations as likely/typical responses to generic, probable yet specific scenarios/situations. These procedural guidelines naturally induce a logical and progressive structure.

[110] Taking into account the shortcomings and also inconclusiveness of past empirical studies in this area.

[111] On the contrary, structured interviews where respondents select their responses from a fixed list of rigid, close-ended answers isn't suitable for identifying yet undiscovered key variables. As for unstructured interviews where investors are free to describe their investment experiences with few boundaries/constraints, they are considered too broad and unsystematic. In fact, responses obtained will almost certainly transcend the general governance context of the study.

Justification for a more structured approach is that most relevant constructs (i.e. the various governance-related (i) firm- and country-level characteristics/issues and, (ii) investor actions/tendencies considered) are well documented in the literature. Miles and Huberman (1994: 17) offer a good summary of this strategy:

> *Tighter designs are a wise course, we think, for researchers working with well-delineated constructs. In fact, we should remember that qualitative research can be outright "confirmatory" – that is, can seek to test or further explicate a conceptualization. Tighter designs also provide clarity and focus for beginning researchers worried about diffuseness and overload… So a case can be made for tight, prestructured qualitative designs…*

Miles and Huberman (1994) have termed the design considerations outlined above as *"a sort of anticipatory data reduction"* as they are intended to focus subsequent analysis on pertinent issues only. This is consistent with the study's intention to focus on dominant trends[112] where only major issues/tendencies uncovered during the interviews are included for subsequent consideration[113].

The study predicts that only a few dominant motivations/justifications (inclusive of yet unidentified ones) will emerge from investors' responses in explaining their actual behaviours/tendencies. This is because when considering "rational goal-oriented products" (Weber, 1949 as cited in Crotty, 2003), people are presumed to act under certain common motivations and in turn, select suitable means to the ends they envisage[114].

Essentially, the study contends that certain goal-oriented activities such as share investing are driven by certain dominant imperatives (for example, the economic motive to make profits) resulting in certain behavioural regularities/patterns. Such regularities/patterns are also seen to be logical outgrowths/responses/adaptations to distinct environmental influences. This contention is supported by past studies showing that individual investors typically display a few distinct underlying behavioural patterns (see, for example, Lease et al., 1974; Schlarbaum et al., 1978; Wood and Zaichkowsky, 2004).

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[112] Or the most prevalent behaviours and motivations.
[113] For further details, please refer to the Semi-Structured Interviews section in this chapter.
[114] Unlike hedonic/entertainment-based social activities where the possible motivations/ justifications can be very diverse/virtually unlimited.

In terms of research methodology, Greene et al. (1989) suggested that mixed methods studies can help sequentially where results arising from the first method are used to inform the development of instruments for the second method.

> *On the one hand, quantitative studies "persuade" the reader through de-emphasizing individual judgment and stressing the use of established procedures, leading to more precise and generalizable results. On the other hand, qualitative research persuades through rich depiction and strategic comparison across cases, thereby overcoming the "abstraction inherent in quantitative studies* (Firestone, 1987, as quoted in Miles and Huberman, 1994: 41).

Similarly, the study's mixed methods procedures take advantage of the complementary strengths of both methods used. Interview findings inform the development of the questionnaire's instruments. The results of the questionnaire, in turn, enable the study to explore the actual prevalence/relevance of each identified action, tendency and/or justification/motivation.

Within the range of possible mixed methods study types, the current study would fit under what is known as an Exploratory Design (Creswell and Clark, 2007) where results of the first method (qualitative) helps develop/inform the second method (quantitative).

5.4 Pragmatism and Theoretical Underpinnings

As the Malaysian capital market is structured along Anglo-Saxon principles of governance which place emphasis on (i) shareholder value maximisation and (ii) mechanisms aimed at minimising agency concerns, the study complements the status quo by making sense of investor behaviour through an agency perspective albeit a more-socialised, all-encompassing yet contextualised version of it.

Moreover, pragmatists believe in the under-determination of theory by facts (Reichardt and Rallis, 1994) where the same set of data can potentially be explained by many different theories. Hence, the choice of theory is actually not a major concern since pragmatic researchers are typically driven by their own anticipated consequences and the choosing of the best explanations to reach their own intended outcomes (Cherryholmes, 1992; Tashakkori and Teddlie, 1998).

It is hoped that this research will shed some light on the highlighted gaps in current established knowledge, especially in increasing our understanding of (i) whether and how governance actually features in individual investors' share investment decision-making, (ii) the underlying reasons/justifications why these investors consider/do not consider governance and undertake/do not undertake governance-related initiatives.

In turn, such an understanding serves to inform governments, regulatory agencies/ authorities and also academics in introducing policies and/or proposing ways to improve (i) the investment practices of individual investors, (ii) the content and also focus of investor education programmes and, (iii) the design of governance mechanisms to make them more practically useful/relevant to these investors.

5.5 General Sampling Strategy: Overall Sampling Frame and Procedures

The first primary design-related decision faced was to identify and segregate between individual investors who make their own investment decisions and those who delegate this responsibility to various investment funds[115]. Investors[116] in the latter group (i) are mostly unaware of which publicly-listed firms such funds invest in but rather, are only interested in the annual overall performance of the said funds and (ii) own shares indirectly through the funds only in the sense that they are the funds' ultimate beneficiaries. In turn, these funds invest in a wide variety of investments/assets that is not confined to just equity. Therefore, only those individual investors who have personal share dealing accounts and actively manage their own share portfolios (Lease et al. (1974) described these investors as having money under conscious, active management) are sought.

[115] Including mutual/pension/insurance funds that pool investors' money and invest on their behalf under the names of the funds rather than the individuals who contributed capital.
[116] Perhaps the term "contributors" would be more appropriate to describe this investor group in terms of their investment behaviour.

It was found that any individual investor[117] wanting to purchase shares of firms listed in Bursa Malaysia[118] is required to open a share-dealing CDS account[119] with any one of the 35[120] authorised stock broking houses in the country. The researcher decided, therefore, to gain access to investors through these stock brokerages. Indeed, most previous studies on individual investors made use of such a strategy as well (see, for example, Kumar and Lee, 2006; Badrinath and Lewellen, 1991; Barber and Odean, 2006; Grinblatt and Keloharju, 2000; Jackson, 2003; Feng and Seasholes, 2004). For most of these previous studies, the actual samples of investors are typically drawn from a single local brokerage up to multiple branches of many brokerages.

For the purposes of this study, the sample of individual investors are drawn (with due consideration given to the various constraints, as detailed below) to provide, as much as possible, partially indicative tendencies that fairly reflect the typical behaviours/tendencies of individual investors as a collective group within the Malaysian capital market. In order to (i) try to obtain the best possible geographical coverage and dispersion, and (ii) circumvent the possible distinctiveness and/or biases that individual investors connected to only one particular brokerage may exhibit; the researcher opted for a multi-brokerage design.

Next, the following limitations and/or constraints are taken into careful consideration:

(i) resource constraints, especially in terms of time and the costs of carrying out empirical research, and
(ii) the manageability of data in terms of both volume and complexity (considering that all stages of the empirical work such as collecting, compiling, coding, testing and processing of data will be carried out by the researcher himself. Also, due to the design of the study which looks at many different variables over the entire share investment cycle, the resultant size of the dataset is likely to be substantial).

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[117] The term “retail investors” refers to those individual investors who have got their own share dealing accounts. This implies that they are “active” investors in that they assume personal responsibility in making their own share investment decisions.
[118] The Malaysian stock exchange.
[119] Bursa Malaysia’s Central Depository System for shares.
[120] Source: The Bursa Malaysia (the Malaysian stock exchange) website– www.bursamalaysia.com/website/bm/brokers/equities/list_of_brokers_alpha.html [Last accessed: 14th July 2008]

Taking into account all of the above, the study decided to negotiate access to select branches[121], each attached to a different local brokerage and located in a different region around the country (mainly in order to mitigate the potential biases outlined earlier while attempting as wide a coverage as possible). As is the case with most previous empirical studies of a similar nature, the final number of participating branches/retail brokers is very much dependent upon their willingness to participate (specifically in terms of granting access to their retail clients).

In this regard, the researcher was able to secure the participation of a number of them (each from a different local brokerage and in a different geographical region). Specifically, each of the 13 states in Malaysia is considered to be a different region. In terms of the practical procedure, the researcher obtained a complete list of all brokerage branches in the country and targeted one particular branch per state.

Due to the above stated constraints, the researcher conducted the study with any and all retail brokers that were willing to participate. Put simply, the researcher would only attempt to solicit the participation of other suitable branches if (i) the number of different regions covered by participating retail brokers are deemed to be inadequate, and/or (ii) the total number of responses to the primary survey phase are insufficient, to satisfy the purposes of the study.

In terms of actually carrying out the research, the researcher decided not to request that the lists of clients of the participating retail brokers be made available. This is because such requests would invariably fail as brokerages are not allowed by law to reveal the personal details of their clients. Instead, participating brokers were requested to forward the study's questionnaires to their individual clients via email and/or the post[122] on the researcher's behalf. Access to individual investors is thus indirect. This approach was deemed to be the best available option taking into account the constraints faced.

Notwithstanding the impediments faced, this approach serves the purposes of the study on two counts. On the one hand, the researcher can be certain that the

[121] More specifically, the retail brokers who are attached to those select branches.
[122] i.e. to forward it to clients in their mailing/e-mailing lists.

study's recipients are individual investors while on the other, respondent anonymity is guaranteed[123].

The questionnaire was sent out to all participating retail brokers' clients rather than employing any random and/or systematic sampling techniques for their respective clients' lists. There are a few justifications for such a procedure. First, it is deemed unreasonable to request random/systematic sampling as this would involve unacceptably high costs incurred on the part of the participating brokers/ brokerages[124]. More importantly, such a requirement would materially affect their willingness to participate in the survey. Even if systematic/random sampling were carried out, the researcher could not be certain that the brokers tasked to undertake such a procedure would be able to carry it out properly. Second, given limited time and resources, it is not also possible for the researcher to train retail brokers on the proper sampling procedures to follow.

Third, the researcher has got no information on what criteria are applied to determine the positions of each client within each list[125]. As such, the distinct possibility that the overall sample (due to the possible inherent biases within the sub-samples obtained from certain brokerages) would be biased in certain respects even if appropriate random sampling procedure were applied cannot be ruled out. In addition, as this piece of research is interested in the general behavioural tendencies of individual investors[126], choosing to sample as many respondents as possible seems pragmatic. Lastly, aiming at capturing the largest possible number of respondents reduces the possibility of obtaining an insufficient number of overall responses.

[123] This is due to the fact that the researcher is not able to scrutinise investors' personal details. In addition, the questions asked within the questionnaire do not request any specific pieces of information that enable such identification to be made.
[124] In terms of the need to devote resources such as time, use of computers and other data processing/storage facilities, etc.
[125] For example, segregated according to age, ethnic background, region or total amount invested.
[126] With the underlying assumption that all investors operating under the same investment environment would exhibit one of a few similar major behavioural tendencies.

One of the main concerns with this sampling procedure is the possibility of certain biases/peculiarities of clients of certain participating branches/retail brokers driving the overall results of the study[127]. Possible biases include the geographic locations of the retail brokers/branches themselves. Such locations may cause certain obvious biases if, for example, most participants are located in major cities or certain regions/states. In such a case, the sample will be biased towards urban investors or investors residing within certain regions/areas.

Even so, explicit and systematic evaluation of the geographical coverage and locations of each of the participants cannot be carried out so as to preserve/ guarantee their anonymity. It would be rather straightforward to identify a specific brokerage/group of retail brokers if a geographical coverage analysis is presented by illustrating the numbers and locations of all affected branches across the nation.

Notwithstanding the aforementioned design constraints, the biases above are partially mitigated by the fact that all local stock brokerages (and also all of their branches) are (i) open to Malaysians from all walks of life[128] regardless of where their clients are based and (ii) the procedures of opening an account are simple and straightforward[129]. Second, the researcher also managed to solicit the participation of retail brokers located in a few different regions around the country. Thus, in aggregate, any differences (if found to exist) should not be too pronounced.

Most importantly, the assumption above is also based on the findings of various studies that concentrated on individual investor samples based in different countries and regions around the world – all consistently demonstrating that individual investor behaviour is highly correlated (see, for example, Jackson, 2003; Feng and Seasholes, 2004; Kumar and Lee, 2006; Barber et al., 2003, amongst others). More relevant to the current study's sampling design where sampled investors are drawn from a small number of branches of a few local brokerages, however, is Jackson (2003) who found strong evidence that individual investors in Australia exhibit strong systematic patterns. The actions of individual investors

[127] Since the study aims to provide a fair reflection of the general governance-related behavioural tendencies of individual investors as a distinct class of investors.
[128] The only requirement is that the client must be a Malaysian citizen over the age of 18.
[129] To open a share dealing account, the client is required to go through a simple registration procedure involving form filling and depositing a small amount of money as a minimum.

across a large number of unrelated retail brokerages are therefore highly correlated[130].

Although being rather dated, Lease et al. (1974) also found that their sample of respondents, being the clientele of a single US brokerage, is not unlike that of the typical US brokerage. The study contends that this may extend to particular branches of each brokerage as well.

The study posits that by collecting data from respondents across a number of brokerage branches[131], even if claims of generalisability/representativeness (even though is not a primary aim of the study per se) cannot be made due to its non-probability sampling design, partially-representative "indicative tendencies" could be obtained[132]. In this regard, Bryman and Bell (2003) have contended that in the field of business and management, non-probability samples are actually very common and are in fact, more prominent than samples based on probability sampling.

The study may also have results that are potentially skewed towards English-speaking respondents. Even so, this is not a major concern as Malaysia was under British occupation for more than a hundred years before gaining independence in 1957 so English is a well-established language in Malaysia. Considering the fact that education is free and compulsory for all Malaysians above the age of 7; and that English is one of the mediums of delivery in public schools; most Malaysians can speak and understand English.

More important, however, is the fact that most of the news and materials published by publicly-listed companies[133], securities analysts[134] and brokerages[135] are in English[136]. Great care was also taken to ensure that the simplest and most straightforward English words/phrases were used to construct the questions posed in the interviews and also questionnaires. Related feedback was also obtained

[130] More specifically, 56 brokerage firms with millions of retail clients.
[131] Implying wide coverage of the general individual investor population.
[132] Please refer to the section on Status of Research Findings: Generalisability and Representativeness.
[133] Such as annual reports, proxy voting forms and material announcements.
[134] Reports analysing the financial figures and also prospects of publicly-listed companies.
[135] Market news and updates.
[136] With other languages often supplementary/optional, if provided at all.

from a number of individual retail investors through extensive pre-testing (further elaboration is provided later in the chapter).

The general planning, procedures and decisions described above constituted the first stages of carrying out the research. The outline above ideally sets the scene for specific discussions on subsequent decisions made and also steps taken in relation to each of the two research methods employed.

5.5.1 Ethics and Ethical Consent

Ethical consent has been obtained from all participating organisations and individuals. The researcher has offered all parties assurances of anonymity and all ethical consent forms are kept in a safe and secure location.

It must be reiterated that all information and/or references that could potentially lead to the positive identification of any participants of the study are altered to standardised, generic forms. For example, the study refers to individual investor participants using generic identifiers such as Investor 01, Investor 02 and so on. Similar treatment is accorded to all other parties/participants of the study.

5.6 Semi-Structured Interviews

5.6.1 Sampling-related Issues

5.6.1.1 Initial Recruitment of Interview Respondents

After initial access was established, a sampling procedure had to be developed for identifying and selecting a suitable sample of individual investors for the study's semi-structured interview phase. Ultimately, the researcher opted to solicit the voluntary participation of individual investors by generating interest in the research through distribution of a pilot questionnaire[137].

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[137] More details will be provided under the Questionnaire subsection within this chapter.

The exercise was undertaken in only one particular brokerage so as to minimise the possibility that (i) participating retail brokers may not agree to participate in more than one round of primary data collection[138] and/or (ii) the individual investors who respond to the pilot study would not respond again to a subsequent questionnaire of a similar nature. Choosing one brokerage was seen as a good measure to mitigate such risks[139] and, at the same time, to obtain some indication of the likely response to such questionnaires.

5.6.1.2 Unit of Analysis

For this qualitative phase, the study had to determine its unit of analysis. Miles and Huberman (1994: 90) were helpful in this regard with their explanation that:

> *...quantitative researchers usually think of cases as individual persons, draw a "sample" of persons, and then collect comparable "data points" from each… By looking at a range of similar and contrasting cases, we can understand a single-case finding, grounding it by specifying how and where and, if possible, why it carries on as it does.*

As the qualitative phase is primarily meant to inform the subsequent quantitative phase, the study would follow the described quantitative conception of the unit of analysis. Every individual investor is treated as a "case" (unit of analysis) with unique behavioural configurations (Miles and Huberman, 1994) but holistically, each case is predicted to be likely to exhibit one of a few typical broad patterns of investment behaviour.

[138] Or that they may withdraw their participation after the first round. The possible reasons for this are many ranging from the study requiring too much company resource to carry out to the worry that their customers would be unhappy or unnecessarily burdened.
[139] Even if the respondents from a single brokerage where the pilot study was carried out are unwilling to participate again in the main data collection round, the study can still collect data from the retail clients of the other participating brokerages.

5.6.1.3 Number of Interviews Required

This section outlines the procedures used to determine the number of interviews required to satisfy the aims of the study. This issue was found to be a common concern frequently raised by qualitative researchers. In this regard, Guest et al. (2006) attempted to provide a general guideline by empirically demonstrating that major themes could be detected as early as six interviews and saturation occurred after about 12 interviews. They further quoted various studies such as those by Morse (1995), Bryne (2001) and Fossey et al. (2002) that aimed for the "gold standard" by which purposive sample sizes are determined, that is, the idea of reaching theoretical saturation. Such a stage is reached when no new major themes emerge as additional interviews are conducted. The researcher used this crude yardstick of twelve interviews as a minimum target while, at the same time, aimed for data saturation.

Out of a total of 57 individual investors who responded to the pilot questionnaire, 10 expressed their interest in taking part in the interviews. As more respondents were required, a pragmatic combination/mixed sampling strategy[140] had to be employed. Ultimately, a further nine were identified with the assistance of a few stock brokers with whom the researcher had established working relationships.

The selection of respondents wasn't based on random sampling because, due to the relatively small number of cases being scrutinised, it can deal the researcher with a decidedly biased hand anyhow (Miles and Huberman, 1994). In addition, Kuzel (1992) has argued that qualitative samples tend to be purposive not random. The details of the combination sampling carried out are as follows:

- The initial 10 respondents were recruited using a Convenience sampling strategy as it depended on the willingness of some of the pilot questionnaire respondents to participate. The sole criterion was voluntary participation.
- The remaining nine respondents were selected based on a reputational case selection strategy (Miles and Huberman, 1994) as they are chosen and recommended by stock brokers (regarded as "key informants", as

[140] Involving a number of distinct sampling strategies.

these respondents are clients serviced by them) who saw these selected respondents as typical cases[141]. This procedure can also be classified as purposive sampling as the selection of participants was in accordance with predetermined criteria relevant to a particular research objective (Patton, 2002, as quoted in Guest et al., 2006).

The study stopped at 19 individual investors as the researcher is reasonably convinced that theoretical saturation had been reached at this point[142]. The steps undertaken meant that the study was undertaking a non-probabilistic sampling procedure. It is non-probabilistic because the number of respondents is not predetermined using random sampling techniques but instead, is dependent upon the notion of saturation.

5.6.2 Methodological and Data Triangulation

By using both qualitative and quantitative methods to study the phenomenon of interest (Tashakkori and Teddlie, 1998; Jick, 1979), the study adopted a procedure known as methodological triangulation[143]. This combination of inductive (from grounded results to general inferences) and deductive approaches (from general inferences to predictions) through mixed methods triangulation enables stronger inferences (Tashakkori and Teddlie, 2003) to be made in explaining and understanding the governance-related behaviours and motivations scrutinised.

In addition to using mixed methods, a multiplicity of perspectives (Greene et al., 1989) is also sought for a more balanced view of reality. This is because pragmatists believe that adopting a single perspective on a phenomenon under scrutiny would distort and limit a researcher's view (Goles and Hirschheim, 2000). Such an attempt was made through data triangulation where semi-structured interviews were conducted with a number of stock brokers, a market insider who possesses very intimate knowledge of the workings of the Malaysian capital

[141] Individual investors with "typical" behavioural tendencies were sought so as to facilitate and also to increase the chances of identifying the relevant tendencies at a later stage of the research (also to minimise the distorting effects of irrelevant, extreme or deviant tendencies).
[142] In terms of identifying major trends.
[143] Involving the use of both qualitative and quantitative methods.

market and also a registered secretary of a publicly-listed Malaysian corporation[144]. The views of these informed market participants regarding the behavioural tendencies of individual investors are corroborated and compared with the findings of the earlier investor interviews. Such an endeavour is beneficial because:

- Most stock brokers offer investment advice to their clients. As each broker services many clients, they could provide a valuable overview and insights into the general behavioural tendencies of individual investors. As for brokers who do not offer investment advice, at the very least, they do execute each and every buy/sell order for their clients (implying that they still possess intimate knowledge of general investor strategies/tendencies).
- The public-company secretary is able to provide a unique perspective on investors' proactive governance-related behaviour as this respondent is involved in all shareholder-related concerns involving the firm where this respondent works, including the preparation of proxy materials, involvement in the running of AGMs and handling of communications with outside shareholders/investors.
- The market insider can provide fascinating and relevant insight as this respondent has experience in a variety of different roles that are connected to the Malaysian capital market at different periods over the past few decades. This includes being part of the top management team of a Malaysian publicly-listed firm, a stock broker and also a retail investor. More importantly, this key informant is also politically well-connected and had taken part in certain controversial activities in the market itself, details of which are presented in the study's findings.

The objective of the data triangulation procedure above was to inject a degree of complementarity (Greene et al., 1989) into the study where distinct yet overlapping aspects of the phenomenon being researched are exploited to increase the validity and reliability of findings[145].

The various design issues relevant to the study's semi-structured interview questions are explicated below.

[144] Whose co-operation is the result of the "opportunistic sampling strategy" (Miles and Huberman, 1994) of taking advantage of unexpected leads.
[145] Both validity and reliability of data obtained from semi-structured interviews will be considered in a later section.

5.6.3 Interview Questions-related Design Issues

It is important to first reiterate the intention of conducting semi-structured interviews. As the many possible ways by which individual investors can consider governance have been identified and compiled earlier[146], interview responses provide preliminary indications as to which of these treatments or means of consideration are actually important/prevalent amongst this investor group in reality.

Subsequently, as there are also certain shortcomings to current explanations, justifications and also understanding with regards to why investors undertake or do not undertake governance-related behaviours, the interviews are utilised to uncover important reasons/motivations (i.e. to (i) determine which of the known explanations/predictions are actually relevant and (ii) to uncover yet to be identified pertinent justifications/reasons/motivations).

In order to explain the general construction, ordering and design of the questions posed within the semi-structured interviews, an ideal starting point is to refer to the general ordering of the different elements of the study, as presented in the Integration of Research Elements sections toward the end of Chapters 2, 3 and 4. Again, it is clear that the various constructs (governance-related behaviours and motivations) are well described/documented[147]. Where concepts are pre-defined, Miles and Huberman (1994) suggest that a high degree of structure is justified.

Practically, significant findings from the interviews are largely meant to affect the inclusion or exclusion of particular items in the study's questionnaire. In this sense, the semi-structured interviews could be seen as an intermediate step between the information compiled in the Integration of Research Elements sections towards the end of Chapters 2, 3 & 4 and the study's main questionnaire. This is aptly reflected in the example given below.

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[146] Referring to both decision-making treatments and proactive governance actions.
[147] As mentioned earlier – compiled through a thorough review of extant literature, the expectations of government regulators and also some real-life anecdotal evidence.

Table 5.1 *Example of how Interview Findings Inform Content of Questionnaire*

One of the interview questions posed is:
For those companies where you do own shares, do you attend any of their Annual General Meetings (AGMs)?
STEP 1:
If they do attend, from a governance viewpoint, the following possible responses have been generated from the literature review: • To ask questions, vote or have a say in how the company is run. • Only to protest after being mistreated/cheated/exploited.
STEP 2:
From the semi-structured interviews, it was found that there were other potentially important actual motivations for attending AGMs. These include: • For the free food/free gifts that the company hands out. • For the experience of attending (to see what actually goes on). • Employer's (managers of the publicly-listed company itself) request.
STEP 3:
Potentially important motivations identified in STEP 1 and STEP 2 are incorporated into the final version of the questionnaire: • To ask questions, vote or have a say in how the company is run. • Only to protest after being mistreated/cheated/exploited. • For the free food/free gifts that the company hands out. • For the experience of attending (to see what actually goes on). • Employer's (managers of the publicly-listed company itself) request.

While the interview questions are partially structured in the sense that each one is contextualised (to a particular stage within the investment cycle) and deals with a specific action/factor/issue, investors' underlying motivations/justifications for each reported action/tendency are explored through the "open-ended" response feature (where respondents are given the flexibility to provide all answers deemed relevant within the context of the questions asked). In addition, the interview questions posed are generic enough to be applicable to all investors. The example given above on AGM attendance clearly illustrates these design features.

The full Interview Schedules for all interviewee categories (i.e. brokers, individual investors, company secretay and market insider) is provided in Appendix 5.

A majority of semi-structured interviews conducted were tape recorded and transcribed. It is interesting to note that a total of six respondents expressed reluctance for their interview sessions to be tape recorded.

5.6.4 Coding of Themes

Codes are tags/labels for assigning units of meaning to the descriptive or inferential information compiled during a study. Codes are usually attached to "chunks" of varying size – words, phrases, sentences, or whole paragraphs, connected or unconnected to a specific setting. They can take the form of a straightforward category label or a more complex one (e.g., a metaphor). Bliss et al. (1983: 41) argued that a word or phrase:

> *does not "contain" its meaning as a bucket "contains" water, but has the meaning it does by being a choice made about its significance in a given context. That choice excludes other choices that could have been made to "stand for" that word or phrase, and that choice is embedded in a particular logic or conceptual lens, whether the researcher is aware of it or not.*

Since pragmatists believe in the under-determination of theory by facts and also place emphasis on practical consequences that are useful from the researcher's viewpoint, "meanings" are generated and made sense of from (i) the conceptual lens of corporate governance and (ii) the standpoint of individual investors. This distinct approach to meaning-making is applied to the subsequent coding/labelling of all governance-related attributes/trends/issues/considerations identified in the interview responses collated/transcribed.

Practically, the study applied a flexible and pragmatic procedure where the unit of analysis could be in the form of any blocks of data (a clause, sentence or paragraph) deemed "meaningful" (i.e. deals which a particular motivation, action, tendency, consideration, context and/or situation). Also, some researchers have highlighted the potential of overlaps where a chunk of data is usually a candidate for more than one category/code. Even so, overlaps and multiple levels of coding (Miles and Huberman, 1994) is not a major concern for this study considering the overall design, structure and purpose of the semi-structured interviews.

Respondents are first asked whether or not they take into consideration a particular issue/factor/attribute and/or undertake a particular action. Subsequently, the researcher enquires on the underlying reasons/justifications for that particular tendency. All semi-structured interview questions are designed with a similar structure. Framed in such a manner, most responses are specific, distinct and non-overlapping thus making the coding process both relatively transparent and unambiguous. Again, this is best illustrated by an example.

Table 5.2 *Example of How Meaningful Blocks of Data are Derived and Isolated*

Interview Participants	***Responses***	***Coding***
Researcher:	*Ok. So what kinds of shareholders or proxies of shareholders typically attend AGMs then?*	
Co. Secretary:	**The shareholders are basically all those aunty, uncles... Proxies are also those that shareholders who are in KL who can't attend the meeting. They will just ask their relatives in Penang to be the proxy for the shareholders to just enjoy the food... (laughs)**	**FOOD** (motivation)
Researcher:	*So, they're just there to enjoy the food?*	
Co. Secretary:	**Yeah, that's right and the free gifts if any. They always ask for free gifts.**	**GIFTS** (motivation)
Researcher:	*So, the primary motive there is actually to collect freebies.*	
Co. Secretary:	**Yup, and also the food... free lunch or free tea break.**	**FOOD** (motivation)
Researcher:	*Do these people form the majority of the numbers or are there some other proxies of shareholders that are supposed to be there for different reasons?*	
Co. Secretary:	**Mainly, they... most of them are actually this type of shareholders and proxies but then, apart from this, they also requested to be... they are also requested by the boss to be the proxy of the shareholders in order to propose and second the resolutions of the AGM... to pass.** **Even for other listed companies that I know of, most of the time they will have their AGMs in their premises itself... in the office building itself… Then they just get**	**EMPLOYER** (motivation)

	one or two shareholders and then most, majority of them will be their staff.	**EMPLOYER** (motivation)

The inclusion and exclusion of all relevant themes are discussed and illustrated in some degree of detail throughout Chapters 6 and 7.

The procedures established in carrying out of the semi-structured interviews alongside the various findings derived are undoubtedly accompanied by a number of validity and reliability issues. These are dealt with in the following section.

5.6.5 Validity and Reliability of the Interview Process and Findings

According to Kvale (2007), the concept of validity generally pertains to the degree to which a method investigates what it is intended to investigate. For the purposes of this study, the Respondent/Member Validation technique is employed (Bryman and Bell, 2003). This is where the researcher provides interviewees with an account of his findings, especially the interpretation of their responses to the many interview questions posed. As explained by Bryman and Bell (2003: 290), the aim is to:

> *seek corroboration or otherwise of the account that the researcher has arrived at…to ensure that there is good correspondence between their findings and the perspectives and experiences of their research participants… respondent validation can provide a means of confirming the validity of individual accounts.*

Hence, the researcher obtains feedback from respondents interviewed to validate the meanings of their accounts and to address any inconsistencies in interpretation. This, alongside triangulation of multiple viewpoints, increases the credibility of the findings.

The next issue is that of reliability. Kvale (2007) explained that reliability pertains to the consistency and trustworthiness of research findings. Trustworthiness is derived from the transparency of the procedures undertaken in both collecting and analyzing interview data. This is demonstrated by the details provided in this chapter regarding various aspects of the semi-structured interview design.

Ultimately, a piece of research is only deemed trustworthy if the reader judges the study to be so (Rolfe, 2006).

Next, the issue of reliability is also linked to the consistency in transcription, coding and also analysis of interviews. As the researcher has transcribed and coded all the data himself rather than utilising the aid of external coders, a certain degree of consistency is claimed.

5.6.6 Other General Design-related Issues

The most common problem with interviewers is asking leading questions. Other problems include failure to listen closely; repeating questions that have already been asked; failure to probe when necessary; failure to judge the answers; and asking vague or insensitive questions. These are careful considerations arising from the advice of Fowler (1993) that particular care needs to be taken about the way questions are posed.

Taking into account the possibility that investors are unlikely to be able to recall specific instances of behaviour, the study generally requires them to report behavioural tendencies that they deem to be “typical” over the years of their share investment related activities.

5.7 Questionnaires

5.7.1 Sampling-related Issues

Unlike the semi-structured interviews where the idea of theoretical saturation determines the sample size, the quantitative method of using questionnaires requires a certain pre-determined minimum sample size. Fowler (1993) contended that, in order to determine sample size required, separate estimates of the various subgroups of interest within the sample are required. Emphasis is on the minimum sample sizes that can be tolerated for the smallest subgroups of interest.

This procedure is adopted rather than aiming for responses from a certain percentage of the sampling population which Fowler (1993) contended to be the wrong approach. Also, it partially mitigates the concern that the sample population size for this study is unknown[148]. The subsample of individual investors that is of particular importance is that comprising those who are involved in proactive governance[149]. Both extant literature and also anecdotal evidence suggest that they form a small minority of the overall individual investor population hence, is taken to be the smallest subgroup of interest.

Based on the pilot study conducted, governance-active investors are estimated to make up about 4% of respondents. With the target of obtaining responses from at least 30 respondents who are involved in proactive governance, a minimum of about 800 questionnaire responses is required.

The proportion of 4% derived from the pilot questionnaire suggests a certain degree of bias towards over-estimating the typical proportion of governance-active investors. This is because attendances at AGMs (used as a proxy for active shareholding in this instance) typically number in the hundreds or perhaps up to a few thousands while there are many millions of shareholders (approx 6.6 million in July 2007). In addition, shareholders who are concerned with governance are more likely to take an interest/participate in a governance-based study. Heberlein and Baumgartner (1978) highlighted this tendency by demonstrating that people who are particularly interested in the research problem tend to be the most likely to return questionnaires.

Secondly, it is highly unlikely that investors are involved in proactive governance for all the companies that they have/have had a shareholding stake in. For example, some investors only attend AGMs to complain after being exploited. Consequently, this study adopts the criteria that as long as a shareholder has attended any AGMs since he/she started investing, he/she is considered as governance active. This is unlikely to inject an unacceptably high degree of bias into the results of the sample since proactive governance actions are uncommon/rare. Furthermore, the motivations/reasons underlying identified tendencies are more important than the frequency of taking initiatives.

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[148] Brokerages have contended that such information is commercially sensitive.
[149]Shareholder activism-related initiatives.

The study's main questionnaire (a copy of the full version of the survey is given in Appendix 6) was distributed on 9th May 2008 with two further follow-ups on 23rd May 2008 and also on 6th June 2008. Distribution was made via hardcopies and also online versions of the questionnaire. The number of hardcopy questionnaires distributed was approximately 5,000 copies and the online questionnaire was forwarded to email accounts of individual investors who were listed on participating brokers' client lists. A total of 1,133 responses to the questionnaires were received. Out of this, 27 were discarded as they were incomplete, yielding a final sample of 1,106 responses. This magnitude of responses is comparable to that of Dorn and Huberman (2002) who elicited 995 valid responses.

One of the main challenges faced by the researcher was the inability to determine the response and non-response rates for the sampled population. This is due to the fact that the researcher cannot be certain how many potential respondents actually received a copy of the questionnaire. Furthermore, participating brokerages were unwilling to divulge the total numbers of clients/share dealing accounts that they possess as such information is deemed to be commercially sensitive. Hence, even if the researcher assumes that the questionnaire [150] reached all clients of the participating brokerages, the response rate will still be unknown.

Next, findings may be biased if investors who did not respond differ in some systematic way from those who did. The only indication that the researcher managed to obtain is informal feedback from the participating brokers. Specifically, brokers were asked to enquire of some of their clients on whether or not they responded and, if not, why not. Major reasons for non-response include (i) general disinterest in the study, (ii) dislike of filling in questionnaires in general and (iii) lack of incentives to do so (monetary, in particular). Even though the benefits of providing monetary incentives to respondents in improving response rates have been reported, this option is unavailable as it is against the University's ethical research policy.

[150] either the hardcopy, the softcopy (online) or both

5.7.2 Questionnaire Design Issues

5.7.2.1 Validity of Survey Instruments

The extent to which the answer given is a true measure and means of what the researcher wants or expects it to mean is called validity (Peterson, 2000). As this is an exploratory study, particular focus will be given to construct validity. Basically, construct validity addresses the question of how the researcher can be certain that the investor attributes that he intends to measure are indeed what was measured (Creswell and Clark, 2007). For example, when the researcher claims that investor risk-propensity is being measured, how certain is he that risk-propensity is really the attribute measured? Within the context of this study, Dorn and Huberman (2005: 18) aptly summed up the situation by explaining that:

> *Unobservable psychological attributes, such as risk-aversion and overconfidence, are central to the traditional theory of investor behaviour as well as to the behavioural approach. Variation in the behaviour of investors is often associated with variations in the levels of the attributes across investors, and therefore an empirical examination… calls for the elicitation and estimation of these attributes… done with questionnaires in which individuals are asked to answer a series of questions… The presumption is that an individual's responses proxy the individual's level of the attribute.*

The current study used an approach similar to the one described above where a number of statements/questions form the separate items for scales measuring particular investor attributes. It was decided that validity of the various subjective attribute measurement scales used would be enhanced by using corresponding instruments that had been designed by past studies. The reasons for this are that:

(i) the instruments in past studies have been subjected to much validity and reliability pre-testing,

(ii) being an exploratory study, a number of different attributes are being investigated concurrently which mean that it would be too time consuming to develop new measurement scales for each attribute (a pragmatic assumption), and

(iii) even with a number of known drawbacks (discussed below), similar versions of these measurement scales have been employed across different studies and contexts.

Another valid argument is that, notwithstanding differing contexts, these measures were created for broadly similar aims and purposes across the different studies – to explore the general investment-related psychological tendencies of investors. For example, Kapteyn and Teppa (2002) have observed that measures of risk aversion constructed from responses to such statements (as measurement items) can indeed explain considerable variation of such psychological constructs[151].

In terms of the drawbacks of such an approach (i.e. using questionnaire-based proxies), Dorn and Huberman (2005) have listed the following issues:

- The presence of multiple proposed proxies for the same attribute and the fact that investors' responses are likely to be domain-specific and correlation across proxies may be poor.
- Such proxies are difficult to apply to other populations because one would have to estimate those proxies in a new study. Moreover, the proxy may lose its validity for another population.

Dorn and Huberman (2005) highlighted that the alternative is to use observables such as gender and age as they are easily measured and also extended to those outside of the studied population. Even though this alternative has its own validity issues, Dorn and Huberman (2005) attempted to mitigate these drawbacks by considering both information types (questionnaire-based proxies and observables).

Consequently, the current study collected both types of information described so that a broadly similar mitigation approach can be taken. As for the domain-specificity issue, it is not seen as a major problem as the study is interested in behavioural tendencies in a particular institutional context anyhow. In addition, rather than specific incidences, the study is more concerned with general tendencies of individual investors over the years that they have been investing.

A summary of the measurement scales utilised to explore individual investors' psychological attributes is given below.

[151] As mentioned in Dorn and Huberman (2005).

Table 5.3 *Measurement Parameters for Psychological Tendencies*

Subjective Investor Psychological Attribute	**Number of Items* in Measurement Scale****	**Previous Studies with Similar/Comparable Instruments**	**Measurement Type**
Risk-Taking Propensity	2	Dorn and Huberman (2005) Baker et al. (1977) Wood and Zaichkowsky (2004)	5-point Likert-type Ordinal Scale 7-point Likert-type Ordinal Scale
Self-Attribution	2	Dorn and Huberman (2005)	5-point Likert-type Ordinal Scale
Degree of Control	2	Dorn and Huberman (2005) Wood and Zaichkowsky (2004)	5-point Likert-type Ordinal Scale 7-point Likert-type Ordinal Scale
Relative Investment Knowledge	1	Dorn and Huberman (2002)	5-point Likert-type Ordinal Scale
Self-Reported Perceived Investment Knowledge	2	Dorn and Huberman (2002)	5-point Likert-type Ordinal Scale with additional "Don't Know" option

*in the form of statements (please refer to the relevant sections of the distributed Questionnaire)

**for justifications on the number of items included to form each scale, please refer to the Test Respondent Feedback section.

Apart from scales/instruments measuring psychological attributes, various types of question were posed in the questionnaire. They explored a range of behaviours, perceptions/opinions, preferences and other relevant investor attributes. A majority of questions and their accompanying response options included were based on any one or combinations of the following:

- Important variables/attributes/issues identified by past empirical studies on investor behaviour.
- Relevant theoretical attributes/issues/constructs identified through review of past literature (most of which is related to corporate governance).
- The findings of the study's semi-structured interviews.

A good example is the question on the relative importance of certain primary investment objectives (compiled based on past empirical studies and findings of semi-structured interviews).

Table 5.4 *Measurement Parameters for Share Investment Motivations/Objectives*

Share Investment Motivations/Objectives	Primary Source	Measurement Type
Short-term share price increase	Lease et al. (1974), Schlarbaum et al. (1978)	4-point Likert-type Ordinal Scale
Long-term share price increase	Lease et al. (1974)	4-point Likert-type Ordinal Scale
Dividend Income	Lease et al. (1974), Schlarbaum et al. (1978)	4-point Likert-type Ordinal Scale
Fun/Excitement (like casino gambling)	Semi-Structured Interviews Subrahmanyam (2007)	4-point Likert-type Ordinal Scale
Pride/Ego (to show people that you own shares)	Semi-Structured Interviews	4-point Likert-type Ordinal Scale

Next, a significant number of questions concerning governance-related behaviour are framed in a manner that applies to very specific aspects/scenarios/issues but yet, are generic and applicable to all individual investors. These perceptions/ tendencies/actions are derived through investors' responses to various statements, typically in selecting certain options within ordinal scales.

As for specific/alternative actions taken by investors, they are required to select one or more nominal options that are not ordered in any particular manner and/or are mutually exclusive of one another.

A clear example was given in the Semi-Structured Interview section. Such questions are argued to be both relevant and valid, at least in a common sense/ practical way. This has been termed as face validity.

5.7.2.2 Reliability of Survey Instruments

According to Fowler (1993) when two respondents are in the same situation, they should answer the question in the same way. To the extent that there is inconsistency across respondents, random error is introduced, and the measurement is less precise. A test is reliable to the extent that whatever it measures, it measures it consistently. Generally, there are a few methods to test the reliability of measurement instruments used. These include the Test-Retest, the Equivalent/Parallel Form and the Internal Consistency methods.

Firstly, the Test-Retest method basically entails asking the same group of respondents to attempt an instrument twice (at two different points in time). Reliability is gauged from the degree of correlation between the separate attempts at the same instrument. The study ruled out the use of this method as it is not possible to (i) identify the same set of respondents and (ii) carry out the survey more than once.

One alternative is to do an Equivalent Form test. This basically involves the creation of two different versions of a particular measurement instrument. Both are assumed to be measures of the same attribute of interest. Respondents are required to complete both instruments and the corresponding scores for both instruments are correlated (Fowler, 1993). Put simply, the consistency between the two instruments is determined. This method was also ruled out after considering two major concerns.

A persistent issue raised in the feedback from test respondents[152] was the lengthiness of the questionnaire. Also, quite a number of investor attributes are of interest which means many parallel instruments would have to be introduced in order to test the reliability of each original instrument. Hence, it is reasonable to assume that introducing additional parallel instruments would materially affect potential respondents' willingness to participate.

[152] Please refer to the section below.

Since the researcher has opted to make use of measurement scales/ instruments utilised by past studies that have been extensively tested, designing untested parallel instruments is unnecessary.

The Internal Consistency method, by contrast, is the easiest test of reliability. Respondents are required to complete only the original measurement instruments once (Fowler, 1993). There are a few different ways of testing the internal reliability of instruments. The Split Half and Kuder-Richardson techniques were ruled out as they mainly deal with instruments with right vs. wrong choices (i.e., typically "1" for "Correct" and "0" for "Incorrect") while the study mainly employs attitude-related instruments where scores are distributed along a continuum represented by Likert-type scales.

The internal reliability of attitudinal measurement instruments is usually assessed by the use of Cronbach Alpha. As such, the study made use of Cronbach Alpha to test the internal reliabilities of the various instruments used. The normal convention is that an alpha score of 0.7 or above indicates acceptable instrument reliability (the scales measure what they claim to measure). Wood and Zaichkowsky (2004) made use of Cronbach Alpha as well in their study. The relevant Cronbach Alpha scores are presented in the next chapter.

More generally, the reliabilities of the many questions posed are dependent on a number of other practical design issues. These are explored in the following section.

5.7.2.3 Other General Design-related Issues

In constructing the questionnaire, the study is mindful of the following general principles of good questionnaire design (Bryman and Bell, 2003):

- Asking questions in the most direct and in as brief a manner as possible.
- Choosing the simplest words to phrase the questions (especially minimising the use of technical words or jargon).

- Ensuring that there are no repeating/overlapping questions (barring the notable exceptions of “test” questions).
- Checking for leading questions[153].
- Ensuring that the overall layout/structure and style (for example, font sizes and margins) are appealing to respondents.
- Ensuring that the questions are coherently ordered, in a way that makes sense to respondents.

These guidelines above apply to both the questions themselves and the many possible responses provided. Taken together, they are strategies that aim to mitigate one of the most basic reasons why respondents report events with less than perfect accuracy, that is, the possibility respondents not understanding or are confused by the actual requirements of the questions.

Another issue that is of particular interest is the argument that respondents may not know the answers to certain questions posed. As one of the study’s primary aims is to gauge investor awareness of certain governance issues/variables, some investors who “don’t know” are not only expected but such a response is incorporated into the instruments (as a distinct response option) themselves[154]. In addition, for those questions pertaining to taking/not taking particular actions, the “don’t know” option is featured as one of the list of possible responses[155].

Besides the mere inclusion of the “don’t know” option in some questions, Lam et al. (2002) have argued that the positioning of this particular option in relation to other possible responses has to be carefully considered. This is because researchers such as Presser and Schuman (1989) and Gilljam and Granberg (1993) found that providing a “don’t know” option increases the proportion of responses in that category compared to another version of the same question that does not offer such an option. The researcher must also take this into account as the “don’t know” option must be included due to the study’s aforementioned aim. Ultimately, the

[153] Questions that are designed in such a way that respondents are inclined to select certain responses in a biased manner.
[154] For an appropriate example, please refer to items featured in Question F1 within the questionnaire.
[155] Referring to, and discerning between, either (i) not knowing how to go about taking such actions or (ii) not knowing about such actions at all (no prior knowledge).

researcher opted to place the “don’t know” option as the last option in a Likert-type instrument. The reasons are (as outlined by Lam et al., 2002):

- This arrangement presumably forces respondents to first consider their best response to the item before being given the opportunity to omit supplying solicited information by selecting the “don’t know” option.
- Placing the “don’t know” option before the Likert scale might likely tempt the respondents to abandon the extra effort needed to search for a possibly more considered response.

Related to the issues raised above is the fact that some investors may not be able to recall their specific actions due to poor or limited memory. This is not seen to be a major concern as the study typically requires investors to report their general behavioural actions and corresponding reasoning “on average”. Essentially, they are required to report tendencies that are normally exhibited over the many years of their respective share investment activities rather than specific incidences. A potential drawback, however, is that the study would struggle to fairly document those investors with highly erratic investment behaviour.

Questions with an open-ended response option are kept to a minimum. This was to ensure that analysis of data gathered is more straightforward and has higher degrees of comparability across the sample. Furthermore, some of the important responses that could not be anticipated initially were uncovered with the earlier use of semi-structured interviews.

5.7.2.4 Test Respondent Feedback

One important concern with the general use of questionnaires stems from the fact that respondents do not have the opportunity to seek clarification from the researcher whenever ambiguity or uncertainty arises. This is because each respondent may have different interpretations of the questions posed and subsequently provide answers based on such interpretations. Any degree of subjectivity would affect the reliability of the responses (please refer to the previous section) provided. Therefore, the study endeavoured to achieve more consistency where the meanings contained within the questionnaire[156] should mean the same to all respondents.

The first strategy was to ensure that the questions were posed in the simplest and most straightforward manner possible (as explained in the previous section). Second, the various questions, the many close-ended answers provided and/or measurement instruments were subjected to extensive pre-testing. The individual investors and brokers who participated in the earlier semi-structured interviews played an instrumental role in this regard. The researcher managed to solicit their further co-operation in scrutinising all aspects of the questionnaire's design and also contents and to provide constructive feedback for refinement. A total of six versions/iterations/drafts of the questionnaire were commented upon before both the researcher and the volunteer testers were reasonably satisfied.

Given below (Table 5.5) is a summary of the most pertinent issues raised by the volunteer testers/test respondents and also the subsequent modifications made by the researcher.

Table 5.5 *Summary of Issues and Modifications*

Summary of Pertinent Issues Raised	Modifications Made
The overall length of the questionnaire is simply too long. Many remarks were made, especially in the verbal feedback for the first two drafts, along the lines of the questionnaire "looking like an exam paper".	The following steps were taken to address this issue: • Reducing the number of items forming the overall scales to measure the various behavioural tendencies of investors (such as risk-taking propensity). • To include only the most pertinent questions. • To be more concise by posing questions using similar measurement scales together in the form of tables (especially when the requirement is to tick a number of separate items), where possible.
The use of certain technical terms/jargon.	The study attempted to minimise the use of technical terms/jargon where possible. For example, • "executive compensation" was replaced by "how managers are paid" • "well-governed" was replaced by

[156] As perceived and intended by the researcher.

	"well-run" • "timely material disclosures by the firm" was replaced by "speed by which the company publishes latest/important information"
Certain combinations of words/whole questions may be understood /interpreted in a few different ways.	Re-phrase or re-frame all such identified problematic combinations of words/ whole questions so as to minimise subjectivity and also the possibility of alternative interpretations.
The style of the language used was deemed to be "too formal". Overall, test respondents found the style to be "impersonal", "not very approachable" and intuitively unappealing.	The questions and list of potential answers were re-framed to inject an acceptable degree of informality (especially use of the first-person term "I"). For example, • "Not familiar with complaint procedures" was changed to "I am not sure what to do/how to complain" "Individual returns target" was changed to "My personal target of returns"
The overall ordering of questions.	Some of the questions within the questionnaire were re-ordered in a manner that made more sense for the respondents.
General presentation and formatting. Specifically: • Overload - the questions are cramped very closely together. • The questionnaire was "thick" (four sheets of A4-sized paper). Taken together, these create the initial presumption that there would be numerous questions asked and hence, require much time and effort to complete. This would discourage some potential respondents from attempting the questionnaire.	Ample spacing in between questions and questions were printed on both sides of the paper (two A4-sized sheets in total).

All necessary changes were subsequently made. Again, the final version of the study's main questionnaire is given in Appendix 6.

5.8 Status of Research Findings: Generalisability and Representativeness

Being an exploratory study, the emphasis is to shed more light on the phenomenon of governance in actual practice from the viewpoint of individual shareholders. It looks at increasing our understanding of whether and how governance actually works within particular environmental contexts. Seen from such a perspective, the main intention is not to produce findings that are highly generalisable to, or representative of, individual investors in general. This is also partially a consequence of the way that the actual sample of investors was drawn.

Even so, based on the study's key assumption that investors generally exhibit a limited number of general behavioural patterns/tendencies[157], it could be claimed that the overall status of the study's findings is one of partially-representative "Indicative Tendencies". This term "Indicative Tendency" was coined to describe the situation where the findings show the existence and also natures of certain regularities but could not go as far as to claim generalisability/representativeness even within the population of individual investors in Malaysia[158]. In addition, the prevalence of each behaviour/tendency is "indicative" in the sense that they are broadly reflective of actual representative prevalence. Such an argument explains the repeated use of the terms "tendency" and "prevalence" throughout this study. Strictly speaking, they actually imply "indicative tendency" or "indicative prevalence".

As for the investor self-reported underlying motivations/reasons for exhibiting/not exhibiting certain behaviours, the study views these as "indicative associations". These indicative inferences may apply to Malaysian individual investors in both past and future situations (since the study concentrated on the typical and general behavioural tendencies of sampled investors over the years that they have been investing). The study's use of mixed research methods and also triangulation of viewpoints add to the overall credibility of the arguments above.

[157] Again, within a certain institutional environment.
[158] The environmental context within which the study was conducted.

5.9 Data Analysis Procedure

The logic and justifications underlying the choice of data analysis procedures and techniques adopted by this study are broadly consistent to those detailed by Lewellen et al. (1977). Therefore, for the purposes of the current section, the study draws heavily upon the arguments presented in their paper. Specifically, they have called for, and indeed utilised, statistical techniques that are *"more relaxed in their statistical power but, on the other hand, are more suitable to the inspection of group behaviour, segmentation phenomena, and non-linearities; accordingly, they are more robust and more revealing for the objectives at hand"* (*Lewellen et al., 1977: 6)*.

More specifically, in achieving the many objectives set by studies that are similar in nature to the current one, they recommended *"reliance on a set of analytical techniques other than the popular tools of correlation and regression typically employed in financial research" (Lewellen et al., 1977: 6).*

This is consistent with the study's idea of moving away from traditional statistical models-based studies where findings have been (i) inconsistent, (ii) unsuccessful in identifying other potentially important behaviours/motivations outside of theorised models, (iii) inconclusive and, (iv) bear little resemblance to reality. Also relevant is the fact that the study is exploratory by nature. In explaining the specifics behind their recommendation above, Lewellen et al. (1977) offered the following salient considerations:

- A number of relevant variables considered (particularly those within the questionnaire) are categorical rather than continuous. Also, most exhibit no inherent ordinal properties. Even though dummy variables could be used to represent such attributes in regression models, the derived error terms tend to violate the normal distribution assumption and this compromises subsequent interpretation. Furthermore, the available degrees of freedom are rapidly depleted by the volumes required for such variables.
- Even if considered attributes are more standard in form, the essential "linearity of relationships" assumption for the application of the regression method is often violated. Such problems are compounded by significant

and also difficult-to-circumvent multicollinearity among the likely independent variables.

- The probable existence of certain segmentation/trends within particular underlying behaviour patterns which the imposition of regression techniques treating the sample as homogeneous is apt to conceal.

Apart from the many concerns raised above, what Lewellen et al. (1977: 7) contends to be the most important issue is directly quoted below as their explanation is both illuminating and concise:

> *...the thrust of regression and other conventional econometric techniques is to attempt to identify the presence of systematic relationships by criteria involving the degree of adherence of every observation in the data set to the pattern in question… For the phenomena at issue here, however, such an approach seems inappropriate. Because we are dealing heavily with elements of internal attitude development and decision formulation, we should anticipate a very substantial level of single-observation "noise" due to those peculiarities and aberrations of personal makeup which originate inevitably in circumstance dimensions unreachable by variables we can construct as measurement inputs. Hence, we should properly be sceptical of the possibilities for explaining well the fit of each individual investor in the sample into a neat behaviour pattern. Instead, we should aim at detecting significant differences among broader group investment styles and be content with any reasonable successes we can achieve in that regard.*

The study adopts a few distinct design features and treatments in attempting to mitigate some of the key concerns above. The distortions or "noise" in the data are reduced by:

(i) framing the various issues/attributes/tendencies within generic scenarios/ situations typically faced by all individual investors for each tranche of shares and/or the underlying firm evaluated, purchased and disposed,

(ii) requiring investors to provide responses that describe their typical actions/reaction over the years of investing in shares (rather than to recall specific incidences/decisions at a particular point in time), and

(iii) emphasising dominant trends and/or likely actions while acknowledging the possibility of other behaviours/tendencies exhibited by the same individual investor at other times[159]. These treatments are well reflected in the study's notion of "indicative tendencies".

In terms of classifying investors into broad behavioural pattern sets, Wood and Zaichkowsky (2004) used a segmentation approach to profile and segregate their sample of individual investors. For the purposes of the current study, the primary investment strategies adopted by individual investors are used as the basis of segmentation for ease of comparison. This is because, as argued in Chapter 4, an investor's main investment strategy is a good indicator/embodiment of his/her propensity to consider corporate governance and/or undertaking governance-related behaviour. Such an approach is also consistent with the suggestion of Lewellen et al. (1977) to explore significant differences among broader investment styles.

The specific statistical techniques employed to investigate the various governance-related individual investor actions/tendencies is elaborated in the following section.

5.9.1 Chi-Square, Contingency Tables and Cross-Tabulations

Raw data for each considered variable, obtained from responses to the study's main questionnaire, is first coded into SPSS. In determining the types of analysis to carry out, the researcher took into account the (i) stated aims of the study, (ii) complications faced by previous statistics-based governance studies and (iii) salient points raised by Lewellen et al. (1977) in the previous section.

As the researcher is investigating general trends and behavioural regularities while bearing in mind the fact that investors do behave differently from how they normally do some of the time; simple contingency tables and cross-tabulations are used. Field (2009: 783) described a contingency table as *"a table representing the cross-classification of two or more categorical variables. The levels of each variable are arranged in a grid, and the number of observations falling into each*

[159] Even so, overall, a dominant set/pattern of behaviours/tendencies will be clearly reflected in his/her responses.

category is noted in the cells of the table." This procedure is also found to be suitable as most of the study's variables are categorical, either Nominal or Ordinal.

In SPSS, *"summarizing data that fall into categories is done using crosstabs command (which also produces the chi-square test)"* (Field, 2009: 694). Therefore, cross-tabulation and chi-square are generated concurrently. Next, the researcher closely scrutinized, uncovered and then described the distinctive relationships (i.e. trends or patterns in the data) arising out of various combinations of the many different variables considered. Put simply, the researcher scrutinises and interprets both the Expected and Observed frequencies shown within each cell.

Subsequently, the significance of all apparent relationships between variables displayed in a contingency table is determined by the use of Pearson's chi-square test of independence procedure (Aron et al., 2008; Field, 2009). The exact procedure and also interpretation of results generated by SPSS is described by Field (2009: 697).

> *The Pearson chi-square statistic tests whether two variables are independent. If the significance value is small enough (conventionally Sig. must be less than .05) then we reject the hypothesis that the variables are independent and gain confidence in the hypothesis that they are now in some way related.*

An illustration is provided below using actual data collected by the current study (Tables 5.6 and 5.7).

Table 5.6 *Chi-Square Test Results for General Investment Strategy/Average Shareholding Period*

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.035E2	35	.000
Likelihood Ratio	111.118	35	.000
Linear-by-Linear Association	7.235	1	.007
N of Valid Cases	1105		

a. 10 cells (20.8%) have expected count less than 5. The minimum expected count is .47.

As the Chi-Square test for statistical independence in Table 5.6 shows a sig-value (Asymp. Sig, 2-sided) of less than 0.01, the study can conclude that an association exists between investors' general investment strategy and average shareholding period with 99% confidence. Significantly different average shareholding periods are indeed linked to differing investment-related practices/preferences.

Table 5.7 *Cross-tabulation Results for General Investment Strategy/Average Shareholding Period*

			AvgHold								
			1	2	3	4	5	6	7	8	Total
General Investment Strategy/ Approach	Based on Company Reputation	Count	0	1	5	13	40	**62**	**45**	**39**	205
		Expected Count	1.5	4.6	16.0	19.5	49.5	**58.1**	**31.7**	**24.1**	205.0
		% within General Investment Strategy/Approach	.0%	.5%	2.4%	6.3%	19.5%	**30.2%**	**22.0%**	**19.0%**	100.0%
	Catch Attention	Count	**5**	**12**	**31**	**36**	74	**93**	42	31	324
		Expected Count	**2.3**	**7.3**	**25.2**	**30.8**	78.3	**91.8**	50.1	38.1	324.0
		% within General Investment Strategy/Approach	**1.5%**	**3.7%**	**9.6%**	**11.1%**	22.8%	**28.7%**	13.0%	9.6%	100.0%
	Rely on Others	Count	**2**	**9**	**22**	**25**	**64**	**69**	35	15	241
		Expected Count	**1.7**	**5.5**	**18.8**	**22.9**	**58.2**	**68.3**	37.3	28.4	241.0
		% within General Investment Strategy/Approach	**.8%**	**3.7%**	**9.1%**	**10.4%**	**26.6%**	**28.6%**	14.5%	6.2%	100.0%
	Fundamental Analysis	Count	0	0	6	14	43	**53**	**32**	**33**	181
		Expected Count	1.3	4.1	14.1	17.2	43.7	**51.3**	**28.0**	**21.3**	181.0
		% within General Investment Strategy/Approach	.0%	.0%	3.3%	7.7%	23.8%	**29.3%**	**17.7%**	**18.2%**	100.0%
	Technical Analysis	Count	**1**	**2**	**14**	**10**	**21**	11	4	2	65
		Expected Count	**.5**	**1.5**	**5.1**	**6.2**	**15.7**	18.4	10.1	7.6	65.0
		% within General Investment Strategy/Approach	**1.5%**	**3.1%**	**21.5%**	**15.4%**	**32.3%**	16.9%	6.2%	3.1%	100.0%
	Combination of Fundamental and Technical Analysis	Count	0	1	**8**	7	**25**	25	13	10	89
		Expected Count	.6	2.0	**6.9**	8.5	**21.5**	25.2	13.8	10.5	89.0
		% within General Investment Strategy/Approach	.0%	1.1%	**9.0%**	7.9%	**28.1%**	28.1%	14.6%	11.2%	100.0%
	Total	Count	8	25	86	105	267	313	171	130	1105
		Expected Count	8.0	25.0	86.0	105.0	267.0	313.0	171.0	130.0	1105.0
		% within General Investment Strategy/Approach	.7%	2.3%	7.8%	9.5%	24.2%	28.3%	15.5%	11.8%	100.0%

1 = Less than 1 day; 2 = Less than 1 week; 3 = 1 to 4 weeks; 4 = 1 to 2 months; 5 = 2 to 6 months; 6 = 6 months to 1 year; 7 = 1 to 2 years; 8 = More than 2 years.

For illustration purposes (Table 5.7), only the relationship between reputation-based strategy and average shareholding period is described.

The above findings are found to be broadly consistent with the researcher's earlier contention that investors utilising certain strategies consider attributes that take longer to manifest and are thus more likely to hold on to their shares for longer. This, in turn, results in more stable shareholdings over time[160]. This includes investors with reputation-based strategies. The fact that observed investor numbers are actually more than expected for the three longest average shareholding period categories (i.e. average of six months or more) clearly reflects the persuasiveness of this argument.

All significant relationships are interpreted in a similar manner.

5.10 Limitations of Study Design

The study's design comes with a number of limitations.

First, the study is not able to gain access to individual investors' actual trading records as such information is considered commercially-sensitive. In addition, local brokerages are not allowed by regulation/convention to divulge these records. As a consequence, the study was not able to reaffirm the accuracy of information provided by respondents regarding their share investment tendencies and preferences by scrutinising their actual share trading decisions.

Second, as detailed earlier, this study's overall sample size is constrained by limited resources in terms of time and associated costs of carrying out empirical research. The various findings of the study will be more credible and better reflect the individual investor population in Malaysia if only the researcher is able to obtain access and subsequently, to draw the main investor sample from entire networks of branches of the various local brokerages.

Third, while the study is meant to be holistic and concentrate on the bigger picture, this also means that a large number of variables are considered. In effect, each variable in itself is not considered in a detailed and comprehensive manner. Even

[160] For detailed explanations, please refer to the justifications given under the general investment strategy/average risk propensity subsection.

though this concern is not likely to have a significant impact on the overall results of the study, the implication is that some degree of accuracy may have decreased.

5.11 Chapter Summary

The chapter began with an explication of the researcher's pragmatic worldview. Pragmatists (i) emphasise the practical usefulness of specific representations of reality or alternatively, simply "cope" with the world around them, (ii) accept that relative amounts of objectivity and subjectivity exists throughout the research process, (iii) derive knowledge through practical implications/activity, (iv) aim to initiate positive actions/change, (v) recognise the value-laden nature of research, (vi) typically make use of mixed methods methodologies, with the main criteria being use of methods that best answer the research questions posed and (vii) ensure that each stage of their research is carried out transparently and with scientific rigour (by adhering to accepted protocols of research quality.

The study then justified its choice of adopting a two-stage, sequential mixed methods procedure that combines the use of interviews and questionnaires. Since pragmatic inquiry is argued to be research on certain kinds of actions in a certain context (i.e. the ordinary situations and conditions in which actions occur), the study explores the governance-related behavioural tendencies of individual investors within the Malaysian capital market while taking into account major attributes of the Malaysian institutional and investment environment.

As pragmatists emphasise practicality of research, understanding of the phenomenon of governance as it is being practised is achieved by considering it from the standpoint of the practitioners themselves (i.e. individual investors). In addition, the researcher accepts the perceptions and meanings offered by respondents at face value (the subjective meaning actors impute to their actions). These perceptions/understanding (i.e. of meanings) are argued to result in a set of governance-related behavioural tendencies that fairly reflect such views/ understanding.

The researcher then described past studies that have yielded inconclusive results, likely to have omitted potentially important actions/motivations and are also argued to bear little resemblance to reality (as many explanations and variables are theorized). Consistent with this, there seems to be disconnect with regards to investors' governance-related behavioural tendencies between predictions in the literature, the expectations of regulators and anecdotal real-life observations. This implies that (i) the actual prevalence of each considered behaviour/tendency is unknown and (ii) there are other important, yet unidentified motivations/ justifications behind observed behaviours/tendencies.

The study next argues that a good solution is to approach the individual investors themselves. In short, interviews are utilised to identify all potentially important actions/tendencies/issues while questionnaires are used to uncover the indicative prevalence of each attribute in reality. Due to the peculiar nature of investments, the study expects to uncover a few behavioural regularities/patterns amongst the individual investor group.

In the ensuing section, the study detailed pragmatists' belief in the under-determination of theory. This is where any set of data can potentially be explained by a number of theories and the choice of theory itself is not of paramount importance in the sense that such a theory is deemed suitable as long as it could help satisfy the researcher's intentions and objectives.

Next, the actual procedures and steps taken in carrying out the research are outlined. These include the way the study's individual investor sample is drawn and how various bias-related concerns are addressed. Access to investors is established through local stock brokerages. Due to certain constraints, a non-random or non-systematic sampling procedure was adopted. A few of the more relevant aspects include (i) every individual investor is treated as a unit of analysis, (ii) the number of interviewees is determined by the concept of theoretical saturation (sampling is through convenience and reputational case selection strategies) and (iii) use of both methodological and data triangulation to enable stronger inferences to be made.

The study then details the various design-related issues that are specific to (i) the semi-structured interviews developed and subsequently, (ii) the main questionnaire constructed. Important considerations pertaining to issues of reliability, validity and generalisability are also dealt with. Specifically, the study focused on construct validity and internal consistency. Other good research design practices adopted are then briefly discussed along with test respondent feedback.

Being an exploratory study, the emphasis is to shed more light on the phenomenon of governance in actual practice from the viewpoint of individual shareholders. Hence, the main intention is not to produce findings that are highly generalisable per se. Even so, a key assumption is that investors generally exhibit a limited number of general behavioural patterns/tendencies, the overall status of the study's findings is argued to be one of partially-representative indicative tendencies. Findings show the existence and nature of certain regularities but could not go as far as to claim generalisability/representativeness.

Finally, a few of the study's limitations are outlined. The primary findings of the research are presented in the next two chapters.

Chapter 6 Research Findings 1: Individual Investor Attributes

6.1 Chapter Outline

Chapter 6 reports the various findings pertaining to the basic demographic attributes and also psychological tendencies of individual investors that make up the final sample of the study. The detailing of various individual investor attributes is aimed at satisfying two objectives.

First, the relevance of the study's many findings hinges on the claim that behaviours/tendencies identified are at least partially or broadly representative of the wider individual investor population in Malaysia. Due to the way sampled respondents are drawn, how well the various findings obtained reflect the actual behavioural tendencies of individual investors is a major concern. The study must therefore place adequate emphasis on demonstrating the credibility of this claim before proceeding to examine investors' investment and governance-related tendencies[161] within the typical investment cycle.

Second, the exposition of respondents' investment-related demographic and psychological attributes is meant to provide some insights into the profiles and inclinations (i.e. major investment-related demographic attributes, psychological tendencies, preferences and stylistics) of this largely unknown, under-researched investor group.

Next, individual investors' main investment objectives/motivations and primary investment strategies are explored. This is followed by an evaluation of whether an individual investor's primary share investment strategy provides a good indication of the likely combination of investment-related attributes that he/she possesses.

Taken together, Chapter 6 presents the various attributes, tendencies, assumptions and preferences that individual investors bring into the typical share investment cycle. Each individual feature or combinations of features is argued to

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[161] In fact, this applies to all of the study's findings but since this chapter is governance focused, the argument is built around governance-related findings.

influence investors' subsequent actions/behaviours/tendencies within all stages of the cycle. Findings that are contextualised to within the investment cycle itself such as investors' governance- and other investment-related behaviours/tendencies are presented in Chapter 7.

Please note that the various findings reported in Chapter 6 are not intended to address or to provide direct responses to this study's primary research questions. Instead, all personal attributes/preferences/stylistics reported are meant to be subsequently utilised to help explain the different governance-related behaviours exhibited by Malaysian individual investors (discussed in Chapter 7).

6.2 Demographic Attributes of Individual Investors

6.2.1 Interview Respondents

Respondent investors' demographic attributes are not regarded as key variables of interest for the interview stage of the study[162]. Even so, attributes that are deemed to be more distinct are outlined to better appreciate the peculiarities and nuances of the responses obtained.

One of the major demographic distinctions inherent within the sample of interview respondents is the fact that 23 out of the 25 interviewees are ethnic-Chinese. The two remaining ones are ethnic-Indian. As the study did not manage to elicit the voluntary participation of any ethnic-Malay investors, caution must therefore be applied in interpreting the results. Even so, this is not viewed as a major concern as the range of possible behaviours is fairly confined[163] and also generic in nature[164].

[162] This is because semi-structured interviews are intended to focus on the identification of potentially important governance tendencies/actions exhibited by investors as well as yet unknown key motivations/reasons underlying each reported tendency (i.e. compiling relevant variables rather than looking for potential significant relationships). The actual prevalence or importance of each reported indicative tendency/action amongst the wider population of Malaysian investors as well as their relationships with demographic variables are then explored at the questionnaire stage. Hence, demographics of a small number of individual investor interviewees are relatively unimportant as compared to the demographic properties of the much bigger sample of individual investor respondents of the study's questionnaire.

[163] This is mainly because, as explained in Chapter 5, certain rational, goal-oriented activities such as share investing are driven by certain dominant imperatives resulting in a

Differences, if any exist, should manifest themselves mainly in the form of the relative likelihoods of undertaking the various identified behaviours rather than producing a different set of actions. Findings from interviews are thus deemed adequate in terms of identifying potentially important investment-related behaviours/considerations while the questionnaire focuses on trends arising from, and the indicative prevalence of, each of the identified factors.

Second, with a fair balance of 11 female and 15 male respondents, the interview findings should well reflect the opinions of investors along the gender dimension.

Next, certain demographic attributes are briefly discussed to highlight the justifications for their subsequent inclusion into, or exclusion from, the study's questionnaire. From preliminary discussions about issues that are of particular concern to interviewees[165] and also extensive feedback from questionnaire test respondents, the researcher found that investors were particularly concerned with disclosing details regarding their personal income and also net wealth. Although assurances were given that their identities would remain anonymous, much reluctance remained.

A number of interviewees were generally reluctant and/or unwilling to divulge such information even if only to the researcher alone. Interestingly, they specifically raised the concern that their financial positions would be compared to others which may cause them to lose face if theirs are inferior. Consequently, the Income and Net Wealth variables are omitted from the questionnaire. Such a treatment mitigates any reluctance to participate and also circumvents the possibility of investors not responding truthfully to the questions thus producing results that are biased or not reflective of this investor group.

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few distinct behavioural regularities/patterns. Refer to Section 5.3 Mixed Methods Design in Chapter 5 for detailed justifications.

[164] i.e. normally practiced/experienced by most investors.

[165] Before the start of each interview session.

6.2.2 Questionnaire Respondents

6.2.2.1 Age

Table 6.1 presents the various findings relating to the age profile of respondent investors.

Table 6.1 *Age Profile of Questionnaire Respondents*

Age Range (years)	No. of Respondents	% of Overall Sample
18 – 25	122	11.03
26 – 35	253	22.88
36 – 45	273	24.68
46 – 55	276	24.96
56 – 65	126	11.39
Above 65	56	5.06
Total	1106	100

As shown in Table 6.1, investors from different age groups are generally well-represented within the sample. More specifically, three age groups (26 – 35, 36 – 45 and 46 – 55) are represented by more than 20% of respondents each and approximately 11% for each of the 18 - 25 and 56 - 65 age groups. Investors above the age of 65 form the smallest category, comprising about 5% of the total number of respondents.

The overall age distribution is typically expected as the 18 – 25 age group tends to comprise of those who are still pursuing their higher education or have just entered the country's workforce. It is likely that not as many people in this age group could afford to invest in equities. On the other hand, the working age population[166] are ideally placed to invest as most presumably have been working for a number of years and have thus amassed a certain amount of wealth/capital for investment purposes. After the age of 56, a considerable percentage of the population is eligible for retirement. As pensioners have lesser income, they may be less willing and/or able to invest in equities. This reasoning seems to explain the trends within Table 6.1 quite well.

[166] The 26 – 35, 36 – 45 and 46 – 55 age categories.

Overall, with five out of the six categories being represented by at least 10%[167] of respondents, findings should provide a fair indication of the actual behavioural tendencies of this investor class along this particular dimension.

6.2.2.2 Gender

Next, the profile of investor respondents is examined from the gender dimension.

Table 6.2 *Gender Profile of Questionnaire Respondents*

Gender	No. of Respondents	% of Overall Sample
Male	708	64.01
Female	398	35.99
Total	1106	100

Referring to Table 6.2, approximately 64% of sampled investors are male. This is consistent with all previous individual investor studies where males and/or male household heads form the majority of respondents. Even so, the current study has a comparatively higher proportion of female respondents. For example, Dorn and Huberman (2005) reported that almost 90% of respondents in their German-based study were male.

The finding above is surprising as patriarchal, male-dominated societies typical of Asian cultures (Crouch, 1996) are expected to result in even higher proportions of male respondents compared to Western-based samples. Perhaps this merely reflects the fact that more females are willing to participate in the study rather than it being an indication of the actual proportions of the Malaysian individual investor population.

Notwithstanding the contention above, with female respondents comprising a significant minority, potential behavioural distinctiveness along the gender dimension are easily detectable. As male respondents still significantly outnumber

[167] Or, in terms of actual numbers, more than 100 respondents each.

their female counterparts, the findings should be sufficiently indicative to satisfy the purposes of the study.

6.2.2.3 Race/Ethnicity

The third demographic attribute that is of particular interest is the racial make-up of the sample of individual investors.

Table 6.3 *Race Profile of Questionnaire Respondents*

Race	No. of Respondents	% of Overall Sample
Malay	243	21.97
Chinese	781	70.62
Indian	80	7.23
Other (Malaysian)	0	0.00
Other (Foreign)	2	0.18
Total	1106	100

Comparing the racial makeup of the general Malaysian population with the investor sample given in Table 6.3, individual investors who are of ethnic-Chinese origin are over-represented within the sample while ethnic-Malay investors are under-represented[168]. Specifically, 71% of respondents are ethnic-Chinese even though they comprise only a quarter of Malaysia's total population. Even so, the derived figures are expected as the Chinese in Malaysia are much more inclined towards entrepreneurial, investment and other market-based activities as compared to the Malays who traditionally tend not to prefer, are sceptical of, or are relatively more likely not to actively participate in such activities. The literature on Malaysia's economic history and political economy has clearly documented these trends (see, for example, Crouch, 1996 and Gomez and Jomo, 1999).

In fact, the Chinese do control major portions of the country's economy (and also have comparatively high corporate share ownership collectively) which led to the adoption of the New Economic Policy (NEP) in the past decades (Searle, 1999).

[168] As ethnic-Malays comprise more than half of the total Malaysian population while the Chinese make up about a quarter. Indians, on the other hand, form approximately 8% of the population.

One of the goals of the NEP was to increase the very low corporate ownership proportions attributable to the Malays (Gomez, 1999). As increasing the Malay share of corporate ownership is done through a number of means (for example, through various share trustee schemes for Malays, state-controlled Malay-based investment vehicles/arms, Malay-centric political party corporate ownership such as assets under UMNO, etc), the Malays could opt for many schemes and funds that own shares on their behalf or act as the custodians or intermediary owners[169].

Consequently, the number of ethnic-Malay individuals with direct share ownership is again expected to be lower than their proportion of the country's total population even though it has increased significantly over the years. This 22% figure is perhaps crudely reflective of the proportion of Malay investors within the wider population of individual investors.

Lastly, as the Indians form roughly 8% of the total population of Malaysia, the 7% of individual investors in the sample being of ethnic-Indian origin fairly reflects the makeup of the general population, if not the proportion of ethnic-Indian individual investors within this class of investors. *Asian News International* (2009) reported that one of the targets of the main ethnic-Indian party within the ruling coalition is to increase the share of Indian corporate share ownership to 1.5% indicating that Indian investors' share ownership proportions in terms of value is significantly less than their proportion in terms of numbers.

Overall, the three major ethnic groups are fairly well-represented within the sample. Hence, any race-based distinctiveness in terms of investors' behavioural tendencies should be detectable. Even so, it does not reflect the actual breakdown proportions of the country's total population in terms of ethnicity. An important consideration, however, is the fact that the make-up of the sample is very broadly reflective of the proportions of economic wealth attributed to the different major races in Malaysia.

[169] Often at favorable terms not available to members of the public who are not ethnic-Malay.

6.2.2.4 Years of Share Investment Experience

Table 6.4 details findings related to respondents' years of share investment experience.

Table 6.4 *Questionnaire Respondents' Years of Share Investment Experience*

Share Investment Experience (years)	No. of Respondents	% of Overall Sample
0 – 2	294	26.58
3 – 5	246	22.24
6 – 8	163	14.74
9 – 11	165	14.92
12 – 15	117	10.58
More than 15	121	10.94
Total	1106	100

With each category being represented by at least 11% of investors (approximately), there is a wide range of investment experience within the sample of questionnaire respondents. This ensures adequate representation of investors along this dimension, from novices/beginners to very experienced ones.

6.2.2.5 Main Share Dealing Brokerage

The following set of findings is related to the share brokerages that respondent investors are primarily attached to.

Table 6.5 *Questionnaire Respondents' Primary Share Dealing Brokerages*

Main Brokerage*	Number of Respondents	% of Overall Sample
A	49	4.43
B	195	17.63
C	174	15.73
D	242	21.88
E	211	19.08
F	102	9.22
G	25	2.26
H	0	0.00
I	0	0.00

J	19	1.72
K	3	0.27
L	6	0.54
M	10	0.90
N	11	1.00
O	2	0.18
P	1	0.09
Q	1	0.09
R	4	0.36
S	29	2.62
T	2	0.18
U	1	0.09
V	1	0.09
W	2	0.18
X	1	0.09
Y	1	0.09
Z	10	0.90
None	4	0.36
Total	1106	100**

*anonymised **rounded up

Table 6.5 details the various stock brokerages where respondents opened their primary share dealing accounts. As agreed with participating brokerages, their identities have been concealed by the use of proxy letters to both guarantee and preserve their anonymity[170].

It is observed that most respondents' primary share accounts are under any one of five often-cited brokerages (i.e. Brokerages B – F, comprising 83.54% of the total sample). The rest are more sporadic and most probably reflect the fact that even though some investors may have received the questionnaire through a particular participating brokerage, their primary share-dealing accounts are with other brokerages. This multi-account, multi-brokerage finding supports the contention that potential biases in investor attributes/tendencies across brokerages are moderated by the ease with which individuals from all walks of life can join any local brokerage house.

[170] For more details, please refer to Chapter 5.

More importantly, previous studies such as those by Jackson (2003), Feng and Seasholes (2004), Barber et al. (2003), Kumar and Lee (2006) have also consistently shown that the behaviours of individual investors are highly correlated both within and between unrelated brokerages. Therefore, by also taking into account the relatively well-spread out demographic characteristics of the sample (as presented earlier), the contention is that clients from these brokerages are likely to be sufficient in terms of forming a partially indicative sample of the larger individual investor population in Malaysia.

As the justifications given above in relation to potential biases within the sample are largely based on intuitive logic, the study endeavours to address these bias-related concerns in a more comprehensive and credible manner. In order to achieve this, a series of Chi-Square tests is undertaken to both detect and compare potential significant differences between individual investors attached to each of the six brokerages with the highest proportions of respondents, as reported in the study (i.e. Brokerages A – F). These brokerages are chosen as they collectively represent approximately 88% of investors sampled. No significant differences between the investor groups, segregated by their respective reported primary brokerages, will be detected if major biases are absent.

The actual tests for potential biases are carried out along the dimensions of age, gender, race and years of investment experience. The results are presented in Tables 6.6, 6.7, 6.8 and 6.9 below.

Table 6.6 *Chi-Square Test Results for Main Brokerages/Age*

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.379[a]	25	.983
Likelihood Ratio	12.316	25	.984
Linear-by-Linear Association	.094	1	.760
N of Valid Cases	973		

a. 2 cells (5.6%) have expected count less than 5. The minimum expected count is 2.22.

Table 6.7 *Chi-Square Test Results for Main Brokerages/Gender*

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.861[a]	5	.164
Likelihood Ratio	7.865	5	.164
Linear-by-Linear Association	.083	1	.773
N of Valid Cases	973		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 17.37.

Table 6.8 *Chi-Square Test Results for Main Brokerages/Race*

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.415[a]	10	.405
Likelihood Ratio	10.511	10	.397
Linear-by-Linear Association	.413	1	.521
N of Valid Cases	973		

a. 1 cells (5.6%) have expected count less than 5. The minimum expected count is 3.68.

Table 6.9 *Chi-Square Test Results for Main Brokerages/Years of Investment Experience*

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.783[a]	25	.979
Likelihood Ratio	14.303	25	.956
Linear-by-Linear Association	.125	1	.724
N of Valid Cases	973		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 5.09.

From the Tables above (i.e. Tables 6.6 to 6.9), the study found insufficient evidence of significant differences between the profiles of investors from the various brokerages along all evaluated dimensions. Therefore, indicative tendencies derived from the subsequent sets of findings presented in this chapter are once again argued to be likely to provide, at the very least, a reasonable degree of insight into general individual investor behaviours/tendencies in Malaysia.

6.2.2.6 State of Residence

The set of findings below deals with the geographic spread of sampled investors around the country. In the Research Methodology chapter, this dispersion pattern has been highlighted as one of the more relevant concerns in terms of inducing potential bias into the sample.

Table 6.10 *Questionnaire Respondents' States of Residence*

State of Residence	No. of Respondents	% of Overall Sample
Kuala Lumpur	425	38.43
Selangor	221	19.98
Perak	132	11.93
Pahang	85	7.69
Pulau Pinang	166	15.01
Johor Bharu	69	6.24
Melaka	3	0.27
Terengganu	1	0.09
Negeri Sembilan	2	0.18
Kedah	2	0.18
Total	1106	100

In terms of investors' states of residence, Table 6.10 shows that respondents based in the capital city of Kuala Lumpur and its surrounding areas form a significant proportion of the overall sample[171]. Specifically, approximately 38% of respondents are based in and around the capital city.

More generally, most survey respondents are reportedly based within six regions/ states. Besides Kuala Lumpur, these areas include Selangor (approx. 20%), Perak (approx. 12%), Pahang (approx. 8%), Pulau Pinang (approx. 15%) and Johor Bharu (approx. 6%). Considering the overall pattern of the findings, the study investigates the general nature of association between the various different brokerages and investors' reported state of residence.

The preliminary Chi-Square test for statistical independence yields a sig-value of less than 0.01 leading the study to conclude that a significant association exists between investors' main brokerages and their state of residence with 99% confidence. Observed value trends confirm that individual investor clients of particular brokerages make up significant proportions of the samples for certain states. For example, 79 out of 85 individual investors based in Pahang are clients of Brokerage D. These findings are indeed consistent with the sampling design of the study where only select branches of the different brokerage that are located in different geographical regions took part in the survey.

[171] When compared to the proportion of the total Malaysian population living in this geographical area.

As overall investor demographic distinctiveness is found to be insignificant when comparing between the client sets of local brokerages (as represented by their corresponding branches in different states), respondents are only distinct in the geographical sense. As the study managed to solicit the participation of investors exhibiting a wide range of demographic attributes and also based in a number of geographically dispersed states, the partially representative indicative tendencies argument still holds.

The study has now reported the various findings related to the demographic attributes of individual investors such as age and gender. In the next section, focus is on reporting respondent investors' investment-related psychological tendencies and motivations.

6.3 Psychological Attributes of Individual Investors

6.3.1 Interview Respondents

Similar to the study's treatment of demographics-related issues, respondents' psychological attributes are given lesser priority and thus, lesser emphasis during the semi-structured interview phase. In addition, unlike governance-related issues/factors that may/may not be considered during various stages of the investment cycle, psychological tendencies are ever present in every investor and differ only in terms of direction[172] and/or degree[173].

Furthermore, an exploration of potential psychological attributes is also unnecessary as the study has already chosen the specific attributes to be investigated beforehand. Again, the underlying tendencies/distributions of such attributes for investors as a collective group are of particular interest rather than as individuals. Hence, soliciting responses regarding such attributes from a few interview respondents is of little value.

[172] Positive or negative tendency.
[173] High or low propensity.

The specific sets of findings related to the psychological tendencies of questionnaire respondents are given below.

6.3.2 Questionnaire Respondents

6.3.2.1 Risk Propensity

To investigate the risk propensities of individual investors, respondents were asked to rate their degree of agreement/disagreement with the following statements:

(i) I am willing to take high risk in exchange for high expected share returns, and

(ii) I feel comfortable investing in shares that are considered risky.

Since both statements together make up the measurement scale for risk propensity, the study first needs to determine whether both actually measure the same attribute. In this regard, the Cronbach's Alpha reliability test shows a score of 0.836. This is higher than the required threshold of 0.7, suggesting that both statements are reliably measuring the same attribute.

Next, detailed findings regarding the risk propensities of sampled investors are presented.

Table 6.11 *Average Risk Propensity Profile of Questionnaire Respondents*

Average Risk Propensity* (5 = Highest; 4 = High; 3 = Neutral; 2 = Low; 1 = Lowest)	**No. of Respondents**	**% of Overall Sample**
1.0	21	1.90
1.5	40	3.62
2.0	161	14.56
2.5	155	14.01
3.0	289	26.13
3.5	195	17.63
4.0	144	13.02
4.5	65	5.88
5.0	36	3.25
Total	1106	100

*average score for the two statements

As shown in Table 6.11, approximately 34% of respondents are relatively low risk takers (average scores of 1.0 to 2.5); 26% are risk neutral (average score of 3.0); and the remaining 40% are relatively high risk takers (average score of 3.5 to 5.0). In aggregate, therefore, the general indication is that Malaysian individual investors tend to slightly favour taking on above average amounts of risk.

More importantly, a majority of respondent investors are neither extremely risk averse nor extremely risk seeking. This is based on the finding where 85% of individual investor respondents opt to take moderate amounts of investment risk (average score of between 2.0 to 4.0).

Overall, the results show that individual investors in Malaysia tend to be rather moderate in terms of risk taking propensity. Such a tendency is more conservative than the study's presumption that investors in developing capital markets are highly risk tolerant/seeking as a sizeable proportion of them are assumed to engage frequently in rumour-driven, speculative share trading (see, for example, Low, 2004).

6.3.2.2 Mental Accounts

If the mental accounting phenomenon is found to exist, it would lend support to the study's contention that investing in shares is a highly complex activity in real life. In turn, this will lend credibility to the claim that both the analysis and statistical methods used by this study must be inherently flexible to fairly reflect, capture and account for this complexity of reality.

The pervasiveness of mental accounting can be detected in the interview extracts (i.e. Figures 6.1, 6.2 and 6.3) below.

Figure 6.1 *Interview Extract Regarding Mental Accounts (1)*

Researcher:	*How would you describe the proportions of shares in your portfolio? What percentage is long-term and what percentage of it is short-term, generally?*
Investor 14:	**Because my capital is small... so normally 20% of my capital will be in for long term and about 60% will be in trading. The last 20% is when there is an opportunity, I will go for... I mean... punting.**

Figure 6.2 *Interview Extract Regarding Mental Accounts (2)*

Researcher:	*Is it fair to suggest that most of the trades being made in Malaysian stock market are based on all these rumours and speculations?*
Broker 04:	**I mean yes. I can say that 80%.**
Researcher:	*Ok...*
Broker 04:	**Our country... all the retailers in our stock market are still very much... I mean speculative or gambling … very high gambling mindset.**

Figure 6.3 *Interview Extract Regarding Mental Accounts (3)*

Researcher:	*What would you say is your typical investment horizon for equity investments? Do you normally invest in term of days, weeks, months or years?*
Investor 05:	**I really... I would love to hold in months and also years, but that depends on what sort of companies I invest in... Because I would allocate certain fraction of my portfolio towards long term investment and some of it will go to medium term trading which is months.**

Next, the study investigates the general proportions of investors' share portfolios that are devoted to speculative/gambling purposes. This is because, from the viewpoint of corporate governance, investors should make investment decisions based on company fundamentals and not listen to unsubstantiated rumours and speculation.

As the interview extracts above suggest that the gambling and/or speculative mindset is prevalent amongst Malaysian investors, the study expects most respondents to be familiar with the concept of mental accounts along the investment vs. gambling/speculative dimension. Results below show the proportions of respondent investors demonstrating this trait.

Table 6.12 *Mental Accounts (Proportion of Share Portfolio devoted to Speculation/ Gambling)*

Proportion of Share Portfolio intended for speculation/gambling (average %)	No. of Respondents	% of Overall Sample
0%	303	27.40
20%	427	38.61
40%	200	18.08
60%	108	9.77
80%	46	4.16
100%	22	1.99
Total	1106	100*

From Table 6.12, the study found that 27% of respondents have share portfolios that are solely intended for stable share investments. Conversely, a mere 2% of sampled investors devote their entire share portfolio towards speculative/gambling purposes. Taken together, only a minority of individual investors have share accounts that are intended for a single purpose.

The primary finding of interest is that around 71% of respondents reported forming different mental accounts within their respective individual share portfolios (thus showing that the psychological phenomenon described by Kahneman and Tversky (1981) and Nofsinger (2008) is indeed typical even for investors in emerging markets). Put simply, they own different tranches of shares, some of which are intended to satisfy long-term objectives while others are for short-term speculation. This indicative tendency is posited to be, at the very least, partially reflective of the wider individual investor population in Malaysia.

In addition, these results support the contention that most investors in emerging markets are prone to either rumour-driven speculative share trading or approach investments with a gambling mindset (Low, 2004).

The findings also suggest that most investors make share investments for a number of reasons/motivations that may or may not be carried out using just one specific investment strategy. Even so, the study argued in Chapter 4 that dominant tendencies can be teased out of the different practices/strategies adopted for different purposes. The underlying assumption is that one particular objective (along with an accompanying set of related actions/tendencies) would be more dominant relative to others within any one share portfolio. For example, a respondent with 20% of his/her portfolio devoted to gambling/speculative purposes would have an investment-based strategy as the dominant tendency.

6.3.2.4 Overconfidence

The following sets of findings are related to one of the main psychological traits documented by behavioural finance, that of overconfidence. The measurement scale for overconfidence is made up of three smaller scales or sub-attributes. They are self-attribution bias, degree of control and degree of perceived knowledge. Consequently, findings for each of the three sub-attributes are presented before combining them to derive the results for overconfidence.

6.3.2.4.1 Self-Attribution Bias

To investigate the degree of self-attribution exhibited by individual investors in Malaysia, respondents were asked to rate their degree of agreement/ disagreement with the following statements:

(i) My past profitable investments were mainly due to my specific investment skills and
(ii) My investment losses have often resulted from factors beyond my control.

First, the study needs to determine whether the two statements actually measure the same trait. The Cronbach's Alpha reliability test shows a score of 0.426 which is considerably lower than the required threshold of 0.7. Both statements, therefore, do not measure the same attribute, at least not up to the study's required reliability standards. Hence, this scale cannot be used as (i) a measure for self-attribution and (ii) part of the overall overconfidence scale.

6.3.2.4.2 Degree of Control

To measure investors' overall degree of control, respondents were asked to rate their degree of agreement/disagreement with the following statements:

(i) I am fully responsible for the results of my investment decisions, and
(ii) I make all the important share investment decisions myself.

Again, the Cronbach's Alpha reliability test is conducted which yielded a score of 0.693. Adhering strictly to the established minimum threshold of 0.7, the result shows that these statements do not measure the same attribute, at least not up to the study's required reliability standards. As a consequence, this measurement scale cannot be used as (i) a proxy for degree of control and (ii) part of the overall overconfidence scale.

Judging from the results of the reliability test of both measurements scales examined thus far (i.e. for Self-attribution bias and Degree of Control), the drawbacks outlined by Dorn and Huberman (2005) regarding the utilisation of similar psychological scales across different contexts is confirmed. Specifically, they cautioned that (i) investors' responses are likely to be domain-specific, (ii) correlation across proxies may be poor, and (iii) proxies may lose their validity for another population.

6.3.2.5 Degree of Perceived Knowledge

The degree of perceived knowledge (as a distinct psychological inclination), by itself, is often used as a measure of overconfidence by previous empirical studies in the behavioural finance tradition. Its measurement scale is made up of a single statement, that is:

(i) I am more knowledgeable in share investments compared to the average investor.

Questionnaire respondents' responses to the statement on degree of perceived knowledge will be used as a proxy measure for overconfidence (implying that the degree of perceived knowledge is equated to overconfidence in this subsection). This is because:

- Neither of the other two sub-attribute measurement scales passed the instrument reliability test (Cronbach's Alpha). Furthermore, the study found that, even if the Self-Attribution scale's reliability is accepted by rounding up the actual figure to 0.7, the reliability of the subsequently constructed grand overconfidence scale (by combining the self-attribution and degree of perceived knowledge scales) is also less than 0.7 (the exact figure being 0.624).
- Several past empirical studies have used degree of perceived knowledge (using the "average investor" as a benchmark) as an adequate proxy for overconfidence.

Individual investors' tendencies/inclinations in relation to overconfidence are explored below.

Table 6.13 *Questionnaire Respondents' Degree of Perceived Knowledge*

More Knowledgeable than the Average Investor	No. of Respondents	% of Overall Sample
Strongly Agree	72	6.52
Agree	269	24.34
Neutral	492	44.53
Disagree	185	16.74
Strongly Disagree	87	7.87
Total	1105*	100

*one respondent did not enter a response

From Table 6.13, the study finds that approximately 31% of respondents think that they are more knowledgeable than the average investor[174]. Conversely, only 25% of respondents think otherwise[175]. The remaining 45% of sampled investors are neutral on this issue. This set of findings is broadly consistent with those of past empirical studies (see, for example, Bartlett and Chandler, 1997; Lee and Tweedie, 1977), that individual investors are mostly "unsophisticated" (specifically, most individual investors do not understand information contained in many parts of corporate annual reports) as only less than one third of respondents perceive themselves as possessing investment knowledge that is above average.

Ideally, equal numbers of investors would make up each of the five categories when comparing their individual investment knowledge in relation to the others. Put simply, each of the five categories above should be selected by approximately 20% of total respondents.

As only 31% of investors reported that they either agree or strongly agree with the statement as compared to the ideal of 40% (the total for two categories), the 9% difference in investor numbers can be attributed to the larger than expected Neutral category. Another implication is that this 9% of investors are "under confident" by reporting average expertise when they actually belong to the more knowledgeable than average categories.

[174] By either Agreeing or Strongly Agreeing with the statement.
[175] By either Disagreeing or Strongly Disagreeing with the statement.

Conversely, investors who either disagree or strongly disagree with the above statement are also expected to comprise roughly 40% of respondents. Since the actual reported figure is just 25%, this implies that there is a 15% shortfall in investor numbers. This 15% of investors are “over confident” in the sense that they should belong to less than averagely knowledgeable categories but instead, report having average amounts of investment knowledge.

Considering the overall distribution of investors along this particular dimension, there seems to be a mixture of overly confident and less confident investors within the Neutral category. More importantly, the attribute of overconfidence is detected in the sample of Malaysian investors. As 15% of respondents are found to be overconfident as opposed to just 9% who are “under” confident, the indicative tendency uncovered is that individual investors in Malaysia tends to be marginally overconfident on balance. This tendency is surprising as the contention by authors such as Yates et al. (1997) is that people raised in Asian cultures should exhibit high levels of overconfidence. Further research in this area is required.

6.3.2.6 Self-Reported Actual Knowledge

The previous sets of findings related to the degree of perceived knowledge are based on sampled respondents’ opinions regarding the amount of financial knowledge that they possess relative to their peers. Naturally, a pertinent issue is whether the degree of perceived knowledge fairly reflects the degree of actual financial knowledge/expertise. To investigate this, sampled investors are questioned on their ability to explain selected financial concepts.

The study first considers investors’ ability to explain the price earnings (PE) ratio. As the corresponding Chi-Square test yields a value of less than 0.01, a significant association is shown to exist between degree of perceived knowledge and actual knowledge with 99% confidence. Indications point toward a strong and also positive association between these two variables. Essentially, those investors who report being more knowledgeable than the average investor are also more likely to be able to explain the PE ratio concept well.

A similar test is conducted to enhance the credibility of the PE ratio findings. The ability to explain a share bonus issue or stock split is used for such a purpose. As expected, a Chi-Square test value of less than 0.01 is obtained. This means that statistically significant association does indeed exist with 99% confidence.

The resulting cross-tabulation figures reveal a remarkably similar trend with that identified for the PE ratio test. There is an obvious, persistent yet gradual shift in terms of investor numbers towards higher explanatory abilities with increasing reported degrees of actual knowledge. Once again, indicative tendency is of a positive association between degree of perceived knowledge and actual financial knowledge.

The results of the study consistently show that, even though some investors are prone to be overconfident, investors who claim to be more knowledgeable than the average investor are indeed more likely than expected to actually be more knowledgeable than average. This lends further credibility to the earlier argument that most individual investors are relatively unsophisticated (in terms of understanding financial concepts presented in annual reports, as described by Bartlett and Chandler, 1997) since only a minority of them are found to have above average financial expertise (referring to both perceived and actual financial knowledge).

6.3.2.7 Additional Test for Potential Sample Bias

The study has thus far conducted a series of tests to address concerns that respondents drawn from different stock brokerage branches around the country are significantly biased in some respects. Respondents' demographic attributes were scrutinised for any possible differences. Besides the anticipated geographical distinctiveness of investors attached to different brokerages, no significant biases are found along a number of demographic attributes.

Another implicit assumption made is that investors exhibiting similar demographic attributes also have psychological attributes that do not significantly differ from one another. As an added precaution, sampled investors are again divided into their respective primary brokerages and the degree of perceived knowledge is used as a proxy for psychological attributes in order to test this assumption (please refer to Table 6.14).

Table 6.14 *Chi-Square Test Results for Main Brokerage/Degree of Perceived Knowledge*

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.998[a]	20	.397
Likelihood Ratio	21.116	20	.390
Linear-by-Linear Association	.008	1	.930
N of Valid Cases	972		

a. 2 cells (6.7%) have expected count less than 5. The minimum expected count is 3.38.

As the resultant Chi-Square sig-value is more than 0.05, there is insufficient evidence of significant differences between the different subsamples of investors in terms of degree of perceived knowledge. The partially representative assumption for the overall sample is again holding up well. Since the sample of individual investors from the different brokerages exhibit no significant differences in terms of demographic and psychological characteristics, the study assumes that other behavioural inclinations/tendencies reported in the remaining sections of Chapter 6 and also throughout Chapter 7 provide partially/ broadly representative indications of the wider individual investor population in Malaysia as well.

All findings related to respondents' investment-related demographic and psychological attributes have now been presented. Moving away from demographics and psychological tendencies, the study now reports findings pertaining to investors' investment-related preferences and stylistics. First, respondents' primary motivations/objectives for investing in Malaysian equities are considered.

6.4 Investment Motivations and Objectives

Consistent with past empirical studies, all interview participants revealed that generating investment returns through share price increases (both in the short- and long-term) is their primary objective/motivation. Some did mention dividend income but it is of lesser importance compared to share price increase. Findings provide good support for the study's argument that the specific nature of "affective products" (Weber, 1949 as cited in Crotty, 2003) such as shares of publicly-listed companies, limits the likely motivations/objectives of investors in purchasing them. Essentially, dominant economic imperatives are found to confine potentially unlimited motivations/objectives of investing in equities to a few logical ones.

Notwithstanding the observations above, the study also identified a few potentially important non-economic reasons/motivations for investing in shares. These can be detected from the responses of certain semi-structured interview participants given in Figures 6.4 and 6.5:

Figure 6.4 *Interview Extract Regarding Investment Motivation and Objectives (1)*

Researcher:	*Are there other important reasons why you actively invest in shares? Besides making profits, what else do you get out of it?*
Investor 10:	**Yes, I get a lot of excitement investing because I can test my investment theories and see what works. Other than that, looking at my shares go up also excites me. Other than that, whenever I discuss with friends who also buy the same shares at the same time, we normally call each other up whenever we see a big rise or fall in the market price or when got new news about the company... very fun actually.**

Figure 6.5 *Interview Extract Regarding Investment Motivation and Objectives (2)*

Researcher:	*Are there other important reasons why your retail investor clients actively invest in shares? I mean, besides making profits...*
Broker 05:	**For some clients, pride is a factor. To show people that they own a lot of shares and to boast about it... just like owning a very expensive car like...**

From Figures 6.4 and 6.5, two distinct motivations seem to be rather important within the wider individual investor population in terms of compelling them to invest in shares. They are Fun/Excitement and Pride/Ego. As such, these are added alongside the original three listed (short-term share price increase, long-term share price increase and dividend income) in the questionnaire. The following are findings pertaining to the indicative prevalence of each of the listed investment motivations/objectives.

Table 6.15 *Questionnaire Respondents' Primary Investment Objectives/ Motivations*

Investment Motivation/Objective	No. of Respondents			
	Very Important	Important	Slightly Important	Irrelevant
Short-term share price increase	411 (37.16%)	526 (47.56%)	142 (12.84%)	27 (2.44%)
Long-term share price increase	373 (33.73%)	485 (43.85%)	179 (16.18%)	69 (6.24%)
Dividend Income	192 (17.36%)	394 (35.62%)	309 (27.94%)	211 (19.08%)
Fun/Excitement	25 (2.26%)	38 (3.44%)	267 (24.14%)	716 (64.74%)
Pride/Ego	6 (0.54%)	38 (3.44%)	172 (15.55%)	890 (80.47%)

Table 6.15 shows that share price increases are typically regarded with significantly higher degrees of importance compared to the other objectives/ motivations. A total of 84.72% of respondents rated short-term share price increase as either Important or Very Important. This is closely followed by long-term share price increase with a corresponding percentage of 77.58%. More interestingly, just 27 out of 1106 investors rated short-term share price increase as Irrelevant making it the most highly rated objective.

Next, roughly 53% of respondents rated dividend income as either Important or Very Important even though it is Irrelevant for about 19% of respondents. Evidently, generating returns through dividend income is a relevant investment objective for a majority of individual investors but it is considerably less important when compared to share price increases.

As for fun/excitement and pride/ego, 88.88% and 96.02% of respondents respectively rated them as either only slightly important or irrelevant. Conversely, not more than 6% of investors have rated each of the two motivations as either important or very important. These results show that even though the interview extracts portray these as potentially key motivations across this investor class, the actual indicative tendency is to the contrary. More importantly, this finding is an indication that individual investors approach their share investments in a non-trivial manner. As predicted by Weber (as cited in Crotty, 2003) certain dominant imperatives do form the underlying motivations for rational goal-oriented products (and, in this case, the imperative to make profits).

The findings also clearly demonstrate the salience of short-term gains in developing capital markets such as Malaysia which stands in stark contrast to empirical studies conducted in the West (see, for example, Dorn and Huberman, 2005 and Lease et al., 1974) where individual investors report having mostly longer-term objectives and pay scant attention to short-term capital gains.

6.5 General Investment Strategies

In terms of the general investment strategies that individual investors adopt and/or prefer, interview respondents' responses are found to fit well into the six distinct, pre-selected strategies identified from the extant literature. In terms of inclusion/omission of items for the study's questionnaire, therefore, no changes were made to the original strategies listed. Table 6.16 outlines findings related to the strategies pursued by individual investor respondents.

Table 6.16 *Questionnaire Respondents' General Investment Strategies*

Investment Strategy	No. of Respondents	% of Overall Sample
Reputation-based	205	18.54
Attention-based	324	29.30
Rely on Others	242	21.88
Fundamental Analysis	181	16.37
Technical Analysis	65	5.88
Combination of Fundamental and Technical Analyses	89	8.05
Total	1106	100*

*rounded up

The study found that approximately 70% of sample respondents use relatively simplistic investment strategies. Included are reputation-based, attention-based and reliance-based strategies. Evidently, most individual investors in Malaysia do not conduct much systematic analysis when evaluating which shares to purchase. The Heuristic Simplification explanation proposed by Tversky and Kahneman (1974) and Nofsinger (2008) seems to apply well to these investors. However, it remains unclear whether this practice is mainly attributable to a lack of investment knowledge/expertise, a lack of time and resources, and/or a lack of motivation to conduct more in-depth research. Even so, considering the persuasiveness of past empirical findings (reported by researchers such as Bartlett and Chandler, 1997; Lee and Tweedie, 1977), individual investors' lack of investment knowledge is likely to be one of the main underlying reasons. Further research, however, is required to enhance our understanding of this particular issue.

About 16% of investors sampled undertake variants of fundamental analysis[176]. Compared to Lease et al. (1974)'s finding where 42% of investors in their US-based sample make use of fundamental analysis, individual investors in Malaysia typically have lower levels of sophistication. On the other hand, a mere 6% of respondents rely primarily on technical analysis. Due to the nature of technical analysis, investors opting for this strategy are likely to be sophisticated and possess good finance-related knowledge[177]. In comparison, self-reported technical investors comprised about 4% of Lease et al. (1974)'s sample.

Lastly, about 8% of respondents make use of a combination of fundamental and technical elements in their analysis of potential shares to purchase. The corresponding percentage reported in Lease et al. (1974)'s study stands at 23%. If this is used as a benchmark of overall investor sophistication, Malaysian investors are again found to be comparatively inferior.

Judging by the proportions of Malaysian investors who make use of heuristically-simplified investment strategies, we could detect a general lack of individual investor sophistication. As explained by the study in earlier chapters, this indicative tendency is expected for investors based in developing capital markets (see, for example, Shleifer and Vishny, 1997). Even so, the proportion of better

[176] Concentrating on evaluating various aspects of a company's prospects and operations; industry-related outlook; a country or region's investment climate; and/or other fundamental factors.
[177] Due to the very nature of this particular strategy which involves the interpretation of stock charts and, for some, technical indicators as well.

informed investors is still significant as fundamental analysis, technical analysis or a combination of both are collectively practiced by approximately 30% of respondent investors.

6.5.1 Investor Profiles by Investment Strategies

In previous chapters of the study, an individual investor's primary investment strategy is argued to provide fair indications of his/her likely investment-related actions, tendencies, preferences and stylistics (similar to the argument made by Lewellen et al., 1977)[178].

The following section is aimed at evaluating the credibility of the contention made above. Such a procedure is again intended to test the credibility of the responses given by sampled investors. This is because if (i) investment strategies are indeed found to be good indicators of distinct investor inclinations/tendencies and (ii) also, the distinctive trends/tendencies uncovered can be well explained/justified according to the inherent nature of each investment strategy; the study will be able to show that investors have responded in a sufficiently earnest, fair and reasonable manner leading to findings that are more credible/valid.

Second, investment strategies that are fairly indicative can serve as reference variables to make it easier to make sense of the many findings presented. It is easier to integrate the many different investor characteristics and also better appreciate the wider qualities of the individual investor population if investors are divided and viewed from the lens of these investment strategies. For example, instead of scrutinizing the many separate figures and result sets for a number of variables that are proxies of investor sophistication, researchers can derive a preliminary but meaningful, overall indication of sophistication by simply looking at the proportion of investors making use of heuristically simplified strategies.

[178] For example, due to the general nature of fundamental analysis, investors opting for this strategy are assumed to have relatively longer-term investment horizons; are more likely to consider corporate governance-related factors and have relatively longer average shareholding periods.

Indeed, if one considers that approximately 70% of individual investors in Malaysia make use of heuristically simplified investment strategies, it is clear that this investor group is generally not very sophisticated. Hence, even before carrying out more in-depth evaluation, the researcher is able to deduce the relative lack of investor sophistication compared to the same investor subgroup in the US (Lease et al., 1974).

The arguments above hinge on the often-cited contention (which was verified earlier by the study) that even though an individual investor may opt for different investment strategies or differing sets of investment related actions/behaviors at different times, a dominant strategy or set of behaviors is present. Hence, while predicted indicative tendencies may not be perfectly shown by cross-tabulated figures, the underlying trends uncovered would still fairly reflect the general nature of each corresponding investment strategy.

6.5.1.1 General Investment Strategy/Average Risk Propensity

The first test of the indicative qualities of investors' primary investment strategies is conducted by exploring the associations between chosen investment strategies and the corresponding risk propensities of respondent investors.

Table 6.17 *Chi-Square Test Results for General Investment Strategy/Average Risk Propensity*

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.803E2	40	.000
Likelihood Ratio	191.568	40	.000
Linear-by-Linear Association	4.437	1	.035
N of Valid Cases	1106		

a. 10 cells (18.5%) have expected count less than 5. The minimum expected count is 1.23.

As the results in Table 6.17 show a Chi-Square sig-value of less than 0.01, it is surmised that there are significant differences between investors' chosen primary investment strategies and their corresponding risk propensities. The full set of cross-tabulation results for investors' general investment strategies and their corresponding average risk propensities is given in Appendix 7.

Cross-tabulated results show that investors pursuing a reputation-based strategy exhibit a preference for taking lower risks as higher numbers of them than expected make up all lower risk propensity categories. In addition, a significant proportion of them also report having average risk propensity. Findings are consistent with the nature of this particular strategy as reputable companies are presumed to be relatively more stable and well-established, making them seemingly safer/lower risk investments. In short, this strategy appeals more to investors with lower risk propensities.

On the contrary, investors who pursue an attention-based investment strategy are found to be more inclined towards higher risk propensities (i.e. their numbers are higher than expected for all higher risk categories). A likely explanation is that respondents who base their equity purchasing decisions on attention grabbing news/information/rumours are more likely to engage in impulsive or speculative trading.

The study found that investors utilising a reliance-based strategy exhibit yet another distinct risk propensity pattern, that is, they are more likely than expected to adopt non-extreme risk propensities, especially in the risk neutral or slightly risk seeking categories. Relatively wide spread of risk propensities is also evident amongst this group of investors. Such an observation makes intuitive sense because different risk appetites do not directly impact the need to depend on others for investment advice (as an investment strategy). Conversely, the two strategies examined above are fundamentally different from relying on others because they reflect more on the intrinsic characters of those investors[179].

Higher numbers of investors undertaking fundamental analysis than initially expected display an inclination towards lower risk propensities. Disproportionately higher numbers of investors are recorded for all lower risk categories. As mentioned, such a tendency is predicted as the logic of fundamental analysis is to identify and invest in firms with solid corporate performance and good future prospects (which presumably lowers firm-specific investment risk).

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[179] For example, selecting seemingly safer, reputable companies is more intuitively appealing to investors with relatively lower intrinsic risk propensities.

Next, investors utilising technical analysis are found to exhibit the tendency of having medium-to-high risk propensities. These investors are over-represented in all higher risk propensity categories. Such a distinct overall risk propensity pattern is broadly consistent with the conjecture made by the study in Chapter 4. Individual investors using this strategy are willing to invest in the shares of relatively risky/speculative companies as they are looking to profit from significant share price fluctuations[180]. Furthermore, as long as the charts show the right patterns, investors will purchase the corresponding shares no matter how risky the shares and/or the underlying companies are.

For combination-based investors, they are predicted to have non-extreme, mid-range risk propensities due to the mutually moderating influence of the distinctive fundamental analysis and technical analysis risk inclinations[181]. Results show higher than expected numbers of investors in this group reporting higher average risk propensities. As combination-based investors typically use fundamental analysis to form a threshold, mainly to avoid investing in overly risky companies, elements of technical analysis may exert a bigger overall influence. This may explain why even though these investors exhibit higher risk propensities in general, the highest risk propensity category is under-represented[182].

The indicative tendencies described above add credibility to the study's contention that investors grouped according to their primary investment strategies exhibit distinct combinations of investment-related attributes/tendencies/preferences. In short, primary investment strategies are indeed good predictors of individual investor attributes.

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[180] Bigger, more stable blue chip firms are generally expected to have more stable share prices thus lowering the chances of making higher profits (in percentage terms) from share price fluctuations as compared to riskier, small capitalisation firms.
[181] For a more detailed explanation, please refer to the Investment Strategies section in Chapter 4.
[182] As investors tend not to violate the thresholds of riskiness determined by fundamental analysis.

6.5.1.2 General Investment Strategy/Degree of Perceived Knowledge

As an additional test of the indicative qualities of investment strategies, a cross-tabulation is carried out with degree of perceived knowledge (referring to Table 6.18, significant associations exist as the relevant Chi-Square test value is less than 0.01).

Table 6.18 *Chi-Square Test Results for Degree of Perceived Knowledge/General Investment Strategy*

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.320E2	20	.000
Likelihood Ratio	145.783	20	.000
Linear-by-Linear Association	43.329	1	.000
N of Valid Cases	1105		

a. 1 cells (3.3%) have expected count less than 5. The minimum expected count is 4.24.

The full set of cross-tabulation results for investors' general investment strategies and their corresponding degrees of perceived knowledge is given in Appendix 7.

Cross-tabulated results show that all three Heuristically-simplified strategies are more likely to be pursued by investors who perceive themselves as either less knowledgeable than, or similar to, the average investor. More of these investors make up the "less than average" and also "average" knowledge categories than initially expected. Considering the positive association between perceived knowledge and actual knowledge, the study can ascertain that one of the main reasons for these investors opting for simplified strategies is the lack of financial expertise.

On the other hand, the three investment strategies which require some degree of analysis being carried out by the investors themselves are found to be made up by disproportionately more than expected relatively knowledgeable investors. Overall, the study has again demonstrated the indicative qualities of investors' primary investment strategies.

Thus far, the study has convincingly demonstrated the fact that investment strategies provide good indications of various individual investor attributes/ characteristics/practices. This attribute is therefore a good starting point or reference variable for future empirical studies that focus on the behavioural tendencies of individual investors.

6.6 Chapter Summary

Throughout Chapter 6, the study reported various findings pertaining to individual investors' investment-related demographic attributes, psychological tendencies, preference and stylistics. These characteristics together make up the general profiles of respondents and also the assumptions and tendencies that they bring into the typical investment cycle.

The study's main sample of individual investors is shown to be fairly balanced with relatively good representations of investors from different age ranges, genders, race/ethnic groups and also with a range of investment experience. These enable any distinctiveness in investors' actions/tendencies/preferences as results of variances in these attributes to be easily detectable.

Subsequently, the study has shown that investors attached to the different participating brokerages, while being geographically distinct from one another, are not significantly different or biased along a host of other demographic and also psychological dimensions. Thus, indicative tendencies uncovered are contended to be at least partially representative of the wider individual investor population in Malaysia.

As only a minority of individual investors sampled have share accounts that are intended for a single purpose, most respondents do purchase different shares for different reasons/purposes by using possibly different strategies/preferences as well. Nevertheless, the study demonstrated that each investor does have a dominant primary investment strategy and adheres to a set of tendencies/actions/preferences that are consistent with such a strategy. Again, the partially representative indicative tendencies argument is posited to hold.

In addition, individual investors in Malaysia are collectively slightly overconfident and also exhibit the tendency of assuming slightly higher than average amounts of investment risk. A majority of these investors also lack sophistication and are more likely to pursue heuristically simplified investment strategies. The relative amounts of knowledge that investors perceive having is fairly reflective of the actual amount of investment knowledge that they possess. Moving on, short-term share price increase is reported to be the most important investment objective for this investor group.

Finally, investors' primary investment strategies are shown to be fairly good indicators of the combinations of investment-related attributes/tendencies/ preferences that they exhibit.

In the next chapter, all findings pertaining to individual investors' governance-related behavioural tendencies and their underlying motivations are presented.

Chapter 7 Research Findings 2: Investors' Governance-related Behaviour over the Share Investment Cycle

7.1 Chapter Outline

In the preceding chapter, the study reported the investment-related attributes of investors, from basic demographics to psychological tendencies to investment objectives, preferences and stylistics. Investors are treated as individuals who bring distinct tendencies and assumptions into the share investment process.

In Chapter 7, the study presents the various tendencies/actions/inclinations exhibited (i.e. reported) by individual investors within the context of the share investment cycle itself, with particular focus on corporate governance-related ones. Interpretations of the study's findings are made from the standpoint of individual investors and also the lens of corporate governance. Reporting of research findings from the governance perspective is aimed at providing a comprehensive response to the research questions established in Chapter 1, namely:

- Q1: Does corporate governance matter to individual investors? If it does:
    - What aspects of it are taken into account in their share investment practices?
    - How are the relevant governance aspects taken into account?
- Q2: When or under what circumstances does governance start to matter/matter more?
- Q3: What are the reasons/justifications and also influences underlying individual investors' propensities to consider governance, undertake particular governance-related action and/or exhibit governance-related tendencies?
    - What country-specific environmental and institutional factors influence and also explain observed behavioural tendencies?
    - What personal investment-related attributes, preferences and stylistics influence and also explain observed behavioural tendencies?

In attempting to address the many aspects of the questions above, the responses are concurrently structured according to (i) the first two main research questions above (Q1 and Q2) and (ii) the major stages of the typical share investment cycle. Basically, the study explores whether and how governance is taken into account (i.e. in addressing Q1) by considering the governance actions/tendencies reported by individual investors in a stage-by-stage manner, moving from Pre-Purchase to Post-Investment stages (Stages One to Four). Each of the many relevant issues, attributes and/or actions reported are cast into the specific stages of the cycle where they would be most likely to take place/to be considered by investors.

As for findings pertaining to Q3, they will be presented concurrently with the responses to both Q1 and Q2. This is because each governance-related tendency/action reported by respondents is then accompanied by an exploration of both the environmental and also personal influences that result in that identified tendency/action.

Subsequently, primary investment strategies are evaluated on whether they provide fair indications of investors' individual propensities to consider corporate governance.

7.2 Does Governance Matter to Individual Investors?

Straightforward as the question may seem, the appropriate response is dependent upon addressing a few closely-related questions beforehand. Firstly, when asking if corporate governance matters, the presupposition is that investors are aware of, or have formed opinions regarding, certain elements of it. The study must, therefore, first investigate the aptness of such a presupposition.

7.2.1 Investment Cycle Stage 1: Pre-Investment

7.2.1.1 Investors' Awareness of the Motivations/Action of Market Participants (Country-level Governance)

In Chapter 2, the study demonstrated that the many aspects of governance that investors may be aware of and/or take into account can either be firm-level or broader country-level governance attributes (see, for example, Klapper and Love, 2004). Second, the notion that individual investors are likely to have a common sense and intuitive understanding of governance was proposed, explained as well as illustrated (through the use of certain examples)[183].

The notions above are further developed towards the end of Chapter 3 and individual investors' awareness of the major Malaysian corporate governance institutional/cultural attributes (i.e. country-level governance factors) are posited to be ultimately reflected in their awareness/opinions regarding the likely action/ motivations of various capital market participants. This argument is derived by combining (i) a variation of the concept of actor-centred governance introduced by Aguilera and Jackson (2003), (ii) contextual, embedded and complementing institutions governance by authors such as Gabrielsson and Huse (2004), Cornelius and Kogut (2003), Demirguc-Kunt and Maksimovic (2002), amongst others, and (iii) the concepts of investor trust and confidence in share investment decision-making propounded by Ryan and Buchholtz (2001).

For example, the major institutional corporate governance characteristics in Malaysia include (i) pervasive political involvement in business, (ii) the existence of many majority shareholder/managers and (iii) a corporate culture that is relationship-based (see, for example, Claessens and Fan, 2002 and Searle, 1999). As an extension, politically-connected majority shareholder/managers are argued to possess significantly more scope to exploit individual minority investors with minimal consequent sanctions as compared to corporate managers who are not majority shareholders and/or not politically well-connected. In turn, individual investors who are aware/opinionated may (i) ultimately direct their scepticism/ distrust of such institutional factors at politically-connected majority shareholder/ owners and (ii) subsequently adopt broad-based criteria such as not investing in

[183] Please refer to the later parts of Section 2.8 in Chapter 2.

politically-linked companies (to first determine the overall subset of firms that are acceptable before looking at a specific firm within the investable subgroup).

The study, therefore, begins by exploring whether or not individual investors are aware of a range of relevant motivations/action of various market participants. The relevant findings are presented in the following section of the chapter.

7.2.1.1.1 Corporate Management, Political Parties/Leaders/the State and Government Regulators

Due to their highly related nature, the result sets for corporate management, political parties/leaders/the state and government regulators are presented together to enable subsequent, concurrent analysis. Such a procedure is deemed necessary to demonstrate the intricate linkages and mutual dependencies that deepen our understanding of the Malaysian corporate governance environment.

First, the study considers investors who are unaware or have no opinions regarding market participants' likely motivations/behaviours.

Table 7.1 *Awareness of Capital Market Participant Group-related Motivations/ Action (1)*

Market Participant	Motivations/Action	Don't Know (No. of Respondents)	% of Overall Sample
Corporate Management	**Run company poorly resulting in disappointing overall performance**	94	8.50
	Make decisions that are against shareholders' interests	166	15.01
	Exploit small shareholders	219	19.80
	Involvement in Illegal Acts	231	20.87
	Providing insufficient information	173	15.64
Political Parties/ Leaders/State	**Making use of companies to raise political funds through manipulation of equity prices**	138	12.48
Market Regulator	**Independent/free from political influence**	284	25.68
	Carry out effective and consistent enforcement	385	34.81

Figures in Table 7.1 above clearly show that only a minority of investors are unaware/have no opinions regarding the likelihoods of corporate managers undertaking each of the listed action. The highest percentage found is 20.8% for the possibility of managers being involved in illegal acts. Corresponding figures for the other four actions are 8.5%, 15%, 19.8% and 15.6% respectively.

Similarly, only 12.48% of individual investor respondents report being unaware or have not formed opinions regarding the likelihoods of political parties/leaders/the State making use of companies to raise funds through underhanded moves in the stock market.

In the case of market regulators, about a quarter to a third of individual investors either do not know/have no opinions on whether or not they are independent and/or carry out effective enforcement. This percentage is higher than those reported for the other two groups as presumably, fewer investors have direct exposure or extensive knowledge on the roles, responsibilities and enforcement action of regulators.

For all three capital market participant groups above, the sets of results obtained are outside of the study's prior expectations as significantly more investors than expected are aware/have formed opinions regarding the various likely actions/ motivations. Predictions of the opposite partially stems from earlier findings showing that a majority of individual investors are relatively less knowledgeable[184] and pursue heuristically-simplified investment strategies (i.e. relying on others and/or do not do much in-depth investment evaluation). These two variables are relevant as one gives an indication of the ability to understand/evaluate while the other is a gauge of the likely motivation to find out or form opinions. Specifically, from the perspective of governance, the earlier findings provided preliminary indications that are broadly complementary to the "no shortage of apathetic investors" argument by Low (2004) suggesting limited or lesser awareness of the said action/motivations owing to investor apathy, ignorance and/or disinterest.

Having considered further, however, the result sets obtained for investors' awareness regarding the various actions/motivations of corporate managers are unsurprising as they are probably given the most attention by investors amongst the various main market participant groups. This is mainly due to their central role in the running of all such firms (this particular tendency is further explored later in the chapter by discerning between investors who are not transfixed by share price fluctuations alone when making investment decisions with those who are).

The results for political parties/leaders/the State suggest that most individual investors are aware of the significant political involvement in publicly-listed firms which also make intuitive sense. If one considers the pervasive and explicit involvement of the Malaysian government and also political parties (especially UMNO) in the corporate sector as reflected by (i) many of the largest public-listed firms being termed as Government-linked companies (GLCs) due to their clear political links and (ii) many others that are widely seen and acknowledged as politically- connected (please refer to the works of Gomez and Jomo, 1999 and Searle, 1999, amongst others), the very high level of investor awareness is again expected.

[184] Compared to the perceived "average" investor and also judging from reported amounts of actual financial knowledge.

Perhaps, the explanation above also applies those investors who report being aware and/or opinionated regarding the action/motivations of capital market regulators that are largely perceived to be closely-linked to and/or are influenced by the government/political parties (clear examples by Gomez and Jomo (1999) are given in Table 3.1). More generally, please refer to Figure 3.2 for a concise depiction.

Overall, these observations point to the fact that sampled investors either (i) have high inclinations to form their own opinions/assumptions (regardless of whether they actually possess any relevant information or otherwise), (ii) base such opinions on their accumulated experiences and observations through the many years of making share investments and/or alternatively, extend their opinions regarding the general political scenario to the corporate sector.

Next, in order to gauge the kinds of thoughts that these opinionated investors have on the considered motivations/action (i.e. whether they are positive or negative on balance), the study draws upon the relevant interview extracts (Figures 7.1, 7.2 and 7.3 below). These extracts are selected as they are typical of most of the responses obtained for the issues being considered.

Figure 7.1 *Interview Extract Regarding Market Participants' Actions/Motivations (1)*

Researcher:	For a typical Malaysian publicly-listed company, what would you say are the chances of it being mismanaged by corporate managers?
Investor07:	**...I would think chances are quite high... the public company being mismanaged; everyone has kind of accepted the fact that the Malaysian corporate governance it is not good. The major shareholder involve in purchasing and disposing (of) its (his/her) company shares which I don't think it makes sense you know... for the shareholders to reshuffle the shares. You know, buy at a certain time and then sell certain time... too much of (such) activities going on. Yes, basically that's how it is, you see. You know that these directors are actually, mostly politically connected.**
Researcher:	Ok, what about their involvement in illegal acts like fraud?
Investor07:	**Fraud. I think we have seen a big one which is Transmile and there are actually a few companies that are about to go for listing but somehow they got stopped half way but there were no reasonable explanation being given by the companies. So I guess it could have something happening behind the scene which we do not know of.**
Researcher:	So there is evidence that its happening, isn't it?

Investor07:	**Yes.**
Researcher:	Ok. What about the possibility of unfair treatment of small shareholders?
Investor07:	**The probability of it? Oh, it can be quite high as well because... it's that sometime the minority do not really understand the companies they actually invest in, so they end up, the majority taking advantage of them. Majority owners always have this profiting behaviour, you know…**

From Figure 7.1, it is clear that typically, individual investors have negative perceptions on balance (as represented by "a typical Malaysian publicly-listed company") regarding the various action/motivations of corporate managers. Next, consider the issues raised in Figures 7.2 and 7.3 below.

Figure 7.2 *Interview Extract Regarding Market Participants' Actions/Motivations (2)*

Investor 08:	**One look at it, it looks very plain that... you have regulator, you have investor and then you have the management of the companies. It seems like these people are not really operating independently. You have another part which is the government interfering, I mean the roles played by the regulator... though I know... I mean it's not on paper but you know, people been talking about it and I find it's quite true.**
Researcher:	*So, you mean all these entrenched business interests…*
Investor 08:	**And because you have the system where you allow the politicians to get involved in the company, in running the businesses of this company… So you cannot prevent this thing from not happening…**
Researcher:	*I see. Where vested interests and the regulators (are) all colluding, in this market, yes?*
Investor 08:	**Yes.**

Figure 7.3 *Interview Extract Regarding Market Participants' Actions/Motivations (3)*

Investor 16:	**Very poor because in terms of talking from the side of regulator…**
Researcher:	*Please elaborate more.*
Investor 16:	**Ok, maybe like... I give you an example of Iris... happened to Iris when the share prices was over 10 cent plus, then it went up to like 1 dollar plus. So how much there's increase, how many times?**
Researcher:	*It has increased 10 to 13 times, I think.*
Investor 16:	**10 to 13 times. You know what happen during this time? SC... not SC… Bursa Malaysia only issue warning to this... to the company of Iris... But no action has been taken towards the company. Awhile after**

	that then the share came down, then it was like no more thing, you know, nothing happened.
Researcher:	*Yes. It was a blatant case of share price manipulation...*
Investor 16:	**Which the Bursa did issue warning but they… I mean the Bursa does not seem to be like really concerned of it at all. I don't think that would be any...**
Researcher:	*So it's just half-hearted action, isn't it?*
Investor 16:	**Yes. Yes, they did it half-heartedly.**

Figures 7.2 and 7.3 both influence and justify the study's contention that the three market participant groups (comprising corporate management, political parties/ leaders/the State and government regulators) should be analyzed concurrently due to their intricate interlinks (as recommended by Searle, 1999).

Preliminary indications from the responses of semi-structured interview respondents are that individual investors are very likely to have negative perceptions with regards to the various actions/motivations of these groups. Put simply, these market participants are likely to be perceived to be involved in a range of action that is detrimental to the interests of individual investors.

Additionally, the study presents a detailed personal account of a number of the aforementioned detrimental actions/motivations by a market insider who had directly participated and also witnessed first-hand such acts. This portrayal (please refer to Figure 7.4), besides providing supporting evidence to the study's interpretation of the results above, also provides a fascinating and succinct view into the underlying corporate environment in Malaysia and the relationships between its major participants.

***Figure 7.4** Interview Extract Regarding Market Participants' Actions/Motivations (4)*

Researcher:	*The Malaysian government itself has been aggressively promoting better corporate governance standards and awareness since the 1997 Asian Financial Crisis as mentioned by you... is this not having any major impact at all? If not, why?*
Mkt Insider:	**There isn't much impact because there is too great exposure of the political parties with the business structure in Malaysia, especially the listed companies… and to be transparent in all the process, there is going to be readily a lot of threats... and cheaters which may not be clean, efficient, truthful or even... I would rather say... fair to other players in the market. So there is a lot of information that actually been contained and covered up...**
Researcher:	*So is it fair to say then that these reforms could be described somewhat as window dressing?*
Mkt Insider:	**It is half-hearted and window dressing... that is very true.**
Researcher:	*And what is the biggest problem? Is it a lack of enforcement? Because obviously we do now have a lot of new laws and reforms coming into force...*
Mkt Insider:	**The laws are created, the laws are actually been tabled, approved but we have yet to actually see a lot of execution or implementation to justify and to prove that there are seriousness in implementing what is actually been promoted.**
Researcher:	*I see but could you please give me an example or two, of this perceived insincerity or half-heartedness?*
Mkt Insider:	**In reality when the stocks will move up more than 30 to 40 percent, there are supposed to be queries, there are supposed to be suspension of counters… and trading… In fact, most of the time the stock could have tripled from the base to the peak. And then it will crash within a week and there'll be cries of such a process, there'll be cries for execution…**
Researcher:	*Yes.*
Mkt Insider:	**There'll be cries for investigation. So far, the number of stocks that have crashed including BIG, Ngiu Kee, Falcon... only one director or one company which were prosecuted, but it only involved financial penalization, nothing sort of... like jail or anything like that, so they probably get away with few hundred thousand Ringgit of fine when investor have lost millions of dollars. In the case of other stocks so far investigation is still carrying on but up to now, nothing has happened so it has been more than a year almost two now.**
Researcher:	*So what you're saying indirectly is that the government is passively or indirectly allowing market manipulators to operate within the stock system?*
Mkt Insider:	**Yes, because there are people within the authorities who believe that such manipulation will create activity… interest… it's both perceived to be good for the stock market and given that, by controlling such activities, you'll be perceived to be a dead market if they were to enforce... checking out what is going on.**

Researcher: *I see. Do you have any personal experiences with regards to all this operators operating manipulating the market?*

Mkt Insider: **Yes, I do. In fact, we used to operate such activities during 1996 but due to the Financial Crisis, where as a group or as individual, we have the opportunity to actually conduct such activities without much questioning or prevention from the authorities.**

Researcher: *I see... very interesting. Could you briefly describe how these operators work? Now, how do they manipulate share prices? An example... perhaps?*

Mkt Insider: **To create interest, one can be actually churning the volume of the stocks.**

Researcher: *I see… to create volume…*

Mkt Insider: **Yes.**

Researcher: *And to generate interest…*

Mkt Insider: **To generate interest and that's by actually churning the volume of the stocks, where one can... without any change of beneficiary shareholders, one can use two or three or more accounts to do buy and sell activities... and this is the normal procedure of doing it, or some could be passing rumours of certain things making use of any activities that is going to come out.**

Researcher: *I see. So it's just trading of information that are rumours. Ok, you are just spreading it out into the markets or you're just using the same amount of shares and passing it among different parties which are connected to make as though there are lots of demand and interest in the stocks?*

Mkt Insider: **Yes, that's true.**

Researcher: *Ok. Now, does the Securities Commission know or suspect that such activities are going on in the background?*

Mkt Insider: **Yes, the authorities, the Securities Commission or stock exchange has real time information... each and every transaction, every names that appear, in fact, I do understand that there is a system in place that if the price rose by X percentage intraday, then there is a trigger which they do actually monitor. There is a department in stock exchange operation... it's the surveillance unit that they actually monitors... how should I say, under unusual activities. We call it unusual activities.**

Researcher: *I see. By unusual activities, you mean unusual fluctuations in the share price?*

Mkt Insider: **Yes, that's right.**

Researcher: *Now, after undertaking some of these alleged activities back in the 1990s, what was the Securities Commission's response?*

Mkt Insider: **Oh, the Commission has got... do not respond much to this because... we have seen shares which are trading for a dollar, a Ringgit which will be pushed all the way up to about a hundred and fifty and then will tumble to zero or from a dollar to fifty-five dollars and tumble to**

	zero, and we have yet to see anybody who are responsible for such activities been actually brought to court or been charged in court for such things.
Researcher:	*I see. So, which scenario is this? Are the regulatory agencies just simply turning a blind eye or do they simply allow all these activities or are they colluding and are involved themselves?*
Mkt Insider:	**I believe all the three points that has been discussed are actually acting in concert.**
Researcher:	*All the three points?*
Mkt Insider:	**Yes.**
Researcher:	*I see. So which one is it more to, in your opinion?*
Mkt Insider:	**They are…I would put that turning a blind eye probably the first… and I wouldn't say they are actually colluding with the parties but turning a blind eye and allowing things to happen is probably what is actually happening.**

After further clarification post-interview, the market insider interviewee in Figure 7.4 revealed that often, the majority shareholder/managers of companies whose shares are the targets of (or the means for) such underhand/manipulative activities are themselves involved. This includes covertly funding such moves, involvement in the actual churning of the shares and/or spreading unfounded rumours and consequently, obtaining a share of the profits incurred. Such action is partly carried out to fund the personal and/or political initiatives of their political patrons.

Based on the revealing explanation above, collusion and complex interlinks are shown to exist between the Malaysian political establishment, capital market regulators, corporate managers/directors[185] and other market participants such as brokers. Specifically, at least some of the majority shareholder/owners Malaysian publicly-listed companies and also Malaysia-based stock brokers are involved in underhanded and manipulative activities in the local stock market.

Besides lending added credibility to the study's other findings reported thus far and their corresponding analyses, such a portrayal of the overall corporate environment is also consistent and strongly supported by the extensive empirical works of Gomez (1999), Gomez and Jomo (1999), Searle (1999), amongst others. These findings are also of utmost importance because they demonstrate that, as

[185] A significant proportion of whom are proxies/clients of political parties/leaders or are themselves politicians.

posited by Oman (2001) and Allen (2000), good corporate governance is not possible without good political governance.

Weighing the available evidence, therefore, the suspicions/reservations expressed by individual investor interviewees regarding the motivations/actions of other market participants seem, at the very least, reasonable (regardless of whether such opinions are based on sound reasoning and understanding or simply reflections/extentions of their perceptions, biases and/or cynicism regarding the general Malaysian political environment without actually examining the facts).

Next, the study investigates the prevalence of these seemingly dominant views amongst the wider population of individual investors in Malaysia. Specifically, the study investigates the nature of investors' opinions (positive or negative on balance) regarding the various actions/motivations of other market participants. The focus is on the majority of questionnaire respondents who are aware/opinionated. The relevant figures are given in Table 7.2 below.

Table 7.2 *The Likelihood of Capital Market Participant Group-related Motivations/ Actions (1)*

External Factors	**Number of Respondents**				
	Highly Likely	**Likely**	**Unlikely**	**Highly Unlikely**	**Total***
Run company poorly resulting in disappointing overall performance	154 (15.2%)	517 (51.1%)	293 (29.0%)	48 (4.8%)	1012 (100%)
Make decisions that are against shareholders' interests	159 (16.9%)	494 (52.6%)	254 (27.0%)	33 (3.5%)	940 (100%)
Exploit small shareholders	147 (16.6%)	417 (47.0%)	258 (29.1%)	65 (7.3%)	887 (100%)
Involvement in Illegal Acts	151 (17.3%)	381 (43.5%)	264 (30.2%)	79 (9.0%)	875 (100%)
Providing insufficient information	89 (9.5%)	544 (58.3%)	281 (30.1%)	19 (2.0%)	933 (100%)
Political Parties/Leaders making use of companies to raise political funds through manipulation of equity prices	232 (24.0%)	609 (62.9%)	117 (12.1%)	10 (1.0%)	968 (100%)

Market regulators are independent/free from political influence	23 (2.8%)	256 (31.1%)	442 (53.8%)	101 (12.3%)	822 (100%)
Market regulators carry out effective and consistent enforcement	34 (4.7%)	257 (35.6%)	346 (48.0%)	84 (11.7%)	721 (100%)

Examining the figures in Table 7.2, the study found that the percentages of respondents who rate the probability of occurrence for each of the detrimental managerial actions above as either Likely or Highly Likely are 66.3%, 69.5%, 63.6%, 60.8% and 67.8% respectively. As predicted earlier, a majority of opinionated investors are clearly sceptical of the proper motivations/actions of typical Malaysian corporate managers.

Again, the indicative tendencies above fit in well with (i) the Malaysian corporate environment portrayed by the study's literature review (Chapter 3) and (ii) the general opinions of interview respondents. The existence of politically well-connected, powerful majority shareholder/managers (many of whom are also proxies, clients or cronies of political parties/leaders) in most publicly-listed firms who possess the means to exploit investors with minimal sanctions is likely to explain such perceptions.

Furthermore, as is implicit within the arguments of authors such as Verma (2004) and Crouch (1996), the investing public are also used to being exploited and have been conditioned to still look for but not expecting demonstration of corporate accountability, especially after taking into account the more general Malaysian political landscape. Ultimately, these trends and experiences have resulted in their negative perceptions of powerful market participants, regardless of whether these sentiments are justified or otherwise.

As for the considered motivations/actions of political parties/leaders and/or the State, a strong tendency is found where 87% of opinionated respondents think the likelihood of occurrence either Likely or Highly Likely. A mere 13% thinks that the balance is towards non-manipulation. This set of results is credible as it is consistent with the many reported cases and also popular accounts of pervasive political interference in Malaysian publicly-listed firms (as detailed in Chapter 3 as well as the study's interview extracts presented earlier). Such unfavourable opinions seem to be well entrenched.

The study then found that a majority of investors are sceptical and have reservations with regards to market regulators' likely motivations/actions. Findings complement the "politically captive" regulator explanation (see, for example, World Bank - ROSC, 2001; Becht et al., 2003). From corporate figures being officially involved in the running of the regulators to the utilisation/manipulation/bypassing of capital market mechanisms to unfairly benefit politically-linked companies or disadvantage less politically connected ones (please refer to Table 3.1), market regulators would struggle to pass even basic tests of independence and effectiveness.

In the next section, a similar procedure is applied to presenting the various findings related to two other important capital market participant groups, that is, brokers and external auditors.

7.2.1.1.2 Brokers and Auditors

In this section, the study considers the perceptions/opinions of individual investors regarding the likely motivations/actions of their personal brokers and also external auditors of publicly-listed firms.

Table 7.3 *Awareness of Capital Market Participant Group-related Motivations/ Actions (2)*

External Factors	No. of Respondents (Don't Know)	% of Overall Sample
Brokers can be trusted not to give biased/self-interested advice to clients	89	8.05
Auditors can be trusted not to approve fraudulent/misleading financial statements	226	20.43

Figures in Table 7.3 show that most respondents (approximately 92%) have formed opinions regarding the likely motivations behind the action/advice of their personal brokers. Such a finding is expected as individual investors have intimate relationships with their brokers since most do offer share investment advice besides carrying out their clients' instructions.

Around 20% of investors reported being unaware/have no opinions when it comes to the motivations/actions of external auditors. This proportion is higher than the one for brokers as most investors have minimal exposure to the activities of company auditors due to the nature of their work. In fact, they only have access to the mandatory declarations made by these auditors in company annual reports. The detailed breakdown of opinions is given in Table 7.8 below.

Table 7.4 *The Likelihood of Capital Market Participant Group-related Motivations/ Actions (2)*

External Factors	No. of Respondents				
	Highly Likely	Likely	Unlikely	Highly Unlikely	Total*
Brokers can be trusted not to give biased/self-interested advice to clients	51 (5.0%)	452 (44.4%)	451 (44.4%)	63 (6.2%)	1017 (100%)
Auditors can be trusted not to approve fraudulent/misleading financial statements	86 (9.8%)	475 (54.0%)	284 (32.3%)	35 (4.0%)	880 (100%)

As brokers mainly profit through commissions from share transactions, the view that they offer investment advice just to encourage their clients to trade frequently seems logical (for explanations regarding the concept of churning, see Barber and Odean, 2006). Even so, judging from the evenly divided figures reported, investors are not of one mind when it comes to opinions regarding their brokers' likely motivations. Consider Figures 7.5 and 7.6 below.

Figure 7.5 *Interview Extract Regarding Market Participants' Actions/Motivations (5)*

Researcher:	*Do you think that your brokers give fair and unbiased investment advice to you?*
Investor 02:	**I don't think it is 100%.**
Researcher:	*Well, do you think the tendency is more towards biased or unbiased?*
Investor 02:	**80% not biased.**

Figure 7.6 *Interview Extract Regarding Market Participants' Actions/Motivations (6)*

Researcher:	*Do you think that your personal broker gives fair and unbiased investment advice to you?*
Investor 09:	**No, no. So called follow the wind.**
Researcher:	*Please explain.*
Investor 09:	**Brokers will always follow the market wind. If the market right now is hot for plantation, then they will sell plantation stocks. Whatever the market condition, good or bad, no matter what... will also say that it is time to invest.**

Next, approximately 63.8% of opinionated respondents have favourable views of external auditors while 36.3% have negative perceptions. A likely explanation is that most Malaysian publicly-listed companies employ the Big Four accounting firms as their auditors (Fan and Wong, 2005). With their world-class reputations, many investors may be swayed towards trusting these auditors' integrity in terms of not approving fraudulent or misleading financial statements (Goodwin and Seow, 2002; Wallace, 1980).

To summarise briefly the various findings reported thus far, in terms of individual investors' awareness and also opinions of the many likely actions/motivations of capital market participants (as representing country-level governance attributes), similar indicative tendencies can be detected throughout. Basically, individual investors perceive/assume that market participants are more likely to have questionable motives and behavioural tendencies than not. The sole exception is the external auditors who are viewed favourably on balance. The suppressive Malaysian political environment, pervasive political involvement in publicly-listed firms and also relationship-based business culture are posited to be the major perception-influencing factors.

Even so, as reasoned by Giannetti and Simonov (2006), these governance concerns are not severe enough to deter these individual investors from investing in the Malaysian capital market altogether. Hence, it is logical to presume that, due to the degrees of seriousness and depth of individual investors' perceptions pertaining to the governance concerns identified, at least some of them do tailor their investment practices to mitigate any adverse effects. The different ways and means to do so are examined next.

7.2.1.2 Governance as General Investment Criteria

In the preceding section of the chapter, the study has determined that a majority of investors are aware and/or opinionated with regards to the likely action/motivations of key market participants. This naturally leads to the question of whether such opinions materially affect the behavioural tendencies of investors. Therefore, the study will now consider whether and, if so, how the various governance concerns identified earlier are considered in their share investment decision-making.

First, the possibility of governance featuring as a general investment criterion is explored. It is based on the premise that, for the many investors who are aware and/or opinionated regarding the likely actions/motivations of various market participants, they may adopt certain criteria that aim to take advantage of or, to mitigate the impact of, these likely acts/intentions.

Referring back to the possible treatments compiled in Chapter 2, these investment criteria (if utilised) are presumed to form the main mechanisms and also thresholds for investors to potentially (i) avoid investing in what they perceive and/or evaluate as badly governed firms or (ii) only invest in well-governed firms. Each criterion, of course, reflects a particular aspect of governance being considered.

Accordingly, the governance-related criteria listed in Table 7.5 are some of the most relevant ones that are uncovered, derived and compiled from the reviews in Chapters 2 and 3.

Table 7.5 *General Governance-related Investment Criteria*

Investment Criteria	No. of Respondents	% of Overall Sample
Only Invest in well-run companies	545	49.28
Only Invest in Govt/Politically linked companies	99	8.95
Only Invest in Companies run by professional managers rather than big shareholder/managers	95	8.59
Only Invest in Non-Govt/Non-Politically linked companies	109	9.86
Only Invest in Speculative/Penny Stocks	99	8.95
No/No Fixed Criteria	427	38.61

Table 7.5 shows that roughly four out of every ten investors have no/no fixed investment criteria, governance-related or otherwise. Even so, more significant is the fact that 61%[186] of sampled investors do adopt one or more governance-related investment criteria.

The general rule of only investing in well-run companies is found to be the most widely adopted with approximately 49% of sampled investors reporting doing so. Put simply, around half of individual investors only invest in well governed firms. This finding is positive as the study did not expect to find such a high proportion in a developing market that has been portrayed as mostly speculation and rumour-driven (see, for example, Low, 2004 and Shleifer and Vishny, 1997). However, the said contention by authors such as Low (2004) is still very relevant as the result also implicitly suggests that a significant 51% of respondents are willing to invest in companies even if they are poorly run (implying that governance is only of slight or no importance to this group of investors).

The other four general investment criteria are not particularly important as each is adopted by only about 8% to 10% of investors. Considering the earlier finding that a majority of investors are aware or have formed opinions on pervasive political involvement in publicly-listed firms, the relatively low percentages of investors who either only invest in government/politically linked companies or avoid them completely suggests investor indifference or credulity (Daniel et al., 2002). This is because they do not take into account the impacts of such attributes sufficiently even when they should (as the likelihood of being abused or disadvantaged are either considerably higher or lower).

The investor credulity/indifference argument is further supported by the earlier finding that a majority of their perceptions/opinions are negative on balance (suggesting that there is a real need to consider such factors). For example, only a handful of investors actually avoid companies with majority shareholder/managers even though the scope for managerial abuse is greater.

[186] This is derived from the assumption that the "No/No Fixed Criteria" subgroup does not adopt any governance-related criteria (along the governance dimensions considered in Table 7.5).

As a mere 9% of investors invest only in speculative/penny stocks, only a small minority of individual investors in Malaysia are consistently speculative in their share investments. These investors are not expected to attach much importance to governance as smaller firms (i.e. penny stock firms) are usually less transparent and have lower governance standards. Specifically, their size usually implies less resource can be devoted to proper governance and they may also be less able to gain higher standards such as the inability to attract highly qualified independent directors. In addition, these firms are also typically young and hence, may not have tried and tested governance structures and processes in place as yet.

As a brief summary for the section, the only general governance-related investment criterion that is adopted by a sizeable proportion of individual investors in Malaysia in their share investment evaluations is the rule of only investing in well-run companies. Other major governance concerns arising from country-level environmental/institutional characteristics are only taken into account by a small minority of individual investors.

At this stage, the study does not make the distinction between governance and performance[187] and thus, the term “well-run” is taken to mean well-governed (ex-ante, as it is applied before actually investing). Such a distinction is explored and its elements deconstructed and evaluated at a later section in the chapter. This is because further interpretation of this finding and its implications is only possible after the reporting of other essential elements required for undertaking such an evaluation.

7.2.1.2 Governance as Firm-specific Evaluation Criteria

As an extension of the general investment criteria in the previous section, the study shifts its attention to governance criteria that are more firm-specific. This is because a large part of investors’ share evaluation and other investment-related practices/action are argued to be firm specific (see, for example, Shefrin and Statman, 1985; Kumar and Lim, 2007).

[187] Instead, this possibility is examined under the Governance or Performance section in Chapter 8.

Essentially, the evaluation of each and every tranche of shares/publicly-listed company is carried out quite separately from others for most individual investors. Focus is therefore on the degree of importance that investors attach to various governance-related attributes when evaluating whether or not to purchase shares of a particular company.

Since there are various firm-specific governance variables/attributes, in terms of exploring whether governance matters to investors at the firm-level, it is perhaps more appropriate to ask – what specific aspects of governance matter?

The study contends that at the pre-purchase evaluation stage of the investment cycle, only those firm-level factors that an individual investor considers to be important are consistently taken into account. This assumption is key if one considers that the combinations of factors considered for each tranche of shares/public listed company being evaluated may be different.

As explained in Chapter 4, the study acknowledges that investment is often a complicated process and as such, the researcher should focus on dominant/ favoured variables as these have the highest probability of featuring as essential variables meriting consideration regardless of other ad hoc, attention-grabbing factors [188]. Of course, those aspects of governance that are considered important form the basis of investors' governance-related treatments such as (i) avoid investing in badly governed firms or (ii) only invest in well-governed ones.

In order to identify which factors are likely to be important, a host of governance attributes are presented to interview respondents. Interviewees are then asked whether they consider each of the listed factors or otherwise (please refer to the Individual Investor Interview Schedule in Appendix 5). The study found that a majority of interviewees does not consider most of the firm-level governance attributes posed in their share evaluations, barring three factors (that are reported as being relevant/important by many interviewees). They are:

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[188] For example, stock selection may initially depend on the kinds of attention-grabbing, firm-specific news/developments/variables that catches the attention of an investor before he/she subsequently evaluates the stock's/firm's other characteristics that are normally deemed to be important decision-making considerations. This argument implicitly acknowledges that some other tendencies/actions may be adopted at some other times.

(i) The abilities and qualifications of company managers/directors;
(ii) Quality and speed of information disclosure; and
(iii) The degree of transparency and accountability shown by managers to investors.

Subsequently, in order to explore the indicative prevalence of considering firm-level governance amongst the wider Malaysian individual investor population, these three governance-related factors are utilised as proxies. Justifications are that judging from the responses of interviewees, these factors are (i) seemingly the most important firm-level governance aspects from investors' viewpoint and (ii) the most likely be considered by individual investors who are governance-interested in their investment evaluations (which make them good proxies).

In addition, the study also investigates the prevalence of the tendency for investors to consider unconfirmed tips/insider info/speculation predicting a rise in a firm's share price. Justification is that this tendency provides vital clues to individual investors' inclination away from governance (for detailed explanations and justifications, please refer to Section 2.6.1. of the study). Table 7.6 illustrates the corresponding responses of questionnaire respondents.

Table 7.6 *Company-specific Governance-related Attributes*

Company-related Factors	**No. of Respondents**			
	Very Important	**Important**	**Slightly Important**	**Irrelevant**
Unconfirmed tips/insider info/speculation predicting a rise in share price.	88 (7.96%)	338 (30.56%)	473 (42.77%)	207 (18.72%)
Qualifications, abilities and experience of company directors/managers.	214 (19.35%)	335 (30.29%)	275 (24.86%)	282 (25.50%)
Quality and speed of company information disclosures.	116 (10.49%)	285 (25.77%)	334 (30.20%)	371 (33.54%)
How transparent and accountable company managers are for their actions.	178 (16.09%)	255 (23.06%)	314 (28.39%)	359 (32.46%)

Table 7.6 shows that at least a quarter to about a third of investor respondents do not at all consider any one or a combination of the three governance-related factors. Specifically, 25.5% disregard the qualifications, abilities and experience of directors/managers; 33.5% are uninterested in the quality and speed of company

disclosures; and 32.5% do not consider how transparent and accountable company managers are for their actions[189].

For the majority of investors who do consider these aspects of firm governance, the abilities and experience of directors/managers is the most popular with 74.5% of respondents regarding this attribute with varying degrees of importance. The corresponding percentages are lower for quality/speed of disclosures (considered by 66.5% of investors) and managerial transparency/accountability (67.5% of respondents). It is interesting to note that if those investors who selected "Slightly Important" are excluded, the percentages for the three factors drops to 49.6%, 36.3% and 39.2% respectively. Put simply, only a minority of investors (albeit a sizeable one) consider these factors being more than just of secondary/passing importance.

Next, more than 81%[190] of investors sampled attach various degrees of importance to unconfirmed tips when making share investment decisions. Breaking down the figures further, approximately 39% of respondents regard such tips as either Important or Very Important. As argued in Section 2.6.1. of the study, paying heed to such unconfirmed information provides clear indications of the (i) inclination towards short-termism and (ii) focus on share prices rather than the underlying companies. More importantly, these typical aspects of speculative/impulsive

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[189] These findings are not surprising considering that even the biggest institutional investors in Malaysia plays a passive role in corporate governance (Thillainathan, 1999). This is despite them being presumably more sophisticated and are more likely to be governance interested due to the sizes of their shareholdings. Specifically, Thillainathan (1999: 19) reported that *"the local institutional investors including the EPF [The Employees Provident Fund – the country's compulsory employees pension savings scheme - whose total shareholdings accounts for 9% of Malaysia's capital market capitalization] play only a passive role in corporate governance and rely on third party research, primarily that by brokerage houses"*.

Most institutional investors in Malaysia are similar to the EPF in that they are governance passive and rely on third party research. Similarly, *"foreign fund managers like certain domestic institutional investors have opted to play a passive role in corporate governance" (Thillainathan, 1999: 21)*. Even in the more developed Western capital markets, *"there was much anecdotal evidence to suggest that institutional shareholders do not adopt a monitoring role, preferring to sell their holdings in problem companies…" (Keasey et al., 2005)*. It seems that institutional investors in general do not focus on firms' governance attributes and simply remain slient or sell out whenever governance concerns arise.

Therefore, the finding that a sizeable proportion of individual investors in Malaysia disregarding the three governance attributes considered seem reasonable.

[190] 100% less 18.72% for the Irrelevant subgroup

trading run counter to the general tenets of governance- or fundamentals-based investing.

This indicative tendency verifies the contention of some authors that most investors in developing capital markets are prone to be influenced by speculation and hence make impulsive, irrational share purchases (see, for example, the conjectures made by Shleifer and Vishny, 1997 and Monks and Minow, 2004).

Combined with the earlier finding that about 70% of investors pursue heuristically simplified strategies, the psychological/emotional influences detailed by behavioural finance seem to better describe investors' behaviours compared to rational models propounded by traditional, standard finance (see, for example, Subrahmanyam, 2007).

Please note that as only three attributes are considered when evaluating the overall importance of firm-level corporate governance, the derived conclusion is, then, a qualified response that merits reframing. Corporate governance, when proxied by the three firm-related attributes above, is typically of secondary importance to individual investors collectively (on average). Nevertheless, the study contends that the most important discovery is that corporate governance is actually taken into account by a majority of investors in the form of firm-specific evaluation criteria.

The study further contends that such governance-related criteria are used as the mechanisms for investors to (i) discern between well-governed and poorly-governed firms, and thus (ii) form the basis for either avoiding poorly-governed firms or investing only in well-governed ones (listed as two of the most probable investor treatments of governance within each of the three major perspectives discussed in Chapter 2).

7.2.2 Investment Cycle Stage 2: Post Purchase

7.2.2.1 Governance as Concerns requiring Monitoring and/or Active Participation

The study now considers if and how governance is taken into account by individual investors post-purchase. At this stage of the investment cycle, most empirical research has been carried out on a range of governance-related behaviours that are commonly classified under shareholder activism (see, for example, Gillan and Starks, 1998; Karpoff, 1998; Romano, 2000).

Instead of being a one-off evaluation criterions, governance is portrayed as an ongoing concern where the running of the firm is monitored and active participation is expected, both to improve corporate governance practices/standards and to exercise basic ownership rights (see, for example, The Securities Commission Development Centre Quarterly Bulletin [Malaysia], 2002). Governance, if indeed taken into account by individual investors, is argued to feature in the described manner at this particular stage.

The wider question of "does governance matter" is being addressed as only investors who value governance or think that it is important would expend significant amounts of time, effort and other resources to frequently monitor aspects of it or engage in shareholder activism. The study places particular emphasis on attendance at AGMs. This is because attending AGMs apparently provides the most visible indication of an individual investor being "active" or interested in governance.

Specifically, individual investors who attend are assumed to exercise their ownership rights and are concerned with the ways by which these entities are run. The study investigates the aptness of such assumptions. In addition, yet undiscovered motivations for both attending and not attending AGMs are also given due attention.

First, the tendency for individual investors to attend AGMs is scrutinised.

Table 7.7 Attendance at AGMs

Attendance at AGMs	No. of Respondents	% of Overall Sample
Have Attended	62	5.61
Have Never Attended	1044	94.39
Total	1106	100

The figures in Table 7.7 show that only a small minority of individual investors have attended any AGMs throughout the time that they have been investing in shares. Specifically, less than 6% of investors sampled have reportedly done so. The Minority Shareholders Watchdog Group's (2006) contention that shareholder activism in Malaysia, even though on a rising trend, is actually developing from a low base seems credible (when AGM attendance is used as proxy for activism).

Attendance is indeed poor particularly if the study's earlier prediction of possible bias of the results (in registering relatively higher attendance numbers) is factored in. Basically, respondents who are more governance-inclined may be more likely to respond to the survey.

Next, as the study argued in earlier chapters that attendance at AGMs alone cannot simply be equated with activism, the motivations behind attendance/ non-attendance must be examined.

7.2.2.1.1. Investors' Motivations for Attending AGMs

From a review of established literature, the likely reasons for individual investors attending AGMs are to ask questions, vote or have a say in how the company is run and to protest after being mistreated/cheated/exploited. However, if one considers the issues raised in Figure 7.7, a more compelling picture emerges.

Figure 7.7 *Interview Extract Regarding Attendance at AGMs (1)*

Researcher:	*Taking your specific role as secretary into account, you are charged with the collection and presenting of all shareholder and management proxy resolutions annually. You are also given AGM attendance records and handling all other manners of correspondence such as emails and letters with outside shareholders, yes?*
Co. Secretary:	**Yes, actually, as the role of the secretary, I did help to create all the**

	information for the shareholders, the proxy for the... the number of the proxy who attended the meetings and also the number of shares and also the keeping of AGM attendance records.
Researcher:	*Very interesting. Thank you very much. Now, since you are charged with the safekeeping of all such information over the years, what is your observation with regards to the general levels of minority shareholder involvement or participation in the affairs of the company? Now, before we get on further, let's break this down further. We'll start by exploring shareholder attendance numbers and voting at AGMs. Is there a noticeable rise in the numbers of minority retail shareholders attending AGMs in recent years?*
Co. Secretary:	**Actually the shareholder attendance numbers have never been changing. It is more or less very minimal only... and minority retail and institutional shareholders, I don't see them much… attending the AGMs.**
Researcher:	*Ok. So what kinds of shareholders or proxies of shareholders typically attend AGMs then?*
Co. Secretary:	**The shareholders are basically all those aunty, uncles... Proxies are also those that shareholders who are in KL who can't attend the meeting. They will just ask their relatives in Penang to be the proxy for the shareholders to just enjoy the food... (laughs)**
Researcher:	*So, they're just there to enjoy the food?*
Co. Secretary:	**Yes, that's right and the free gifts if any. They always ask for free gifts.**
Researcher:	*So, the primary motive there is actually to collect freebies.*
Co. Secretary:	**Yes, and also the food... free lunch or free tea break.**
Researcher:	*Do these people form the majority of the numbers or are there some other proxies of shareholders that are supposed to be there for different reasons?*
Co. Secretary:	**Most of them are actually this type of shareholders and proxies but then, apart from this, they also requested to be... they are also requested by the boss to be the proxy of the shareholders in order to propose and second the resolutions of the AGM... to pass.**
Researcher:	*By this you mean that the boss encourages employees themselves to attend as proxies?*
Co. Secretary:	**It is not that the boss wanted to encourage the employees to do that... because sometimes the proxies of the shareholders or the minority shareholders when they attend the meeting, they don't bother to raise up their hands to propose or second the resolutions to be passed. They just want things to be over very soon, I mean, for the resolution to be done as fast as possible within 5 to 10 minutes for all the 10 resolutions to be passed within this period of time so that they can go off.**
Researcher:	*So, is there a significant number then of proxies that represent the majority shareholder in such a case?*
Co. Secretary:	**Yes, most of the resolutions they propose, the proposer and the**

	seconder of the resolution... most of them are proxies.
Researcher:	*I see. What about for those shareholders in attendance who are independent of top management or the majority shareholder? Do they normally ask questions and raise issues of concern or do they largely remain silent?*
Co. Secretary:	**They actually largely remain silent. Even our majority also... shareholders also the same. They will just keep quiet and they will just propose and second the resolutions.**
Researcher:	*I see. Thank you very much for all these.*
Co. Secretary:	**Even for other listed companies that I know of, most of the time they will have their AGMs in their premises itself... in the office building itself… Then they just get one or two shareholders and then most, majority of them will be their staff.**

The interview extract above clearly documents the fact that many investors or their nominated proxies (for example, close family members) attend AGMs simply for the free food and door gifts being offered. Furthermore, most attendee investors do not propose or even second AGM resolutions, much less being actively interested in governance issues. Still others are compelled to go at the request of their employers (the managers of the companies conducting these AGMs). In fact, other interviewees have described a similar situation as well. Figures 7.8 and 7.9 are further examples:

Figure 7.8 *Interview Extract Regarding Attendance at AGMs (2)*

Researcher:	*Regarding your previous role as one of the top management of a certain listed company... what is your observation in regards to minority shareholders involvement or participation into the affairs of the company? Attendance at AGMs, for example.*
Mkt Insider:	**In AGMs, there won't be many people which come to attend... it was representative for the shareholders. In the normal circumstances, if there are issues to be brought up which would be considered serious…**
Researcher:	*Yes.*
Mkt Insider:	**Then it is planned that there would be many people either from nominees of the majority shareholder… maybe shareholder and the management, they will appear and there will be a small minority of independents in the council and any attempt by the independent minority to table or to question will actually be silenced by the majority when... show of hands is actually taken into account.**
Researcher:	*So most of them are the nominees of top management or the majority shareholders, yes?*
Mkt Insider:	**Yes.**

Figure 7.9 *Interview Extract Regarding Attendance at AGMs (3)*

Researcher:	*Now, what else can you tell me about your customers or these share investors who go through you with regards to shareholder activism. For example, do they attend any AGMs?*
Broker 03:	**Very few do. Those who attended AGMs normally what they look for is not information.**
Researcher:	*Then? What do they look for?*
Broker 03:	**Goodies.**
Researcher:	*Goodies?*
Broker 03:	**Yes, whatever the company can give to them as a door gift.**
Researcher:	*As a door gift…*
Broker 03:	**Yes, that's right. That's right. If that particular company don't give door gifts normally the investor don't go.**
Researcher:	*Ok, can you give me an example?*
Broker 03:	**For example, company... Carlsberg.**
Researcher:	*Carlsberg...*
Broker 03:	**Carlsberg. Sometimes they give a half dozen of... this Carlsberg cans, you know... to the customer as a door gift...so my customer, this particular customer, like to attend this type of AGMs.**
Researcher:	*So, they go there is to... just to get all these goodies. Will they go to great lengths to go to these places?*
Broker 03:	**Yes, why not? Even far off places from Bentong to KL... they took a bus to KL just to attend and get the goodies and then come back to tell us about it (laughs)**

From the various findings/evidence presented above, it is obvious that many individual investors attend AGMs for reasons/motivations that are not directly related or even relevant to the running of the publicly-listed firms that they partly own. Most importantly, these extracts strongly suggest that AGM-attending individual investors cannot be presumed to be active/interested in corporate governance without actual confirmation.

The study’s contentions that (i) certain actions that are perceived to be governance-related can be undertaken for non-governance reasons/motivations and (ii) our understanding of certain issues within the area of corporate governance can only be furthered by approaching practitioners (in this case, individual investors) on a firsthand basis, are thus vindicated.

To investigate the indicative prevalence of each of the motivations uncovered within the wider individual investor population, the results below are presented with a detailed breakdown of the self-reported reasons/motivations for the 62 respondents within the sample who have actually attended.

Table 7.8 *Investors' Motivations for Attending AGMs*

Reasons for Attending AGMs	No. of Respondents	% of Overall Attendees
Ask Questions, Vote, Making Voice/Opinion Heard	28	45.16
For Free Food/Door Gifts	18	29.03
Just for the Experience	14	22.58
To Protest Post-Exploitation/Mistreatment	1	1.61
At Employer's Request	1	1.61
Total	62	100*

*rounded up

From Table 7.8, the study found that almost half of attending investors do so to exercise their ownership rights. This shows that at least some individual investors can and do play an active role in corporate governance. Strickland et al.'s (1996) findings as well as anecdotal evidence presented on individual shareholder activism in Malaysia suggest that their participation can indeed be encouraged. Therefore, capital market regulators' expectations may not be wholly unreasonable afterall. Even though these "governance interested" respondents do represent a significant proportion of attending investors, the figure only equates to a mere 3% of the main investor sample size total (i.e. out of 1,106 respondents).

This set of empirical results also provides preliminary validation of (i) the study's prediction and (ii) indications derived from interviewees; that AGM attendance may be for reasons unrelated to governance. Perhaps more intriguing and also yet to be captured by other studies on investor behaviour and governance is the relevance of the second and third motivations. Approximately 29% of attendee investors did so because of the free food and/or door gifts that organising firms offer to their shareholders. In addition, those who attend just to experience what actually goes on during these AGMs comprise 22.58% of such purportedly "active" investors.

Again, these motivations cannot be linked to the exercising of ownership rights[191] or improving governance[192].

Next, 1.61% of investors attend solely at the request of their employers (the companies organising the AGMs). Rather surprisingly, even with a subsample size of just 62 respondents, there is such a response obtained[193]. This finding is intriguing because it provides an indication that such a practice does indeed exist. By reasonably assuming that only certain publicly-listed companies request their employees to attend, further research on the nature of employee shareholder/ proxy involvement in governance may yield important insights.

Moving on, only one respondent reported having attended AGMs to protest after being exploited and/or mistreated. Even so, this finding is not surprising. As suggested earlier by authors such as Keasey et al. (2005), most investors only question the absence or ineffectiveness of governance when things go wrong (myopic investors). Furthermore, mistreatment/exploitation are done covertly by nature and outright frauds/scandals are relatively uncommon occurrences that do not directly impact most investors considering the size of the overall individual investor population (approximately 5,062,049 in December 2007 according to Bursa Malaysia, 2007) and the comparatively small size of the study's sample. Hence, few respondents are expected to select this option. In this instance, only one investor having experienced such a scenario has responded.

Taken together, the finding that more than 50% of individual investor attendees of AGMs do so not because of any governance-linked motivations[194] is key. This is because it reaffirms the earlier contention that one must exercise caution in interpreting certain governance-related investor behaviour that may seem obvious in terms of intent. Secondly, empirical research in governance should be more focused on being representative of the actual situation on the ground rather than just being theoretically persuasive.

[191] Specifically, the right to vote and have their voices heard.
[192] To advance/improve the running of such publicly-listed entities.
[193] Albeit there being only one individual investor in the sample to report so.
[194] Or, put simply, not for the good of the company in terms of concern for its general running, its prospects, its performance, etc.

In terms of theoretical implication, the study's results regarding motivations for attending AGMs seems to be broadly supportive of agency theory's self-interested, utility-maximizing and profit-oriented conceptions of the individual investor (see, for example, Jensen and Meckling, 1976; Becht et al., 2003; Monks and Minow, 2004). This is because, judging from the enthusiasm and inclination of some investors to attend AGMs for free gifts and free food, it is clear that economic and material gains are the prime intention, albeit being rather misguided ones. The findings are also consistent with the dominant motivations view for rational goal-oriented products (Weber, as cited in Crotty, 2003).

Even though agency theory conceptions of investor motives may indeed describe a majority of investors, some do attend even though it may not be economically viable to do so (and also not for misguided economic gains such as free gifts). For example, the 22% of investors who attend at their own costs just to witness what goes on during AGMs. Once again, behavioural finance does seem to be able to describe the behaviours of investors better than the "rational-representative investor" view (Brennan, 1995) of standard finance. Justification is that this study has shown that many investors exhibit a range of behaviours that depart from rationality (similar to Daniel et al., 2002).

7.2.2.1.2 Investors' Motivations for Not Attending AGMs

For non-attendance at AGMs, the preliminary list of possible reasons include (i) attendance being too costly and time consuming, (ii) investors are unaware that they are entitled to attend, (iii) investors are unsure of what to say or do, (iv) investors' votes and/or presence won't change management decisions and, (v) such an action is not relevant to their investment styles. Subsequently, interviews revealed no other motivations that may be important.

Figure 7.10 provides a typical interviewee response with regards to the issue under scrutiny. The extract is meant to demonstrate the relevance of the earlier identified potentially important motivations.

Figure 7.10 *Interview Extract Regarding Non-Attendance at AGMs (1)*

Researcher:	*Have you ever attended any AGMs of these corporations and exercised your vote?*
Investor 14:	**No.**
Researcher:	*Why not?*
Investor 14:	**Don't have the time to go about it but... yeah, major thing is this, I don't have the time and the other thing is... not really anything we can do during the AGM because we are just retailers. Normally, we can't vote against management during most of the AGM... everything has been pre-planned already, pre-approved.**
Researcher:	*Pre-planned and pre-approved, and you're too small to do anything?*
Investor 14:	**Yes.**
Researcher:	*So, you're not going because you think that it won't make a difference anyway?*
Investor 14:	**Yes.**

More generally, the researcher found that different combinations of the five potentially important reasons are typically given by the study's interview respondents (similar to that in Figure 7.10). Having explored the likely relevance of the compiled justifications, the study next examines the indicative prevalence of each identified reason amongst the wider individual investor group.

Table 7.9 *Investors' Motivations for Not Attending AGMs*

Reasons for Not Attending AGMs	No. of Respondents	% of Overall Non-Attendees
Didn't Know/Not Aware of Right to Attend	31	2.97
Too Costly and Time Consuming	422	40.42
Unsure of What To Say/Do	165	15.81
Not Relevant to Investment Style	285	27.30
Vote/Presence Won't Change Management Decisions	141	13.51
Total	1044	100*

*rounded up

Table 7.9 shows that 94% of the study's total number of respondents (1,044 out of 1,106) has not attended any AGMs throughout the period of time that they've been investing in equities. Even so, responses collated above show that only a very small fraction of non-attending investors (approx. 3%) lack awareness in terms of their fundamental right to attend the AGMs of publicly-listed companies that they partly own. A further 16% do not attend because they are unsure what is expected of them at AGMs. In combination, investors who are uninformed, ignorant, lack knowledge or experience in this respect constitute less than one fifth of the non-attending subsample.

The findings above are rather unexpected. This is based on the contentions by authors such as Shleifer and Vishny (1997) who suggested that most shareholders do not know the basic ownership rights that they possess much less exercising those rights. In this regard, Low (2004) has also pointed to the significant proportion of apathetic, indifferent and/or disinterested shareholders in developing capital markets such as Malaysia.

Perhaps the situation has improved since the late 1990s and the impact of the 1997 Asian Financial Crisis and subsequent governance reforms, investor education programmes (such as those organised by the Securities Commission) as well as extensive press coverage of the many incidences of corporate frauds/scandals in Malaysia and around the world have improved investors' knowledge of their basic share ownership rights and major corporate governance issues.

Next, the most popular reason given by respondents for not attending/participating at AGMs is that such an action is too costly and time consuming. Approximately 40% of respondents selected this as the main reason for non-attendance. Economic considerations, especially cost viability, are the dominant force that compels investors towards certain behavioural tendencies (as per Weber, 1949 as cited in Crotty, 2003). In this case, yet again the relevance of agency theory's cost utility focus is clearly demonstrated (Jensen and Meckling, 1976).

The study is inclined, therefore, to agree with both academics and practitioners that to develop a culture of activism, policymakers must clearly show and/or convince investors that being more governance active is both economically viable and beneficial (as is the implicit aim of empirical studies aiming to link corporate governance with corporate performance such as those by Brown and Caylor, 2006, and Gompers et al., 2003, amongst others). Besides making available new mechanisms for them to exercise their ownership rights and seek redress, they should develop innovative means to increase investors' interest in the actual governance of firms. Perhaps offering them free or cost effective access to governance-based sources or databases of relevant information on various aspects of publicly-listed firm governance could prove effective.

Approximately 27% of respondents do not attend AGMs because they believe that such an action is irrelevant to their individual investment styles. Perhaps their shareholding periods are simply too short or they utilise investment strategies that concentrate only on share price fluctuations. The different justifications are further explored in later sections in the chapter, especially when considering the distinct natures of often pursued investment strategies and the proportion of investors opting for each such strategy (in effect, identifying the likely reasons that render AGM attendance irrelevant).

Judging from their responses to this AGM issue, the final 13.5% of non-attending respondents are likely to be relatively well informed, knowledgeable investors. Essentially, this group comprises of investors who reported that attending AGMs is futile as their vote/presence simply won't carry sufficient voting weight to materially influence management decisions. Such reasoning shows that governance is contextualised as both firm-specific issues and institutional/corporate environments do shape investors' perceptions/opinions leading to corresponding behavioural tendencies. The earlier findings that most investors are opinionated/aware of other market participants' likely motivations/action and that subsequently, some investors do adopt certain governance-related criteria, enhances the credibility of such a claim.

Another implication of the last finding is that, if these individual investors could find a cost-effective avenue/means to unite for collective governance action, at least some of these investors can be compelled to become governance active. Notable examples include the United Shareholders Association (as detailed by Strickland et al., 1996) and the Securities Investors Association (Singapore) (Pulses, 2006). This vindicates the establishment of the independent Minority Shareholder Watchdog Group (MSWG) by the Malaysian government.

7.2.2.2 Other Forms of Shareholder Activism

Besides AGM attendance, the study also explores the extent of individual investors' involvement in other forms of shareholder activism-related initiatives. Interviewees were asked about their levels of involvement in such activities and also the underlying reasons for involvement/non-involvement. The relevant Figures (7.11, 7.12 and 7.13) are presented below.

Figure 7.11 *Interview Extract Regarding Other forms of Shareholder Activism (1)*

Researcher:	*For those companies where you do own shares, have you tried any one of the following activities? Communicating with company management via emails or letters or shareholder relations department, submitting shareholder proposals or using the media to highlight your concerns regarding the company?*
Investor 01:	**No, didn't try.**
Researcher:	*Why not?*
Investor 01:	**Never considered.**

Figure 7.12 *Interview Extract Regarding Other forms of Shareholder Activism (2)*

Researcher:	*For those companies where you own shares, have you attempted any one of the following? Communicating with company management through emails or letters or maybe through shareholder relations department, submitting shareholder proposals or using the media to voice concerns regarding the company?*
Investor 12:	**Haven't.**
Researcher:	*Why not?*
Investor 12:	**Never thought of it... don't know how also.**

Figure 7.13 *Interview Extract Regarding Other forms of Shareholder Activism (3)*

Researcher:	*Moving on to the next issue, are other forms of communication initiated by minority shareholders such as writing letters or emails to management or attempting to hold informal discussions with the top management, a rare occurrence?*
Co. Secretary:	**Yes, actually this is a very rare occurrence or it did not occur at all. The most the minority shareholders or any shareholders... they will just write in a request to ask for annual reports that's all... that's the most they will do...other than that, there is no communication between the minority shareholders and top management.**

From the extracts above, the study found clear indications that individual investors are ignorant, disinterested or simply never considered undertaking such initiatives.

Suggestions in the literature that the culture of shareholder activism is not deeply ingrained in developing capital markets seem credible. In addition, the results also vindicate the claim by the Minority Shareholders Watchdog Group (MSWG) that activism in Malaysia currently involves only a select group of individual investors (i.e. the claim that activism is starting from a low base of shareholders).

The study now explores indications of the prevalence of the identified trends.

Table 7.10 *Other Forms of Shareholder Initiatives*

Other forms of Shareholder Initiatives	No. of Respondents	% of Overall Sample
Communication through emails/letters/investor relations dept; Use of the media; Submit shareholder proposals	25	2.26

Looking at Table 7.10, the study found that only 25 respondents (comprising only 2% of the overall sample) have undertaken other forms of activist initiatives. Even if such initiatives are viewed collectively, the combined number of investors involved is still considerably lower than the proportion of investors who had attended AGMs. Nevertheless, the study explores the types of governance-related issues that are of concern to investors who undertake such initiatives.

Table 7.11 *Governance-related Issues Raised*

Governance-related Issues Raised	No. of Respondents
Long-term underperformance (share price or profits).	16
Improving amount and speed of company disclosures.	5
How much/how directors/managers are paid.	6
Reducing the power of big shareholder/managers.	2
Unfair/questionable business decisions; mismanagement; fraud; negligence; etc.	10
Company strategy-related issues and other important corporate decisions such as mergers/takeovers	9
Changing board of directors' structure and composition	4
Shareholder voting-related	5
Appointment of Company Auditors	4
Other	0

The figures in Table 7.11 show that the issue of long-term underperformance is raised most often. A total of 16 out of the 25 respondent investors who report being involved in such activist initiatives have placed emphasis on this issue. This is followed by querying seemingly unfair or questionable business decisions and thirdly, strategic issues such as mergers and acquisitions.

Other listed factors are rarely the main concerns of such initiatives even though none of these received no reported interest. Even though the numbers of investors interested in these other aspects of firm-level governance are low, it does however show that all such attributes of governance are relevant to at least some individual investors. This indication is important as the earlier set of findings which identified only three firm-level factors being of particular importance to individual investors may have created the perception that these other aspects of governance are totally overlooked/ignored.

Overall, activist investors mainly care about performance/investment returns per se or other performance- or returns-impacting issues. Again, very few investors are found to pay attention to ongoing structural and process-related issues such as board composition, executive compensation, voting-related procedures, etc. Investors are therefore mainly concerned with the returns that they ultimately make, even among the select few who are more proactive.

From a governance perspective, the implication is that a significant majority of these investors do not care about how the publicly-listed companies are actually run[195]. Emphasis on performance-related variables is predicted to be even stronger amongst the majority of governance-passive investors. Once again, the prevailing Agency Theory perspective of general investor disinterest and self-utility maximisation seems to be holding up well to scrutiny. Explicit distinction between governance and performance will be explored later in the chapter.

The available evidence again suggests that individual investors are myopic (Keasey et al., 2005). When the firms that they partly own are profitable or their investment in a firm's shares is generating good returns, governance is of little concern. Conversely, when things go wrong (e.g. underperformance or occurrence

[195] How corporate decisions are made, whether the management is capable or suitably qualified, the kinds of checks and balances to ensure there are no abuse of corporate funds and assets, corporate disclosures are adequate and timely, etc.

of fraud), at least some investors are more likely to begin to take an interest in some aspects of governance out of dissatisfaction.

Briefly summarising the findings in this section, in terms of corporate governance being a concern/attribute that requires continual monitoring or active participation, only a very small percentage of individual investors in Malaysia view it, or take it into account, in such a comprehensive manner. The suppressive Malaysian governance institutional and corporate environment is undoubtedly a significant contributing factor that exacerbates this inclination. Alternatively, most do not think that governance is important enough to merit expending significant amounts of time, effort and resource to (i) monitor particular aspects of it or (ii) proactively push for improvements of it.

7.2.3 Investment Cycle Stage 3: Exit/Disposal of Shares

When examining the trends uncovered for this particular stage of the investment cycle during preliminary analysis of empirical findings, the researcher found that certain factors/issues materially influence the relative importance that individual investors attach to governance.

Second, it is found that investors' consideration of governance attributes usually takes place in the previous two stages of the cycle. Hence, the focus for this section is slightly different where, instead of considering how governance is taken into account, it explores how other factors influence/change an investor's inclination towards governance.

For the current section, the study investigates selected factors/scenarios that might compel individual investors to exit or dispose of their shareholdings.

Table 7.12 *Factors Influencing the Exit/Sell Decision*

Factors Influencing the Exit/Sell Decision	**No. of Respondents**			
	Always	**Usually**	**Sometimes**	**Never**
Tips/Insider Information received predicting a fall in the share price soon.	109 (9.86%)	413 (37.34%)	458 (41.41%)	126 (11.39%)
Negative rumours regarding the company's business operations.	62 (5.61%)	349 (31.56%)	522 (47.19%)	173 (15.64%)
Company's recent operating performance/fundamentals are worsening.	123 (11.12%)	471 (42.59%)	406 (36.71%)	106 (9.58%)
Whenever one feels like selling.	108 (9.77%)	378 (34.18%)	412 (37.25%)	208 (18.81%)

The figures in Table 7.12 clearly show that only a small number of investors (approx. 11%) are unaffected by tips/insider information predicting an imminent fall in share prices. The remaining 89% of investors exhibit various propensities to sell out (from always to sometimes) after receiving such information. The study's prediction that investors are unwilling to bear the "heightened" possibility of incurring investment losses (regardless of whether such tips turn out to be true or otherwise) thereby increasing the likelihoods of them impulsively selling out seems valid. Unconfirmed tips seem to influence both buying and selling decisions considering the earlier finding that 81% of respondents base part of their share purchasing decisions on such information. In addition, a fairly similar albeit slightly weaker indicative tendency can be detected for the influence of negative rumours regarding the company's operations on selling decisions.

Next, about 90% of respondents reported various propensities for disposing of their shares whenever a company's operating performance begins to deteriorate. With such a high number of investors exhibiting the predisposition to sell out at the first instance/indication of trouble, the opposite inclination to keep the shares and campaign for governance improvements must surely be very low. In fact, the many sets of results for shareholder activism confirm this.

Another implication of the finding above is that it helps to explain the country-level governance criteria of only investing in well-run companies. This is because the researcher can now begin to detect investors' inclination towards corporate performance rather than corporate governance. How the firm is actually run seems to be of lesser or scant concern if the firm is performing well (presumably generating good returns for these investors). Conversely, they are more inclined to sell out when performance worsens, even if a firm is actually well governed. It is apparent that a majority of Malaysian individual investors adopt a “perform or explain/abandon” mindset. Further exploration into the “governance or performance” issue is undertaken in the next subsection.

Finally, for the current set of results, some respondents’ investment-related behaviour is influenced by their emotional states (as argued by proponents of behavioural finance such as Barberis and Thaler, 2002; Daniel et al., 2002; Statman, 1999; Nofsinger, 2008; Subrahmanyam, 2007). In this regard, 81% of investors report various propensities to sell out for this particular reason. Consistent with the various causes of investor irrationality described by behavioural finance, a majority of individual investors in Malaysia are influenced by non-rational emotions. Hence, similar to findings pertaining to motivations for attending/not attending AGMs, behavioural finance explanations look increasingly superior to those of standard finance.

Taken together, these results show that investors’ share investment actions are influenced by unconfirmed speculation/rumours/tips and also emotional states to various degrees. From the perspective of governance, these are, at best, undesirable distractions to individual investors. For example, unconfirmed negative rumours/speculation regarding a company’s operations or share prices compel investors to sell out impulsively regardless of how well the company is governed. Impulsive action overrides/take precedence over governance considerations (which once again fit ideally with the short-termist, impatient and profit-maximisation portrayal in the academic literature). More importantly, even individual investors who consider firm governance are more likely to sell out rather than campaign/lobby/demand improvements.

7.2.4 Governance or Performance?

The findings reported thus far are based on the premise that good governance results in good/superior corporate performance (see, for example, Gompers et al., 2003, and Bauer and Guenster, 2003). Great care was taken to justify such an assumption in previous chapters. Even so, many individual investors may actually be mostly concerned with corporate performance (i.e. share price performance and/or firm operating/profit performance) and not to the actual ways by which these firms are governed.

Good preliminary indications for the claim above is the set of findings presented in the preceding section where many respondents are found to be much more focused on performance per se and even for those who do take governance into account, performance-related aspects exert a strong influence on their investment decision-making. This is also evident in their focus on managerial capability and speed/quality of disclosures rather than the proper governance structures/ processes such as the composition of the board, level of executive compensation, internal control systems, etc. Even so, some governance-interested investors do attach a certain degree of importance to transparency and accountability on the part of corporate managers.

The following sets of findings aim to discern between the two. Figures 7.14 and 7.15 provide some insights into the thoughts of investors regarding governance or performance issues.

Figure 7.14 *Interview Extract Regarding Governance or Performance (1)*

Researcher:	*In general, if the performance of the company that you've invested in is worsening, would you rather sell your shares than pressuring management to improve performance?*
Investor 01:	**(I) will sell the shares because (I) am only small shareholder, it's not my turn to pressure or persuade management to improve...**
Researcher:	*As long as the share price or operating profits or dividends go up, how the company is actually run doesn't really concern you. Do you agree or disagree?*
Investor 01:	**Agree.**
Researcher:	*Lastly, as long as your investment is profitable, you can tolerate managers abusing their power, even stealing company assets. Do you agree or disagree?*

Investor 01:	**Not really, but for short-term investment it is because for long term, auditor can check it.**
Researcher:	*If such a situation was discovered in one of the companies that you invested in, would you take any action, assuming that your investment in that company is still profitable?*
Investor 01:	**Oh, Still can accept. Before it turn into a loss... my money. I can accept the management doing bad things.**

Figure 7.15 *Interview Extract Regarding Governance or Performance (2)*

Researcher:	*In general, if the performance of the company that you've invested in is declining, would you rather sell your shares than pressuring management to improve performance?*
Investor 06:	**I will sell my shares rather than pressuring management to improve performance... because I am just a small investor.**
Researcher:	*As long as the share price or company profits or dividends go up, how the company is actually run doesn't really concern you. Do you agree or disagree?*
Investor 06:	**I agree. This is because my main objective is to make profit from my investment.**
Researcher:	*As long as your investment is profitable, you can tolerate managers abusing their power, even stealing company assets. Do you agree or disagree?*
Investor 06:	**I can tolerate but I do not agree with such actions.**
Researcher:	*If such a situation was discovered in one of the companies that you invested in, would you take any action, assuming that your investment in that company is still profitable?*
Investor 06:	**No, I will not take any action.**

Evidence from Figures 7.14 and 7.15 above suggests that at least some investors pay scant attention to the general management of public-listed companies, provided that their investments in these companies' shares are profitable. Furthermore, mismanagement and even blatant abuse of power (proxied by managers stealing company assets) are found to be acceptable to some of them as long as investment returns are positive.

Subsequently, the study explores the prevalence of these identified governance/ performance tendencies below.

Table 7.13 *Respondents' Behavioural Tendencies (Governance or Performance)*

Behavioural Tendencies (Governance or Performance)	**No. of Respondents**				
	Strongly Agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
As long as the share price/operating profits/dividends go up, how the company is run is not a big concern.	139 (12.57%)	411 (37.16%)	355 (32.10%)	188 (17.00%)	13 (1.18%)
As long as my investment is profitable, managerial abuse of power (even stealing company assets) can be tolerated.	48 (4.34%)	224 (20.25%)	322 (29.11%)	370 (33.45%)	142 (12.84%)
I'd rather sell my shares than pressuring management to improve performance.	153 (13.83%)	530 (47.92%)	321 (29.02%)	97 (8.77%)	5 (0.45%)
Company operations/ fundamentals are less important in a speculative market.	62 (5.61%)	317 (28.66%)	503 (45.48%)	207 (18.72%)	17 (1.54%)

Table 7.13 shows that approximately 50% of respondents concur that, as long as profits are made or when the company is posting strong operating figures, how managers actually run the companies is of secondary concern. It is much higher than the 18% who think otherwise. Indicative tendency indeed shows that investors are mostly concerned with corporate performance per se rather than governance proper. The utilitarian agency theory prediction that individual investors are mostly disinterested in the governance of publicly-listed firms seems to hold (Thompson and Davis, 1997; Becht et al., 2003; Monks and Minow, 2004).

Next, 46% of respondent investors report being intolerant of corporate managers abusing their wide discretionary powers to the extent of stealing company assets. Nevertheless, it is highly surprising that even when blatant abuses are emphasised, 25% of investors still do not care/can tolerate such action as long as their investments are profitable. A further 29% are undecided as to whether such action is tolerable or otherwise. When a combined 54% of investors are tolerant/ indifferent to abuse, it is easy to see why corporate managers are able even to openly exploit/expropriate outside investors. As most investors do not take any redress action (since they do not expect company managers to even respond to their complaints – an observation derived from the study's earlier findings), corporate managers are able to abuse their positions and power with minimal sanctions/apprehension.

From an agency perspective, managers will pursue self-interested utility maximising behaviour whenever they are allowed to do so (Jensen and Meckling, 1976). Gauging investors' behavioural tendencies in this manner seems to be a good way to distinguish between concern for governance as opposed to concern for performance. All findings thus far are consistent in showing that a majority of individual investors in Malaysia are primarily focused on performance as opposed to good governance per se (i.e. the proper structures and processes in place in running the firms). Referring back to the country-level governance criterion of only investing in well-run companies, investors who adopt this criterion are most likely to be referring to well-performing companies instead (that is, a well-performing company is one that is well-run).

The study found that a sizeable majority of investors would rather sell out than to campaign or lobby company managers to improve corporate performance. Another 29% are reported to be undecided while only 9% of investors sampled report being more inclined to pressure management for better performance.

Results are consistent with academic theoretical predictions that most individual investors cannot be relied upon to play a significant role in governance monitoring (as explained by Monks and Minow, 2004). Government/regulators should therefore reconsider the practice of encouraging individual investors to play a bigger governance role; to implement steps to lower the costs of activism; or to better demonstrate the benefits of good governance to investors. However, this "selling out whenever problems arise" action has been encouraged by some policymakers in government and also certain regulators (as described in Section 2.7 (II) Government/Regulator Perspective (II) in Chapter 2).

Perhaps the results reported thus far simply reflect the fact that most individual investors in Malaysia haven't matured enough in terms of share investment sophistication and haven't reached the stage where the culture of activism is readily embraced. For example, most still pursue heuristically-simplified investment strategies, corporate governance is still very much only about good corporate performance and a vast majority also opt to sell out rather than press for improvements in governance. At this stage, therefore, the government's focus on encouraging activism may be misplaced (i.e. premature).

Here, the study is simply arguing that more resources should be placed on investor education to increase their investment knowledge and sophistication and for now, focus more on encouraging individual investors to account for governance in their share investment practices (specifically, more cost-effective means such as evaluating aspects of governance before purchasing shares – investment criteria) rather than costly shareholder activism.

Returning to the set of results above, the last statement is meant to gauge investors' beliefs regarding how well share prices actually reflect the underlying fundamentals of the firms that they represent. In this regard, around 45% of investors are found to be undecided, 34% believe that speculation/sentiments affect the prices of shares while 20% believe otherwise. Hence, only one in five individual investors do think that fundamentals/governance is no less important in speculative markets. Even so, the actual percentage may actually be considerably higher given the significant proportion of investors who are undecided.

7.2.5 Average Shareholding Period

The study found that important indications regarding the propensities of individual investors to consider corporate governance or undertake governance-related initiatives can also be obtained from looking at investors' typical shareholding timeframes. Consider the following interview extracts (Figures 7.16 and 7.17):

Figure 7.16 *Interview Extract Regarding Average Shareholding Period (1)*

Researcher:	*What is the typical investment horizon of these investors? Do they talk of their investments in terms of days, weeks, months, or years?*
Mkt Insider:	**If anybody in the market place talks about years and months, they are perceived to be the long term investors and most of the participants are talking about days and weeks in term of time planning.**
Researcher:	*Days and weeks...*
Mkt Insider:	**Yup, the retail investors are looking at a very short term... days and weeks.**

Figure 7.17 *Interview Extract Regarding Average Shareholding Period (2)*

Researcher:	*What is the typical investment horizon of these investors? Do they talk of their investments in terms of days, weeks, months, or years?*
Broker 03:	**It depends on what happens to the counters that they purchase. Usually, most retail investors that I deal with invest for the shorter-term... weeks and months, some just a few days. If they make losses, may hold for longer... maybe many months… up to a few years even.**
Researcher:	*So, they tend to hold on to loss-making investments for longer?*
Broker 03:	**Some. Want to wait till the price go back up to sell out and break even... don't want to sell at a loss.**

The extracts above suggest that the wider individual investor population in Malaysia is likely to have relatively short shareholding timeframes. The disposition effect (Nofsinger, 2008) is also found in developing capital markets such as Malaysia as interview respondents have highlighted their aversion to losses by tending to hold on to loss-making shares for longer. The pervasiveness of these indicative tendencies is investigated below.

Table 7.14 *Questionnaire Respondents' Average Shareholding Period*

Average Shareholding Period	No. of Respondents	% of Overall Sample
Less than 1 day	8	0.72
Less than 1 week	25	2.26
1 – 4 weeks	86	7.78
1 – 2 months	105	9.49
2 – 6 months	267	24.14
6 months – 1 year	314	28.39
1 – 2 years	171	15.46
More than 2 years	130	11.75
Total	1106	100

From Table 7.14, most respondent investors are not extremely short-term traders/investors as only 11% hold on to their shares for an average period of four weeks or less. Therefore, even if a significant proportion of investors do engage in short-term speculation[196], only a small minority have extremely short-term trading horizons on average.

[196] As earlier results show that more than 80% of investors take heed of unconfirmed tips/insider information/speculation and also, 73% of investors have devoted part of their individual share portfolios for speculation/gambling/punting purposes.

Most individual investors own their shares for a period of between two months and a year. With approximately 53% of sampled investors represented by this period, Hull's (1997) contention that the perceived difference in shareholding periods between "investors" and "traders" (implying long-term vs. short-term perspectives) is misleading due to significant overlaps is vindicated. A good illustration is that 77.6% of investors rated long-term share price increase being either an Important or Very Important investment objective even when 78.2% of the same group have reported average shareholding periods of one year or less.

With about three out of every four individual investors reporting average shareholding periods of one year or less, the contention that most investors in developing capital markets adopt relatively short-term investment horizons is credible (as argued by Monks and Minow, 2004). Included is the fact that the most important investment objective is short-term share price increase and the pervasive influence of tips/rumours/speculations in inducing impulsive buy/sell decisions.

One can envisage a scenario where a tranche of shares is purchased right after the AGM of a public-listed company. As the average holding period is usually less than a year, seven out of ten investors would on average have sold out before up to around the period of the company's next AGM. Even if they were to attend and press for better governance, these investors would have sold out long before any discernable improvements can be detected or translated into improved corporate performance. This explains why so many investors reported that attending AGMs is not relevant to their investment style and it applies to most other forms of governance initiatives as well. Under normal circumstances[197], therefore, investors with average share ownership of less than one year are assumed to be uninterested in governance monitoring.

The study's earlier finding that a majority of investors do take into account some aspects of a firm's governance however, suggests that governance is not totally disregarded by short-term shareholders. Instead, these sets of results provide further support to the study's contention that governance-related concerns are being taken into account in a manner distinct from constant monitoring (specifically, as a one-off preliminary investment screening criteria).

[197] Barring perhaps, incidences of corporate fraud and other blatant abuses.

Reverting to shareholding timeframe, approximately 27% of total respondents are found to adopt longer investment horizons by typically holding on to their shares for one year or more. Investors' inclination to hold on to loss-making shares for longer could result in some investors being classified as longer-term shareholders due to such holdings rather than being purely the result of pre-planned strategy or natural inclination. Nevertheless, from the viewpoint of governance, the two groups of investors with typical shareholding periods of more than a year have a higher likelihood of considering certain aspects of a company's corporate governance due to their relatively stable, long-term shareholding style.

When interpreting the indicative tendencies identified above, it must be noted that the shareholding periods are only averages and some tranches of shares may be owned for a much longer or shorter time period compared to the average. Even so, the notion that an investor with a typical investment horizon of a few days has markedly different preferences and practices from another with an average timeframe of a few years seems intuitively appealing. Averages are useful as they provide some indication of investors' other share investment related practices. It is obvious that the arguments made thus far have been guided by this underlying logic. In addition, this tendency-based treatment mirrors the complexities of making investments in real life where a myriad of influencing factors would affect the holding periods of different tranches of shares.

7.2.6 Other Supporting Empirical Evidence and Interim Summary (Q1)

In this section, the study presents other important empirical observations and evidence that materially affect individual investors' propensities for considering governance and/or undertaking governance-related initiatives. Then, an interim summary will be provided, mainly to offer an integrated interpretation of the various findings aimed at addressing Research Question 1 (Q1) that have been reported thus far.

One of the key factors that has been identified is investors' apparent lack of confidence and scepticism regarding the effectiveness of corporate governance in Malaysia. Also, numerous academics such as Shleifer and Vishny (1997), Low (2004) and Becht et al. (2003) have portrayed individual investors to be ill-informed, disinterested, unsophisticated and mostly reliant on tips/rumour fuelled, short-term trading. These trends, as valid as they may seem, apparently do not tell the whole story. Clear indications of this are detected in Figure 7.18 and 7.19 below.

Figure 7.18 *Interview Extract Regarding Market Participants' Actions/Motivations (7)*

Researcher:	*Are you particularly interested or show any preferences for good governance usually when you invest?*
Broker 04:	**Not really.**
Researcher:	*Now, why not?*
Broker 04:	**Because in our country... I mean… the corporate governance is very low to me, so I still prefer to go on technicals rather than on the fundamentals.**
Researcher:	*Do you not trust that corporate governance in Malaysia is effective then?*
Broker 04:	**Yes, I don't really trust it.**
Researcher:	*Would governance be more relevant to you then, in times of financial crisis or declining corporate performance?*
Broker 04:	**Until our country's corporate governance... I mean impose… that can protect the retailers or the small shareholders… have enough power to voice out then I will or else, to me, I still don't believe it.**

Figure 7.19 *Interview Extract Regarding Market Participants' Actions/Motivation (8)*

Researcher:	*Is the transparency and responsibility of corporate management a key consideration?*
Investor 05:	**Ideally it should be a key consideration but I don't think you can apply in Malaysia. So, I mean, it does not really matter to me much.**
Researcher:	*Why does it not apply to Malaysia?*
Investor 05:	**Why is that it does not apply to Malaysia? Partly due to certain conflict of interest in the party which are actually involve in it. It have political interference, ok, as well as directors having interest in it, and you have political people actually under... director of these companies.**

For governance proponents, even though the empirically-derived, indicative trends are expected (considering the many concerns within the Malaysian governance system, as detailed earlier), these findings are worrying on a few counts. It documents a situation where investors who are supposedly concerned with governance or have considered taking governance into account do not actually do so because of significant constraints faced within the investment environment.

As was described in Chapter 3, it is also likely that by operating within the suppressive Malaysian political environment where accountability and transparency are not normally expected and the voicing of mistreatment and other abuses are ignored, the investing public's (in this case, individual investors') negative perceptions of the various action/motivations of powerful vested interests extends into the corporate sector as well. In fact, the study documented many incidences of blatant mistreatment of minority investors and that their subsequent initiatives to seek redress were largely ignored. Figures 7.20 and 7.21 further illustrate the difficulties faced on this front.

Figure 7.20 *Interview Extract Regarding Market Participants' Actions/Motivation (9)*

Researcher:	*Why do you think this is so? What are the main problems that we are facing?*
Broker 04:	**They have to tighten up the rules. Just recently, there's a few… two companies that cooked up the accounts and, I mean, our rules didn't change from last time, I don't think they put these two management… these two companies management into jail. They will get a fine but, fine to them is nothing. We can fine them how many millions, they are willing to pay for it because they are big enough, aren't they? To me fine, the penalty or the punishment of those who have mismanaged or misled the public or the retail shareholders should be put into jail, not... I mean, just by fine… is hopeless.**

Figure 7.21 *Interview Extract Regarding Market Participants' Actions/Motivations (10)*

Researcher:	*What are the main problems that we are facing?*
Co. Secretary:	**Corporate governance, I don't think that it will work very soon or we can see any benefits in the short term but in long-term perhaps if really, really government enforce it and... there is really enforcement there... probably all the boards of directors will really comply... in order to make corporate governance work but I foresee that it will take a very, very long time. It is not as easy as what you can see because there is other influence from external factors such as... the political situation and also the government interruption.**

From Figures 7.20 and 7.21, many capital market paticipants seem to have good practical knowledge and awareness of major governance concerns and the overall effectiveness of corporate governance rather than being fully uninformed or possess no knowledge/awareness whatsoever (contrary to the prediction of authors such as Shleifer and Vishny, 1997).

Empirical responses also show that individual investors' very perception of "lip service" corporate governance is sufficient to discourage at least some of them from taking on any governance role. These findings increase the credibility of earlier results showing that a majority of individual investors have negative opinions regarding the actual likely motivations/actions of other key market participants.

In addition, it seems that positive market developments since the 1997 Financial Crisis are not really successful in changing investors' entrenched perceptions of the Malaysian corporate environment. Specifically, sustained governance reforms and the rise of some well-run corporations that do not depend on political patronage are more likely than not seen by investors as window dressing with little substance. Ultimately, reform initiatives need to be carried out in a sincere, fulsome and consistent manner rather than just creating the appearance of having improved as investors seem to be able to see through these superficial moves.

The findings above vindicate Oman's (2001) contention that good political governance goes hand-in-hand with good corporate governance. More importantly, however, is the realisation that individual investors, when seen as a distinct group, are actually more sophisticated than envisaged in the academic literature in this respect.

Combining and considering further (i) the form over substance reforms issue described earlier and (ii) the apparent cynicism, scepticism and/or lack of confidence on the part of the individual investors, a major implication of this is that any real positive changes in Malaysian corporate governance will take a long time to alter long-held negative suspicions, perceptions and beliefs. Such a situation is perhaps inevitable under a capital market system that is amalgamated with a political system based heavily on patronage (please refer to Figure 3.2 that clearly documents the mechanisms of the Malaysian political patronage system) and affirmative redistribution of wealth policies that are dished out by powerful political parties/politicians (see, for example Gomez and Jomo, 1999, and Searle, 1999).

The overall lack of confidence in the effectiveness of corporate governance in Malaysia creates a self-defeating situation. This is where investors are reluctant to consider and demand better governance as such efforts are seen to be futile while, on the other hand, no improvements can be achieved without them applying sufficient pressure on both regulators and corporate managers. Evidence points towards the potential of at least some individual investors being involved in governance as they're actually more compelled to ignore or remain passive by the inability to affect change rather than being disinterested or indifferent in the first instance.

The arguments above reinforce the view that the government should play a central role in spearheading the relevant governance initiatives, particularly in creating suitable legislation and enforcing it (Low, 2004). However, with the enmeshing of political and economic interests in the country (Searle, 1999), the forces opposing real reforms are very significant indeed (Oman, 2001). It also indirectly suggests that encouraging individual investors to play a bigger and more active role in governance is also a very difficult task under current circumstances.

As an interim summary, when asking whether and how governance matters to individual investors, the appropriate response is as follows. Certain firm-specific governance attributes do matter for a majority of individual investors but not very much on average. Important governance aspects include the capability of corporate management, the transparency and accountability of corporate managers and the speed as well as quality of company disclosures. These factors support another one of the study's important findings, that is, investors are more concerned with corporate performance than corporate governance per se. This is because the capability of corporate managers is essential in producing good performance.

On the other hand, in order for investors to be informed of the latest company developments, successes and performance so that timely investment decisions can be made, corporate transparency (in the form of fair and accurate material disclosures) is required as well as the speed of such disclosures (so that they will be able to take advantage of such developments).

To individual investors in Malaysia then, corporate governance is very much about improving corporate performance rather than the structures and processes that are right and/or proper for the running of the publicly-listed firms in question.

In terms of actual treatment, governance is taken into account primarily in the form of evaluation criteria but not in the form of activism-based initiatives or constant monitoring. Lastly, a majority of individual investors in Malaysia are aware/ opinionated regarding broad, major governance concerns which suggest that they are actually more sophisticated than previously thought in this respect. Even so, they are credulous in the sense that they do not tailor their investment practices to account for the perceived governance concerns. Furthermore, a majority of individual investors in Malaysia are influenced by and also engage in speculative and rumour-driven share investments to different extents. They mostly adopt short-term investment timeframes on average and are primarily in the market to make quick profits (as evidenced by their focus on corporate performance and investment returns).

The following sections of the study are focused on the presentation of empirical findings pertaining to the second main research question (Q2).

7.3 When Does Governance Matter to Individual Investors?

When viewed from another angle, instead of asking whether or not governance matters and how it matters, it may perhaps be fruitful to ask when does governance start to matter or, if it already matters, become more important to individual investors? The possibility that investors may behave differently under differing general circumstances is intuitively appealing. Earlier indications that suggest individual investors are likely to be myopic (as described by Keasey et al., 2005) also add to the relevance of this particular research question.

7.3.1 Governance under Differing General Conditions

With regards to the possibility that governance becomes important/more important under differing general circumstances[198], the extract below (Figure 7.22) offers what is perhaps the most intriguing finding pertaining to this issue.

Figure 7.22 *Interview Extract Regarding Governance under Differing General Conditions (1)*

Researcher:	*Ok. So, fundamentals[199], are they important at all? Is it important in the valuation of the company itself?*
Mkt Insider:	**No, it is not.**
Researcher:	*Ok. Are there any examples that you can give me?*
Mkt Insider:	**You see... during the financial crisis, stocks like Malayan Banking, the biggest bank in Malaysia which was traded at about... close to 20 Ringgits and during the crisis, it went all the way down between a year and a half to about 2 Ringgits and 70 sen which is about 10 to 15% of its value. Well, ideally, a strong fundamental stock wouldn't even depreciate more than 50% of its value even in any environment but that has happened... that has proven that whatever fundamental structure they're talking about, it has gone down the drain.**

Contrary to the study's prediction that governance may matter more when the economy and/or stock market is declining as investors would opt for stocks of better governed companies that are perceived to be less adversely affected, the interviewee makes the exact opposite argument (Figure 7.22). Specifically, under these circumstances, company fundamentals would be totally disregarded/ignored (as evidenced by the respondent's "go down the drain" comment) as many investors impulsively exit/sell their shares regardless of fundamentals or all other considerations for that matter.

Whether the tendency above is due to panic selling, selling to cover losses incurred elsewhere, sell to buy back later at a much lower price, or any other possible reasons for selling, the point is that this response suggests that most

[198] Referring to the overall share investment climate.
[199] As detailed in Chapter 4, fundamentals are factors that could be regarded as important in understanding a firm and its business. The term usually refers to important/major firm-specific characteristics/factors such as its current and future/prospective earnings, revenues and growth; future business prospects, quality and capability of management and may be inclusive of corporate governance-related concerns.

investors are overwhelmingly concerned with stemming any investment losses[200] even at the expense of potential long-term value. In short, emotions take precedence over good governance.

Since governance may become less important or even irrelevant to some investors in times of economic uncertainty and/or declining markets, the opposite situation may also hold. This is where fundamentals become a key consideration when the stock market is rising and investor sentiment is bullish. Such thinking was unexpectedly found in yet another key interview extract, as shown in Figure 7.23.

Figure 7.23 *Interview Extract Regarding Governance under Differing General Conditions (2)*

Researcher:	*Are company fundamentals important at all and, if so, in what sense is it important... perhaps in terms of the valuation of the company itself?*
Broker 04:	**Company fundamentals are important as equity analysts use this kind of information to value the companies but valuations depend on the projected figures analysts use... to predict the future prospects of the company. What we get is usually different valuations by different analysts... see whether they think the business will do well or badly. When times are good and the share prices hit the target price... there are analysts who will revise the company valuations upwards and the new target price is also set higher so that investors will keep buying and chasing the counter.**
Researcher:	*So, the valuations change often and fundamentals are priced or valued differently even by the same analyst? So, these figures actually do not reflect fundamentals per se but more towards taking advantage of positive investor sentiment and encourage them to buy more of such shares?*
Broker 04:	**Yes, fundamentals is a kind of way to convince investors of the worth of the companies but at the end of the day, it's just the opinion of the analyst more than... actual worth of the company.**

The extract above details how equity analysts make use of company fundamentals to predict the future prospects/performance of publicly-listed firms. Projected figures are used to estimate firms' fair values and also target share prices that reflect the said valuations. Broker 04's contention is that fundamentals may sometimes be priced/valued more aggressively and frequently (leading to many revisions of both company valuations and target share prices) to take advantage of the buying momentum generated by investors' bullish sentiments. This is consistent with brokers' tendency to make frequent buy/sell recommendations to stimulate trading and earn more commissions.

[200] Either potential or incurred losses.

Regardless of whether the generated figures fairly reflect company fundamentals or investor sentiment (as explained by Statman, 1999), the salient point is that many investors would pay more attention to company fundamentals in a rising stock market. This is because share reports published by equity analysts tend to use fundamentals-based arguments and investors in a rising market are more inclined to buy/invest in shares rather than sell/exit the market. In addition, stockbrokers are also inclined to make use of such analyst reports to compel their clients to buy more shares.

For the next relevant general investment situation, consider Figure 7.24 below.

Figure 7.24 *Interview Extract Regarding Governance under Differing General Conditions (3)*

Researcher:	*Thank you very much. Now, besides this are you generally concerned about the quality and capability of a corporation's management?*
Investor 08:	**Now, I'm very, very concerned especially in light of the recent events where the Malaysian stock market whereby two of Malaysia's well-known companies such as Transmile and Megan Media have shown that corporate governance has not been executed to satisfactory level… I'm not talking about perfection, I mean satisfactory level cause this company that I have mention…** **...recently reported that they have some accounting fraud. Yeah, and with respect to receivable and stuff... and inflated their earnings as well as crowding the eyes of the... investment community such as the analyst as well as the retail investors.**

The extract above raises the possibility that governance may matter more when publicly-listed company fraud happens often, especially when these are reported in the press (as predicted and argued in the earlier chapters of the study). Hence, this factor is included in the list of differing general investment conditions.

The relative importance of governance to individual investors under the identified situations amongst the main questionnaire respondent sample is explored below.

Table 7.15 *Importance of Governance under Differing General Investment Environments*

General Investment Environments	No. of Respondents	% of Overall Sample
In times of general economic uncertainty	453	40.96
In a bearish/declining stock market	382	34.54
In a bullish/rising stock market	106	9.58
When company fraud happens often	232	20.98
None of the Above	415	37.52
Others	5	0.45

Considering the figures in Table 7.15, corporate governance, when described as the long-term proper management of publicly-listed companies, is deemed to be more of a concern for about 41% of sampled investors in times of general economic uncertainty. It is likely that economic uncertainty dampens investor sentiment/expectations and also adversely affects operations and revenues of public-listed companies. The diminished business prospects for corporations in times of economic crisis coupled with negative and cautious investor outlook on corporate performance would adversely impact the stock prices of these companies. A close link therefore exists between general economic uncertainty and capital market performance

In fact, governance is found to matter more for about 35% of respondents (broadly comparable to the percentage reported for general economic uncertainty) in a declining stock market. As well-run companies are seen to be more resilient, do not take excessive business risks and are more transparent, they are comparatively less affected by economic downturns and crises than their less well-governed peers. Empirical evidence from the governance literature (see, for example, Lemmon and Lins, 2003; Baek et al., 2004; Johnson et al., 2000) generally supports the individual investor opinions quoted above.

Conversely, the study found that only less than 10% of sampled investors are more concerned with governance when the Malaysian capital market is rising. Importance of governance generally does not increase in such a circumstance.

Next, the study found that when corporate fraud happens often, around 21% of investors would pay more attention to governance. It is assumed that such incidences are widely reported in the press which act as a reinforcement mechanism to remind investors of the importance of governance. This is a clear indication that major incidences involving weaknesses/failings in corporate governance do make individual investors more aware and governance-concerned. Subsequently, this compels individual investors to scrutinise the publicly-listed companies whose shares they are considering buying more closely.

Lastly, about 38% of respondent investors do not feel that the long-term management of publicly-listed companies matters more under all of the scenarios listed above.

The reported findings generally support the study's contention that governance matters relatively more to some investors under certain specific circumstances.

7.3.2 Investor Tendencies When Governance-related Concerns are Acute

In this section, the study reports results pertaining to a generic but extreme governance scenario involving a clear absence or blatant violation of the tenets of good governance. Such a scenario is posed to respondents to explore their likely behavioural responses. This is regarded to be the best strategy to gauge individual investors' likely reactions in situations where governance becomes the primary issue as most of them have never actually experienced such extreme investment situations in real life. Justification for such a treatment is that it would provide vital indicative behavioural tendencies of investors when governance-related concerns are acute.

7.3.2.1 Treatment of Shares Post-Scandal

The first issue that is of particular interest to the study is the likelihood of individual investors disposing of/selling off the shares of the scandal-ridden company whose price has dropped significantly. The responses in Figures 7.25 and 7.26 are reported as they are found to be typical of the opinions of interview respondents as a collective group regarding this issue.

Figure 7.25 *Interview Extract Regarding the Treatment of Shares Post-Scandal (1)*

Researcher:	*Imagine yourself owning some shares in a publicly-listed company that is involved in a major scandal/fraudulent activity and the share price dropped significantly as a result... before you get the chance to sell your shares, what would you do next? Sell the shares or keep it?*
Investor 02:	**Keep it.**
Researcher:	*Why?*
Investor 02:	**With hope that it will go back up... less loss.**

Figure 7.26 *Interview Extract Regarding the Treatment of Shares Post-Scandal (2)*

Researcher:	*Imagine yourself owning some shares in a publicly-listed company that is involved in a major scandal or fraud and the share price dropped significantly as a result... before you get the chance to sell your shares, what would you do after that? Will you sell the shares or keep it?*
Investor 01:	**Keep it since it already dropped 50%. It is pointless to sell. Perhaps the company will have good announcement.**
Researcher:	*Are you not afraid that it will fall further?*
Investor 01:	**If everyone also sell the shares maybe you lose more than the big drop, why not keep it?**

Figures 7.25 and 7.26 suggest that individual investors are more inclined to keep the shares of scandal-ridden companies whose values have dropped significantly. It seems that these investors are mostly hoping for a future recovery of the share price. Loss-aversion (the general unwillingness of investors to realise their investment losses) is regarded as the most likely explanation. Even so, a few interview respondents have offered a differing position (please refer to Figures 7.27 and 7.28).

Figure 7.27 *Interview Extract Regarding the Treatment of Shares Post-Scandal (3)*

Researcher:	*Imagine yourself owning shares in a publicly-listed company involved in a major scandal or fraud and the share price dropped significantly as a result... before you get the chance to sell your shares, what would you do after? Will you sell the shares or keep them?*
Investor 06:	**Definitely sell out as quickly as possible. If I wait any longer, the price may drop even more... may never recover also, the share... can't afford to take the risk.**

Figure 7.28 *Interview Extract Regarding the Treatment of Shares Post-Scandal (4)*

Researcher:	*Imagine yourself owning shares in a publicly-listed company that is involved in a major scandal/fraudulent activity and the share price dropped significantly as a result... before you get the chance to sell out, what would you do next? Sell the shares or keep it?*
Investor 13:	**Sell.**
Researcher:	*What is the main reason for selling?*
Investor 13:	**I invest in companies with good management... consistently performing and gives good returns. If such activities are discovered, the company is no longer a good investment. I don't see the reason to keep the shares.**

Interview respondents seem to exhibit different tendencies regarding this issue as some are found to prefer selling out while others opt to hold on to the shares. Essentially, the study is unable to ascertain which position is the more likely indicative tendency. As such, the prevalence of the two opposite treatments amongst survey respondents is investigated.

Table 7.16 *Treatment of Shares Owned Post Scandal/Fraud*

Treatment of Shares Owned Post Scandal/Fraud	No. of Respondents	% of Overall Sample
Hold/Keep the Shares	434	39.24
Exit/Sell the Shares	672	60.76
Total	1106	100.00

Indications from Table 7.16 are that individual investors in the sample have a higher tendency to dispose of shares that have registered a significant decrease in value post-scandal. Specifically, around 61% of respondents have expressed the inclination to sell out while the remaining 39% tends to hold on to their shares. However, taking into account the sizeable minority who opt to keep the shares, it seems that investors are not of one mind when evaluating the prospects of their shares post scandal. Furthermore, the extracts above show that both groups have logical reasons behind their respective actions. On balance, however, individual investors are slightly more inclined to sell out.

7.3.2.2 Individual Investors' Initial Reponses Post Scandal/Fraud

Next, the study considers the initial responses of investors post scandal/fraud. Essentially, the study intends to explore whether investors who are directly affected would remain silent or complain to people who are close to them. One must bear in mind that the primary aim of shareholder activism-related initiatives is to have one's voice/opinions heard and to seek redress and/or accountability when such scandals happen. Hence, this initial propensity to complain is viewed as an important indication of the propensity to subsequently undertake governance-related action under such a circumstance.

Table 7.17 *Individual Investors' Initial Responses Post Scandal/Fraud*

Individual Responses Post Scandal/Fraud	No. of Respondents	% of Overall Sample
Keep Quiet and Suffer in Silence	482	43.58
Complain about it to family/friend	624	56.42
Total	1106	100.00

Table 7.17 reveals that, collectively, individual investors exhibit a higher likelihood to complain about the scandal to family and friends rather than remaining silent. This is a key finding from the viewpoint of governance as it shows that a majority of individual investors have the desired natural inclination to speak up, make complaints and seek redress when they are being mistreated. It also suggests that individual investors can play a part in governance, at the very least, under certain extreme situations.

Elaborating further, one of the study's main predictions is that an investor's relative propensity to complain (hence, the relative propensity to undertake governance-related initiatives) is significantly influenced by cultural considerations (as suggested by the arguments made by Pye, 1985). In this instance, the focus is on investors' race/ethnicity. As posited in Chapter 3, ethnic-Chinese investors are assumed to be more likely to stand up for their ownership rights and also more likely to complain/to seek redress when being mistreated.

A Chi-Square value of less than 0.01 confirms the significant link between investors' race/ethnicity and tendency to complain with 99% confidence (please refer to Appendix 7).

The results (Appendix 7) show that 63.5% of ethnic-Chinese investors exhibit an inclination to complain to family/friends compared to just 34.6% for ethnic-Malay investors. Conversely, 65.4% of ethnic-Malay investors prefer to keep quiet and suffer in silence while only 36.5% of ethnic-Chinese respondents choose to do the same. Respondents who are ethnic-Indian are found to exhibit a fairly balanced tendency with 53.8% complaining and 46.2% keeping quiet.

Ethnic-Chinese investors do show a greater latent propensity to undertake governance-related initiatives. Their "complain and make sure that my grievances are heard" mindset (Crouch, 1996) makes them more closely mirror the "ideal shareholder" (as conceptualised by governance proponents) as compared to investors from the other two ethnic groups.

This set of findings shows that governance researchers should not view individual investors as generic economic agents with similar propensities/behavioral tendencies worldwide. An individual investor's propensity/latent potential to undertake shareholder activism and/or play a proactive role in advancing corporate governance may be significantly different from their peers due to cultural norms/ distinctiveness (for example, see the cultural distinctiveness arguments put forth by Kim and Nofsinger, 2003).

7.3.2.3 Individual Investors' Formal Reponses Post Scandal/Fraud

After exploring their latent potential for undertaking proactive governance and also their initial/informal responses to the scenario, the study now investigates respondent investors' likely formal responses.

Table 7.18 *Individual Investors' Formal Responses Post Scandal*

Formal Responses Post-Scandal	No. of Respondents	% of Overall Sample
Do Nothing (take no formal/official/legal action)	873	78.93
Send formal complaint letter to company management	87	7.87
Attend the company's AGM/EGM	106	9.58
File a formal complaint with market regulators	100	9.04
Use the media to highlight protest	74	6.69
Other	2	0.18

From Table 7.18, the study found that most respondent investors (approximately 79%) would opt to take no formal/official/legal action even after such a marked destruction of their respective individual wealth. The underlying reasons and justifications for such a passive reaction are addressed in the next subsection.

As for the remaining 21% of investors who opt to take more pro-active redress actions, it is found that a range of alternatives are pursued. In this regard, respondents are given the flexibility to choose any combination of answers that best apply to them. Hence, all percentages given are of the total sample size to highlight their relative popularities.

Approximately 10% of respondent would attend the AGM/EGM of the fictitious scandal-ridden company to protest and demand accountability from its management. Also, some 8% of investors would send formal complaint letters to company management to demand accountability and/or for redress action to be taken; 9% of respondent investors would file a complaint with market regulators so that the appropriate steps would be taken to implicate those who are involved in such scandals. Using the media as a tool to highlight their plight/protest is the preferred response for 7% of individual investors sampled.

Comparing the indicative proportions of investors attending AGMs and undertaking various forms of governance-related shareholder initiatives under normal circumstances to those post-scandal, investors do exhibit a higher tendency for proactive initiatives under differing circumstances. This tendency again supports the argument that investors are myopic (Keasey et al., 2005).

7.3.2.4 Justifications for Taking No Official Action

Due to the pervasiveness of this particular option amongst respondents, an entire subsection is devoted to reporting findings aimed at explaining the underlying logic behind such a tendency. The study begins by presenting relevant quotes from interviews conducted (given in Figures 7.29 and 7.30).

Figure 7.29 *Interview Extract Regarding Taking No Official Action (1)*

Researcher:	*Next, do you take any official action or do nothing?*
Investor 02:	**Do nothing.**
Researcher:	*How come?*
Investor 02:	**No one cares, I think.**
Researcher:	*So, you mean the management or the authorities won't bother to take action?*
Investor 02:	**Yes, my assumption and it is too much trouble to complain too.**

Figure 7.30 *Interview Extract Regarding Taking No Official Action (2)*

Researcher:	*I see. Next, do you take any official action or do nothing?*
Investor 18:	**Do nothing... Bad luck and cause can do nothing.**
Researcher:	*What do you mean exactly by saying nothing can be done?*
Investor18:	**For example, by complaining, the chances of management closing their ears are high... demonstrate also no use...**
Researcher:	*Means they won't even listen or respond to such complaints?*
Investor 18:	**Chances are high.**

As shown, justifications given by individual investors opting to do nothing include lack of co-operation and support from capital market authorities and company management; the perception that involvement in such incidents is simply down to bad luck; and complaining as being too counter-intuitive and also too troublesome.

In addition, the researcher has been in correspondence with the Malaysian Institute of Corporate Governance to solicit their opinions/expertise with regards to this issue. Other factors suggested by the Institute as likely reasons for investor passivity include investors being (i) unsure what to do/how to complain, (ii) fearful of getting some form of revenge and (iii) highly tolerant of being mistreated. The table below illustrates the prevalence of each of the justifications identified for taking no action post-scandal amongst survey respondents.

Table 7.19 *Justifications for Not Taking Action*

Justifications for Doing Nothing (taking no official actions)	No. of Respondents	% of Overall Sample
Just bad luck, fated to be involved	352	31.83
Don't usually complain (not used to it)	260	23.51
Unsure what to do/how to complain	197	17.81
Fear of revenge	56	5.06
The authorities would not take any action	412	37.25
Can still tolerate such treatment	19	1.72
Company management would not respond/change	443	40.05

Table 71.19 shows that around 32% of sampled investors have a rather fatalistic perspective by attributing the overall situation, their perceived chance involvement, and also subsequent losses incurred, to bad luck. Consistent with earlier findings, individual investors seem to be irrational (as suggested by proponents of behavioural finance such as Subrahmanyam, 2007; Hirshleifer, 2001; Barberis and Thaler, 2002; Daniel et al., 2002; Statman, 1999). It remains unclear whether this is mainly due to investors' general lack of financial sophistication or simply a cultural response or both. A review of past literature suggests, however, that cultural norms are likely to have at least some influence in fostering this fatalistic view amongst ethnic-Malay investors (Crouch, 1996; Pye, 1995).

Second, 24% of respondents have expressed reluctance to take any formal action as they are simply not used to complaining or voicing their grievances. Similar to the propensity to complain post-scandal, this is seen to be a culturally-influenced tendency. This response is predicted to be more prominent among ethnic-Malay investors as they usually avoid trouble, the authorities and also controversies where possible (Pye, 1995). A related contention is that Malaysian investors have a high level of tolerance in terms of being exploited as they are used to political and economic discrimination and repression but with only 1.7% of them reporting being tolerant of such mistreatment, the predicted tendency does not fairly reflect this investor group.

Third, about 18% of individual investors take no formal/official action as they are unsure what to do or how to complain. Since some of them belong to a culture that shies away from making complaints, a proportion of the wider investor population presumably have got no prior experiences of complaining and are thus unsure as to what to do when the need arises. Taking into account the presumption that Malaysian investors are culturally unaccustomed to make complaints, the 82% of respondents reporting being aware of the avenues of complaint is much higher than expected. Again, as shown by the study on a few earlier occasions, individual investors seem to be more sophisticated in some respects than previously thought.

The findings thus far have mainly pointed towards inaction as a consequence of different combinations of (i) lack of governance-related experience and knowledge such as attending AGMs or activist-related initiatives and (ii) real and perceived cultural barriers and irrational psychological biases.

The following sets of reasons, however, are given by apparently more well-informed, relatively knowledgeable or cynical investors. Specifically, 37% of respondents opted to take no action because they presume that the relevant authorities/regulators would not take any concrete action while 40% of investors reasoned that even if they complained, company managers would not respond or change anyway. These two justifications are important as they clearly indicate that a significant proportion of investors tend not to take any concrete action even when they presumably know the avenues/means/mechanisms to seek redress. This is due to negative perceptions as to the effectiveness and/or viability of pursuing governance-related initiatives

In summary, a rather persuasive overall indicative tendency is detected. Regardless of the justifications reported, the end result is still a disproportionate overall individual investor inclination towards inaction.

7.3.3 Interim Summary (Q2)

The study found that individual investors assign more weight to firm governance in their investment decision-making under particular differing circumstances such as (i) in times of general economic uncertainty and bearish stock markets (when investment risks are presumably higher) and (ii) to a lesser extent, when corporate fraud happens often. Even so, it must be noted that approximately four out of ten investors are unaffected (a significant minority).

Therefore, the fact that governance becomes more important to some individual investors under differing general market conditions or post exploitation must be factored in when addressing the question of whether corporate governance actually matters to individual investors. For example, even if an average shareholding period of one year or less decreases the likelihood of active governance monitoring, it does not exclude the consideration of governance under a few of the specific circumstances considered.

Another important finding is that an overwhelming proportion of individual investors in Malaysia cannot actually tolerate blatant corporate abuses but at the same time, a significant majority choose to remain silent and not take any follow up formal action/initiatives even after being directly exploited. This is because most investors are either too inexperienced in pursuing shareholder activism-related initiatives, simply not used to speaking up, too indifferent (mainly pertaining to the effectiveness of redress mechanisms and regulator enforcement) or have a lack of confidence in regulators to pursue any remedial/redress action. Taken together, approximately eight out of ten investors sampled opt to take no official/formal actions (i.e. do nothing).

Lastly, the study convincingly demonstrated that certain personal demographic and psychological characteristics, ethnicity in particular, exert considerable influence on investors' latent propensities to engage in governance-related initiatives. Particular groups of individual investors and their behavioural tendencies between different countries and even subgroups within countries are probably not generic.

7.4 Corporate Governance and Investors' Primary Investment Strategies

In Chapter 6, the study demonstrated that an investor's general investment strategy provides a fairly good indication of his/her dominant set of investment-related attributes/action/tendencies. These strategies are then argued to form good reference/anchor variables that (i) provide an easier means of gauging the underlying general attributes of the wider individual investor population and (ii) enable researchers to make sense of the many investor inclinations/actions in a more integrated and holistic manner.

In a similar manner, certain strategies are seen to be more naturally inclined towards governance (be it considerations and/or action) while others are more compelled to disregard it. Hence, in order for the study to better appreciate the importance of corporate governance amongst the individual investor population in Malaysia and also the means/mechanisms by which governance features in their investment practices, primary investment strategies are once again utilised.

Essentially, the study explores the relative importance of certain firm-level governance attributes to individual investors who are segregated by their primary investment strategies.

7.4.1 Ability, Qualifications and Experience of Directors/Managers and Primary Investment Strategies

The study begins the evaluation by examining the degree of importance that investors attach to the abilities, qualifications and experience of directors/ managers. As the Chi-Square test yields a value of less than 0.01, significant associations exist between general investment strategies and this particular attribute with 99% confidence (Appendix 7).

The full set of cross-tabulation results for investors' primary investment strategies and the corresponding degrees of importance that they attach to the abilities, qualifications and experience of directors/managers is presented in Appendix 7.

The study expects most fundamentals-based investors to consider this firm-level attribute seriously when making share investment evaluations. This is because fundamental analysis is based on the notion of generating superior investment returns by selecting companies that are stable, well-run, have solid performance and also bright future prospects. Indeed, it was found that an overwhelming majority of this investor subsample (more than 90%) do attach different degrees of importance to this firm-level attribute with only 1.7% of them completely disregarding this governance attribute[201].

Next, investors utilising technical analysis are assumed to disregard this particular attribute as their investment decisions depend solely on the trends/patterns detected in stock charts[202]. As the old adage goes "it is all in the charts". Surprisingly, only 60% of investors in this subsample completely ignore this governance attribute. One potential explanation for this unexpected trend is the fact that many investors in real life situations, while possessing a primary investment strategy, may make use of some other methods some of the time. By the same logic, while these investors are assumed not to consider the abilities and experiences of managers/directors while utilising technical analysis, some of them may consider this factor at other times (when they are using other techniques/ strategies).

For investors pursuing a combination-based strategy, fundamentals are typically used as a threshold criterion to select companies that are not overly risky while technical analysis is used to determine entry/exit (buy/sell) points. The study found that 87.7% of respondents in this group regard managerial capability as either Important or Very Important which is only slightly lower compared to the corresponding percentage for fundamentals-based investors.

[201] Even though this finding may not necessarily be counter-intuitive as, even though managerial capability is one of the main attributes of interest, some fundamentals-based investors may consider and/or pay more attention to other governance-related attributes.
[202] As all relevant information is assumed to be reflected in the chart patterns.

Apart from its brand name, a firm's reputation can be derived from the reputation of its top managers/directors. Hence, reputation-based investors are predicted to consider the reputations of prominent managers, especially famous company founders who are highly respected in Asian countries. In fact, some managers/directors assume the role of being the public face of such firms (notable examples include Teh Hiong Piaw, the founder of Public Bank Bhd. and Lim Goh Tong, the late founder of Genting Bhd; both are household names and also majority shareholder/founders of two of the biggest publicly-listed companies in Malaysia). The argument here is that investors make heuristically-simplified evaluations by equating perceptions of good manager reputation to managerial ability. Indeed, the study found that 81.5% of reputation-based investors attach various degrees of importance to this firm-specific attribute when making investment decisions.

For investors opting for both attention- and reliance-based strategies, they are more inclined towards attaching lesser importance to managerial capability or even disregard it. This tendency is based on the assumption that these investors make their decisions based on whatever kind of information is available pre-purchase (that either catches their attention or is given by their advisors). Hence, whether or not governance is considered is partly dependent on (i) whether governance-related information is available or grabs their attention each and every time a particular share is evaluated and (ii) whether they specifically enquire about such a factor. It is found that 37% of attention-based and 33% of reliance-based investors rated this attribute as Irrelevant. In addition, higher than expected numbers of investors using these strategies (32.1% and 33.9% respectively) also claim that they attach only slight importance to managerial capability.

The indicative tendencies identified are generally consistent with the intrinsic nature of each investment strategy, as described in Chapter 3. Primary investment strategies do seem to be good indicators of investors' general governance propensity/inclination.

7.4.2 The Degree of Management Transparency and Accountability and Primary Investment Strategies

In order to enhance the credibility of the investment strategies' indicative properties in terms of individual investors' distinctive governance-related behavioural trends found above, the degree of management transparency and accountability is now used as the proxy for general firm-related governance. With a Chi-Square value of less than 0.01, significantly distinct associations exist between general investment strategies and this particular attribute with 99% confidence (Appendix 7).

The full set of cross-tabulation results for investors' primary investment strategies and the corresponding degrees of importance that they attach to the the degree of management transparency and accountability is presented in Appendix 7.

Distinctive trends/indicative tendencies that are remarkably similar to those identified for the managerial capability attribute can be detected for investors using each of the six investment strategies. The similarities even extend to the more distinctive results found earlier. For example, only 44.6% of investors making use of technical analysis do not consider speed and quality of disclosures at all instead of the expected ideal of 100%.

Overall, in terms of individual investors' governance-related inclinations, individual investors who opt for fundamental analysis are collectively the most inclined to take aspects of firm-level governance into account and this is followed by those using a combinations-based strategy. Investors who utilise a reputations-based strategy, by merit of their heuristically-simplified assumptions, do take certain governance factors into account but more through mere perception rather than basing such assumptions on actual information.

As for individual investors utilising attention-based and reliance-based strategies, concern for governance is ad hoc and highly dependent on the kinds of information that attracts their attention in particular instances (i.e. whether or not such information happens to be governance-related) and the kinds of factors that they are dependent on for investment decision-making. Finally, a majority of those who opt for technical analysis either disregard governance or attach slight importance to such factors.

Most importantly, the analysis above demonstrates that primary investment strategies serve as ideal indicators of the inherent characteristics of major investor subgroups within a larger individual investor population. Instead of providing a fairly effective means of describing and viewing investors in terms of their likely attributes/tendencies/action, primary investment strategies may also act as a basis for comparisons between different investor populations. Specifically, the approximate proportions of investors opting for governance-inclined strategies as opposed to those who tend to disregard governance is likely to be a good preliminary indicator of the general importance of corporate governance to that particular population of investors.

This set of findings also highlights the consistency of the study's various results thereby enhancing the credibility of the contention that the findings presented provide, at the very least, partially representative indicative tendencies of individual investors in Malaysia that lay the foundation for further research.

7.5 Chapter Summary

Chapter 7 is devoted to the reporting of individual investors' various governance-related actions/tendencies over the stages of the typical share investment cycle. Most investors are found to be aware or have formed opinions regarding the likely motivations/actions of various capital market participants. These opinions/ perceptions, in turn, lead to subsequent, consistent sets of governance-based actions/tendencies.

In evaluating whether governance matters to individual investors, the study concluded that certain firm-level governance attributes are considered by a majority of investors. These attributes are mainly related to different aspects of corporate management (such as their capability, quality and also degree of transparency) and matters pertaining to corporate disclosures. Even though governance is relevant to most investors, it is typically of secondary importance.

It was found that most individual investors make use of these governance attributes in the form of investment criteria, both in a general and also firm-specific manner. More importantly, they form the mechanisms by which investors determine the thresholds for the potential treatments of either (i) avoiding poorly-governed firms or (ii) investing only in well-governed ones.

Next, the study found that only a very small percentage of investors are involved in shareholder activism type of governance-related initiatives. Governance active investors are generally concerned with corporate performance or other factors that directly impact such performance. For investors who are inactive, they are either (i) unaware, unsure what to do, lack the required sophistication, (ii) pursuing strategies that do require or disinclined towards governance and/or (iii) of the opinion that involvement is not worth the time/effort or futile when considering the institutional constraints faced.

A significant proportion of seemingly governance active/interested investors actually carry out such initiatives for reasons that are not actually relevant to governance suggesting that certain assumptions made by academics must be verified and interpreted with caution. In general, a significant majority of individual investors do not view governance as a concern requiring and/or meriting continual monitoring or active participation.

Most individual investors are also affected by rumours and speculative information to varying degrees. This applies to both buying and selling decisions. Investors seem to prefer the “perform or explain/abandon” approach when it comes to firm performance or governance. Instead of being wholly uninformed and/or disinterested, individual investors in Malaysia seems to be more sophisticated than first envisaged in certain respects – specifically, their apparent awareness of general governance concerns and constraints within the Malaysian capital market environment.

When a clear distinction is made between governance and performance, most investors are more concerned with corporate performance than governance proper. Essentially, they view governance as factors that lead to improved corporate performance and less the proper structures and processes to run publicly-listed firms in an appropriate manner. Even so, a proportion of respondents who take governance into account do prefer managers to be more transparent and accountable for their actions.

Most investors are found to have fairly short average shareholding periods which further reduces the overall relevance of long-term governance to them. Overall, most investors are involved in differing degrees of speculative and rumour-induced trades and are primarily geared towards making short-term, quick profits.

As a variation of the themes above, the study found that governance does become more important under certain specific differing general circumstances (for example, in a declining/bearish stock market). Even so, a sizeable minority does not consider governance to be more important under all the differing circumstances being evaluated.

Most individual investors find blatant corporate abuses intolerable but at the same time, they usually choose to remain silent and take no formal action/initiatives even after being directly exploited. This is because of a variety of reasons that include (i) lack of experience and knowledge in seeking proper redress and making their voices heard, (ii) certain cultural and psychological barriers and, (iii) the perception that any such initiatives would be futile given the prevailing constraints/ weaknesses plaguing the effectiveness of corporate governance in the country.

Eight out of ten investors' investment decisions (proxied by the decision to dispose of shares) are affected to differing degrees by irrational, emotional and psychological states. Certain personal demographic characteristics are also found to exert considerable influence on investors' latent propensities to engage in governance- related initiatives. Hence, individual investors should not be seen as a big, generic subgroup of investors regardless of context. This lends good support to the behavioural finance research tradition that subscribes to assumptions arising from departures from investor rationality.

Finally, investors' primary investment strategies serve as good indicators of their respective predispositions toward considering corporate governance and also undertaking governance-related initiatives. The overall conclusion to the study is presented in the next chapter.

Chapter 8 Conclusion

8.1 Chapter Outline

The many conclusions reached by the study are summarised in this chapter. The researcher firstly revisits the different aspects of corporate governance that are relevant to individual investors. The agency theory conception of governance is outlined briefly as well as the various firm-level and country-level factors that collectively make up the major aspects of the concept of corporate governance.

The study then reiterates the justifications of why individual investors in Malaysia merit attention. Next, the benefits of governance to individual investors are outlined. This is followed by revisiting the major arguments pertaining to the apparent disconnect between academic, regulator and practitioner perspectives in relation to individual investors' roles and involvement in governance.

Subsequently, the different ways and means by which individual investors may take governance into account are summarised alongside the motivations/reasons for each compiled tendency. This leads the study back to its main research questions and aims. Revisiting of research objectives is next where the specific chapters addressing each set objective are outlined. Details regarding the study's research philosophy and also methodology are revisited next.

The study then summarises the key findings of the empirical research undertaken. This is followed by the study's various original contributions to knowledge. These are segregated into distinctive additions in terms of (i) academic and theoretical understanding, (ii) research methodology and (iii) actual practice. Lastly, a brief outline of the study's limitations and suggestions for future research are provided.

8.2 Corporate Governance and Individual Investors

One of the primary aims of corporate governance is to reconcile the interests of investors/shareholders (as owners of the publicly-listed firms) with those of their agents (corporate managers who run such entities on their behalf). In fact, many academics, policymakers and practitioners view the main purpose of governance as being to safeguard the interests of shareholders and the sole/ultimate corporate objective is wealth maximisation (Berglof and Von Thadden, 1999; Thompson and Davis, 1997). The described agency theory perspective is adopted by the current study as the Malaysian governance system is heavily modelled on the Anglo-American system (Kean and Cheah, 2000).

The subsequent arguments presented by the study can be summed up by the following statement – that the individual investor subgroup merits particular attention. This is because of the many classes of minority shareholders, they are usually the most prone to exploitation/mistreatment largely due to their relatively tiny shareholdings. This is further exacerbated by the presence of many politically well-connected majority shareholder/manager-controlled firms typical of East Asian capital markets such as Malaysia where the scope for executive abuse is inherently wider (Low, 2004; Arsalidou and Wang, 2005).

More importantly, the individual investor subgroup has been largely ignored in past governance studies since they are predicted to play no role in corporate governance. As a consequence, not much is actually known about these investors in terms of their governance-related behavioural tendencies.

The study then outlined the many reasons why governance may be relevant to individual investors, including (i) claims, and also certain empirical studies showing that good governance results in superior firm performance and also better investment returns to investors (Brown and Caylor, 2006; Gompers et al., 2003; Bauer and Guenster, 2003), (ii) increasing trust and confidence that the firms that they own are managed in a proper and accountable manner (Monks and Minow, 2004) and (iii) lowering the likelihoods of incidences of corporate fraud (see, for example, Uzun et al., 2004; Farber, 2004).

Notwithstanding such benefits, the study subsequently highlighted differing perspectives and also conflicting evidence regarding the desired, expected and actual governance-related roles/behaviours of individual investors. Academics theorise that individual investors have no active governance role due to the prohibitive costs involved; practical impediments to collective investor action; the free-rider problem and the general design of capital markets (see, for example, Monks and Minow, 2004).

On the other hand, government regulators have envisaged, encouraged and also seem to expect individual investors to be more governance pro-active, especially in exercising their ownership rights and seeking redress when being mistreated (see, for example, The Securities Commission Development Centre Quarterly Bulletin [Malaysia], 2002). In fact, resources have been expended in educating investors regarding their rights and responsibilities as owners and making use of mechanisms that enable them to impose corporate discipline more effectively (The Report on the Observance of Standards and Codes (ROSC): Corporate Governance (Malaysia) by the World Bank, 2005). Bearing in mind utilitarian academic predictions, whether the government/regulators' expectations of how investors should act are reasonable or otherwise is subject to some contention.

A third perspective is derived from anecdotal evidence in the popular press, practitioner accounts and also casual observations of actual individual investor behaviour. Specifically, at least some individual investors are shown to actually undertake governance-related initiatives (see, for example, Jaafar Sidek, 2005). Observations and claims that individual investors dominate attendance at AGMs is a good example (Allen, 2004b; Schacht et al., 2009).

Another possibility is that investors may take governance into account through certain means that are distinct and less costly compared to active monitoring. Additionally, they may undertake the various actions/behaviours that are regarded as governance-related for yet-to-be-identified reasons/motivations that may or may not actually be connected to governance.

Individual investors were also portrayed to be myopic (Keasey et al., 2005) in the sense that, when the companies that they partly own are registering good growth, performance, profits and/or the share prices are on an upward trend; governance is of little concern. Potential weaknesses in the running of such entities and even abuse/misuse of corporate assets are tolerated or ignored. Conversely, when things go wrong, they start questioning, where is the governance?

The scenario above led to the study's main research questions. They are:

- Q1: Does corporate governance matter to individual investors? If it does:
    - What aspects of it are taken into account in their share investment practices?
    - How are the relevant governance aspects taken into account?
- Q2: When or under what circumstances does governance start to matter/matter more?
- Q3: What are the reasons/justifications and also influences underlying individual investors' propensities to consider governance, undertake particular governance-related action and/or exhibit governance-related tendencies?
    - What country-specific environmental and institutional factors influence and also explain observed behavioural tendencies?
    - What personal investment-related attributes, preferences and stylistics influence and also explain observed behavioural tendencies?

Essentially, the study set out to investigate (i) the actual prevalence of each possible means by which individual investors could take governance into account. Even though the range of possible governance-related treatments is explored in the extant literature (for example, avoid investing in poorly-governed firms, invest only in well-governed firms, sell out whenever governance problems arise, amongst others), the relative importance and prevalence of each amongst individual investors in developing capital markets such as Malaysia in reality remain unexplored empirically.

All country-level and firm-level aspects of governance that (i) are relevant to individual investors and (ii) feature in their investment practices over the typical share investment cycle are considered (as variables forming the basis of the listed possible treatments). It was predicted that individual investors are likely to take some of aspects of corporate governance into account in the forms of (i) firm-specific investment criteria, (ii) general investment criteria, (iii) concerns requiring continuous monitoring/active participation and (iv) investment criteria under differing general circumstances.

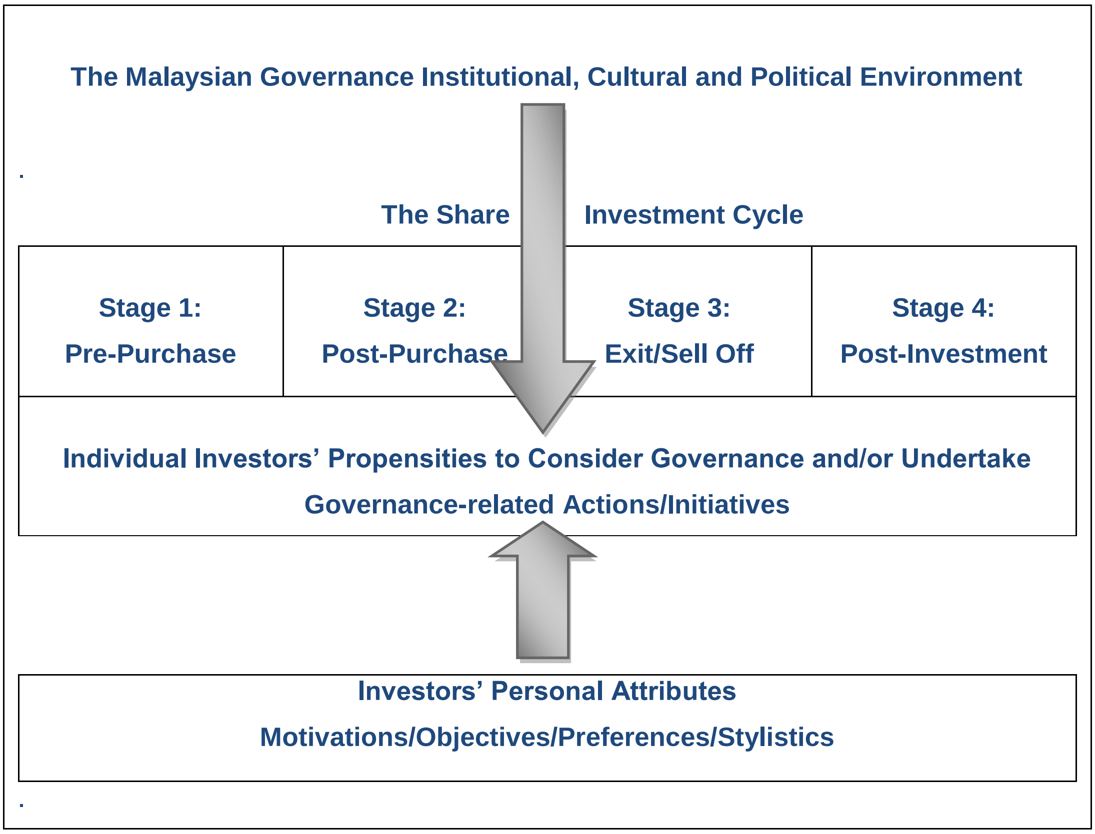
Subsequently, each identified governance-related behaviour/tendency/treatment is made sense of by considering (i) the various environmental (contextual) influences that investors are being subjected to and (ii) investors' personal investment-related preferences/stylistics. These factors are derived from further reviews of relevant literature streams (for example, (i) behavioural finance, (ii) political and economic history, (iii) institutional complementarities, path dependence and contextual governance streams, amongst others). It is argued that these environmental and personal attributes are likely to profoundly influence individual investors' propensities to consider governance and/or undertake each of the actions/exhibit each of the tendencies considered. Selected variables are briefly re-iterated below.

In terms of the environmental and institutional factors potentially explaining the observed individual investor tendencies/actions, they include (i) substantial political involvement in business and relationship-based business culture, (ii) the country's general political environment, (iii) race and ethnic-based distinctiveness and, (iv) effectiveness of corporate governance enforcement and/or reforms.

As for investors' personal attributes, the potentially relevant ones are inclusive of the (i) primary investment strategies pursued, (ii) main investment objectives/ motivations, (iii) amount of financial knowledge/expertise, (iv) typical shareholding timeframes and, (v) susceptibility to rumour-driven and attention-based trading.

The study also aimed to uncover all yet-to-be-documented, potentially important underlying motivations for all identified governance-related behavioural tendencies by approaching the individual investors on a firsthand basis through the use of semi-structured interviews. The conceptual framework developed by the researcher which integrates the many elements of the study is given below:

Figure 8.1 *Conceptual Framework of Study*



8.3 Revisiting of Research Objectives

At this point, the study provides a brief summary of its primary research objectives and points out the specific chapters where each was addressed. The achievement of these aims and objectives is essential in providing a suitable and also adequate response to the research questions posed. They are as follows:

- To review the different literature streams that are relevant to the study such as corporate governance, individual investor behaviour, path dependence/ institutional complementarities, economic and political history (elaborated in Chapters 2, 3 and 4);
- To examine the Malaysian institutional and corporate environment as well as certain investment-related cultural norms and subsequently, to gauge their influences on the governance-related behavioural tendencies of individual investors who operate within this particular context (addressed in Chapter 3);

- To explore selected investment-related tendencies, preferences and stylistics exhibited by individual investors in terms of how each may influence each investor's relative propensities to consider governance and/or undertake certain governance-related actions (addressed in Chapter 4);
- To carry out a pragmatic, sequential mixed methods procedure in order to obtain the necessary data for the study (described in Chapter 5);
- To explore, analyse and report the various investment-related demographic attributes, psychological tendencies and investment-related preferences/stylistics of individual investors (dealt with in Chapter 6);
- To analyse, uncover and report the interplay between individual attributes and also the national institutional, cultural and corporate environment in terms of how each may affect investors' governance-related behavioural tendencies (dealt with in Chapter 7);
- To synthesise and also draw conclusions regarding the interplay between individual investors and corporate governance (presented in Chapter 8).

8.4 Research Methodology

The study is informed by the philosophy of pragmatism. It is argued that the research is on certain kinds of actions in a certain context (i.e. the ordinary situations and conditions in which actions occur) (Thayer, 1968, as cited in Crotty, 2003). In this regard, the study explores the governance-related behavioural tendencies of individual investors within the Malaysian capital market taking into account major attributes of the Malaysian institutional and investment environment.

As pragmatists place emphasis on practicality of research (Lewis-Beck et al., 2004), understanding of the phenomenon of governance as it is being practiced is achieved by considering it from the standpoint of individual investors (viewpoint of the actor). Furthermore, the researcher accepts the perceptions and meanings offered by respondents at face value (the subjective meaning actors impute to their actions) (Mitchell, 1977, as summarised by Crotty, 2003). This is because such perceptions/understanding (i.e. of meanings) are argued to result in a set of governance-related behavioural tendencies that fairly reflect such views/ comprehension.

Essentially, the study made use of a two-stage, sequential mixed methods procedure where individual investors are interviewed to uncover the key issues/ tendencies/actions and the underlying motivations for each. Subsequently, a questionnaire based on the obtained feedback was distributed to explore the indicative prevalence of each potentially important tendency/action/motivation identified.

Rather than sophisticated statistical models, simple contingency tables and cross-tabulations enriched by extracts of investors' firsthand accounts of the governance phenomenon are utilised, partly to enable easier dissemination to the wider investing public. Such attempts to improve investment knowledge and actual practice are consistent with the study’s pragmatic philosophy.

8.5 Key Empirical Findings and Analyses

The study found that a sizeable majority of sampled investors are aware and/or are opinionated with regards to the likely action/motivations of key market participants. Most reported perceptions are found to be negative on balance, that other market participants are inclined towards harbouring intentions and undertaking action that are detrimental to their welfare/interests.

The suppressive Malaysian political environment, pervasive political involvement in public-listed firms (as documented by Gomez and Jomo, 1999; Verma, 2004; Searle, 1999; Crouch, 1996; Wang, 1998; amongst others) and also relationship-based business culture that benefit politically well-connected, powerful vested interests such as majority shareholder/managers with minimal sanctions (La Porta et al., 2000) are posited to be major perception-influencing factors. The study can thus conclude that investors’ unfavourable opinions seem reasonable and well-entrenched.

Even so, most individual investors do not adequately account for the governance concerns that they report being aware of in their share investment decisions/ action[203]. Put simply, they typically do not adopt any circumventive or mitigating measures. One exception is that around half of respondents report only investing in firms that are well-run[204].This led the study to conclude that many individual investors in Malaysia are credulous (along the lines of Daniel et al., 2002).

The study then explored the importance of governance to individual investors in a more firm-specific context (Shefrin and Statman, 1985). It was found that most individual investors do take governance into account when proxied by the (i) abilities and qualifications of company managers/directors, (ii) quality and speed of information disclosure and, (iii) degree of transparency and accountability shown by managers. These governance-related variables are mainly utilised as one-off share investment criteria during the pre-purchase evaluation stage of the investment cycle. They form the basis of investors' evaluations that subsequently lead to general governance-related treatments such as to (i) avoid investing in poorly-governed firms and/or (ii) only invest in well-governed ones.

When evaluated along the dimensions above, the study found that firm governance does matter to most individual investors at least some of the time but not very much on average (implying slight/secondary importance).This leads the study to conclude that, as predicted earlier, corporate governance does feature in many individual investors' investment considerations through more passive, less costly ways compared to active monitoring (a possibility proposed by Giannetti and Simonov, 2006).

As for governance featuring in the form of concerns requiring continual monitoring[205] (as described by Gillan and Starks, 1998 and Becht et al., 2003), it was found that the percentage of investors who reported having undertaken

[203] This is based on the study's earlier contention that investors' concerns regarding the various governance environmental and institutional attributes that are distinct to Malaysia are reflected in their opinions of the various actions/motivations of other key market participants.
[204] In this instance, the term "well run" is taken to mean "well governed". Even this criterion is a qualified one from a governance perspective as investors are actually more concerned with performance rather than governance per se. More explanation will be provided later in the section.
[205] Primarily the form governance features in at the second stage of the typical investment cycle (post-purchase).

proactive governance actions is very small. In fact, most respondents regard such initiatives as either (i) being too costly and time consuming or (ii) irrelevant to their investment style.

Widespread passivity in governance is partly explained by investors' general disposition toward short-term share price increases (being the most popular investment objective) and the resultant short shareholding timeframes. With about seven out of ten investors reporting average shareholding periods of one year or less, even if they exercise their ownership rights or campaign for good governance, these investors would have sold out long before any benefits or changes could materialise[206]. Proactive governance is therefore simply irrelevant to these short-term investors.

A key finding of the study is that even for many of those seemingly proactive investors who undertook "governance-related" actions, it was for reasons that are unrelated to governance. For example, many of these "active" investors attend AGMs just for the free food/gifts that these firms offer and some attend at the insistence of their employers mainly to second any resolutions proposed by corporate managers without question. Other forms of activism besides AGM attendance are even rarer. Hence, another conclusion reached is that few individual investors regard, and/or consider, governance as a concern requiring continual effort and monitoring. Having said that, the fact that 3% of the total number of individual investors sampled has attended AGMs to exercise their ownership rights adds credibility to the study's claim that individual investors can/do have an important governance role to play and should not be ignored by academics in the field of corporate governance.

Contrary to contentions that most investors in developing capital markets such as Malaysia lack knowledge or are uninformed when it comes to corporate governance as well as do not know their basic ownership rights (Shleifer and Vishny, 1997; Low, 2004), only 3% of respondents report being unaware of their right to attend AGMs. Furthermore, only about one in every six investors is unsure of what to say or do during AGMs. This led the study to conclude that the 1997 Asian Crisis and subsequent governance reforms, investor education programmes

[206] Since the benefits of good governance are agued to manifest and also be sustained over the long-term.

as well as extensive press coverage of the many incidences of corporate frauds/scandals in Malaysia and around the world have indeed improved investors' general knowledge of major corporate governance issues and awareness of their basic ownership rights.

Second, the academic utilitarian agency perspective description of individual investor behaviour/motivation seems persuasive after all (as propounded by Jensen and Meckling, 1976). This is because, besides the pervasive "too costly and time consuming" justification for their passivity in governance, even previously unknown motivations such as taking advantage of free food/gifts point to economics-based considerations, albeit being rather misguided ones. Weber's (1949) (as cited by Crotty, 2003) argument that rational goal-oriented products are driven by dominant imperatives is well supported by the evidence at hand.

The study can also conclude that investors' propensities for governance typically decrease the more they engage in rumour or speculation-fuelled investments which focus mostly on share price fluctuations. This runs counter to governance ideals of making decisions based on firm fundamentals and substantiated information. In addition, attention-grabbing speculations/rumours also trigger impulsive buy and sell investment decisions (as discovered by Barber and Odean, 2006) thus promoting short-termism. On the contrary, governance proponents encourage long-term stable shareholdings. Hence, these are seen as "distractions" from the governance standpoint.

Investors also reported heightened propensities to sell out as a result of unsubstantiated rumours predicting an imminent fall in share prices, deterioration of company fundamentals as well as due to irrational emotions, even at the expense of potential longer-term value arising from a well-governed firm. This lends good support to the investor irrationality view adopted by behavioural finance (see, for example, Daniel et al., 2002 and Subrahmanyam, 2007). In addition, individual investors in Malaysia typically lack investment sophistication, as indicated by the finding that approximately seven out of ten of them pursue heuristically simplified investment strategies.

Another important conclusion is that investors are actually much more concerned with corporate performance rather than corporate governance per se (as explained by Gillan and Starks, 1998). Put simply, these investors view governance as factors that lead to improved corporate performance and less as being the proper structures and processes to run publicly-listed firms in an appropriate manner. This is evident in the importance attached to the three firm-specific governance-related factors mentioned earlier as they are important elements that directly impact corporate performance and also investors' ability to make timely investment decisions. More importantly, some investors are of the opinion that as long as their investments are profitable, the actual manner in which a firm is actually run is of lesser concern.

Further supporting evidence is the finding that some investors report even being able to tolerate corporate abuses such as managerial expropriation as long as they are making good returns and/or when corporate performance is satisfactory. However, some of them will question the absence of good governance when things go wrong. Most also prefer to sell out whenever governance problems arise rather than campaign for better governance or seek redress. Therefore, in conclusion, individual investors in Malaysia are indeed myopic (as per Keasey et al., 2005) and seem to prefer the "perform or explain/abandon" approach when it comes to firm performance and/or governance problems.

Next, the propensities of individual investors in Malaysia to consider governance and/or undertake governance-related actions are also partly influenced by certain different general investment circumstances. In this regard, the study found that governance starts to matter/matter more for some investors when (i) the stock market is on a bearish/declining trend, (ii) the country's economic conditions is deteriorating and (iii) when public-listed company fraud happens often.

On a more firm-specific basis, some investors are also more likely to engage in proactive governance when a firm that they invest in is embroiled with massive fraud/scandal (that was portrayed to subsequently result in significant destruction of shareholder value or huge investment losses borne by these investors), presumably to demand accountability and seek redress.

The general propensities to take proactive and/or redress initiatives are found to be significantly influenced by the ethnic background of individual investors involved (vindicating Pye's, 1985 description of Malaysian investors' distinctive ethnic characteristics). Specifically, ethnic Chinese investors possess much greater latent potential for undertaking proactive governance initiatives compared to ethnic Malay investors.

In addition, based on investors' subsequent responses to the said hypothetical scenario where governance concerns are acute, most investors choose not to take formal/official redress actions due to:

(i) lack of governance-related experiences, knowledge and norms such as attending AGMs or involvement in activist-related initiatives,

(ii) the expectation that no concrete actions will be taken or they may even be ignored by the authorities/corporate management even if they protest or lodge formal complaints,

(iii) real and perceived cultural and psychological barriers (which includes ethnic-based norms) and/or,

(iv) irrational reasoning/emotions. For example, blaming involvement on sheer bad luck.

Consistent with the responses above, most investors opt to take no formal action even though an overwhelming majority of them found such a situation intolerable privately. This also improves our understanding of general investor passivity in proactive governance under normal circumstances at the second stage of the typical share investment cycle.

The study concludes that individual investors' general passivity, rather than being a consequence of being wholly disinterested in or indifferent of governance in the first instance, are also partly due to conscious/considered decisions (i.e. having considered perceived or actual governance constraints). Such a finding is consistent with the earlier observation that many investors are aware of certain (i) country-specific environmental and institutional governance concerns/ constraints and (ii) basic ownership rights such as attending AGMs but yet choose to remain passive.

In addition, investors seem to be able to discern between truly effective reforms as opposed to window dressing measures. In this particular sense, they are more sophisticated than previously envisaged (in a common-sense manner) while at the same time remaining largely credulous and unsophisticated in their other share investment practices.

A majority of individual investors are influenced by and also engage in differing degrees of speculative, rumour-driven share investments. Most adopt relatively short-term investment timeframes on average and are primarily in the market to make quick profits (as evidenced by their focus on corporate performance and investment returns).

As predicted by the study, whether or not an investor considers a firm's governance characteristics is also found to be considerably dependent upon the natures of their chosen investment strategies. In this regard, the researcher found that those who opt for fundamentals-based, combination-based and reputation-based strategies are more inclined to consider governance and/or undertake governance-related actions.

Overall, primary investment strategies are fairly good indicative/anchor variables in predicting investors' general governance-related tendencies over the entire share investment cycle.

8.6 Original Contributions to Knowledge and Practice

8.6.1 Contributions to Academic Understanding and Theory

The study contributes to knowledge by improving current understanding of the range of governance-related behaviours/tendencies that are specific to individual investors, a subgroup of investors that has been ignored by past empirical corporate governance studies (with the exception of Strickland et al., 1996). This focus is vindicated by the study's findings that certain aspects of governance do feature in the actual investment practices of many individual investors.

More specifically, even though most individual investors are not involved in activism-style governance-related behaviours, some investors are shown to take corporate governance into account in their investment decision-making in ways that are less costly, mainly in the form of pre-investment evaluation criteria. Therefore, individual investors can and actually do play a role in governance by discerning between well- and poorly-governed firms along a few company-specific dimensions (as defined by the investors themselves) when making investments. Put simply, individual investors have a part to play in promoting better corporate governance primarily through more passive, less “active” ways.

The study also makes a distinct contribution by exploring and affirming the general validity of certain agency theory assumptions in a developing capital market setting. In particular, the self-interested motives of economic agents such as corporate managers and also individual investors are clearly detected in Malaysia. Even though some individual investors do undertake certain proactive governance-related initiatives which run contrary to the predictions of the academic utilitarian perspective such as attending AGMs, they are certainly rare exceptions to the rule.

A closely related addition to knowledge made by the study is the discovery of new justifications/motivations for undertaking initiatives that are typically interpreted to be governance-related, especially those reasons that are found to be unrelated to governance in reality. Investors attending AGMs to get free food/gifts is one such example. Interestingly, no amount of theoretical predictions and statistical modelling could reasonably have unearthed such factors and their indicative prevalence amongst investors.

A key finding presented earlier was the discovery that most individual investors seem to be aware and/or opinionated with regards to the major governance concerns/issues within their investment environment. Furthermore, a notable part of their passivity in governance is caused by indifference, a lack of confidence in the effectiveness of governance enforcement, cultural norms and/or other governance-related constraints. In addition, investors seem to be able to see through reforms that are merely window dressing/cosmetic measures.

The original contribution to knowledge made above is the realisation that instead of being wholly disinterested, indifferent and uninformed when it comes to corporate governance in the first place, individual investors' non-participation/ passivity are also due to the consequences of (i) understanding of their limitations of being very small shareholders (for example, insignificant voting clout), (ii) a lack of confidence in the effectiveness of the country's political and corporate governance systems and (iii) the impact of certain institutional constraints such as political involvement in business which protect powerful majority shareholder/ owners from sanctions. This is a contribution as it shows that, as a collective group, individual investors are somewhat more sophisticated than previously envisaged in this narrow sense. This is because the study also considered the counterargument that their understanding of governance is in a broad, generalised, common-sense and intuitive manner.

Improvements to understanding are also derived by being the first governance-focused individual investor study that takes into account both environmental and personal influences concurrently in order to make sense of investors' governance-related behavioural tendencies. Essentially, investors' behaviours/tendencies have been clearly shown to be distinctive, rational outgrowths of (i) the investment environment and context within which they operate and (ii) their individual investment preferences/stylistics[207].

Further contribution to knowledge is also achieved by the study's very own distinctive approach in attempting to view and also interpret the many individual investor behaviours/tendencies from a unifying perspective, that of corporate governance. Even though previous studies did take into account a number of variables at once, they are treated as combinations of somewhat disparate factors. Through the use of the governance lens, the study was able to portray investors' tendencies/actions over the typical share investment cycle as interlinked, integrated sets of behaviours. This provides better insights into the progressive, underlying logic of investors' actions across the entire cycle.

[207] As compared to the traditional "rational economic agent" view that assumes investors behave in a generic, non context-specific manner. On the other hand, even though behavioural finance does focus on non-rational biases and tendencies, the variables that this literature stream considers are actually rather generic. Essentially, behavioural finance does not investigate context-specific or actual justifications/reasons for observed behaviours/tendencies but instead concentrates primarily on the implications of such behaviours/tendencies.

Closely related to the above, the conceptual framework developed by the researcher is another contributory aspect of the study. This is because it explicitly establishes the various links between the many individual (internal) and environmental (external) variables and behavioural tendencies of individual investors throughout the entire share investment cycle. Clearly, most of the environmental and institutional variables considered are country-specific.

The specificity above leads to yet another extension to knowledge, that is, in demonstrating that the governance-related behavioural tendencies and inclinations of investors are not only distinct between countries but even within a particular country. This is because a number of distinctive sets of behavioural tendencies are found to exist within Malaysia itself. This runs counter to the conventional assumption that investors behave in a rational and generic manner largely free of context.

The findings that (i) some investors tailor their investment practices to account for country-specific governance constraints and (ii) their behavioural inclinations are partly influenced by personal demographic characteristics such as ethnic background, lend good support to the contention above. A fitting illustration is the significantly higher latent potential of ethnic-Chinese investors in undertaking proactive governance as compared to ethnic-Malay investors. Such findings vindicate Kim and Nofsinger's (2003) call to explore the behaviours of investors from cultures that are distinct from the West. Distinctiveness also stems from the differing investment circumstances facing different investors at particular points in time.

More generally, various first-hand accounts of investors' departures from rationality and inherent emotional/psychological biases also contribute to better understanding of certain phenomena that is are interest to scholars within the behavioural finance tradition. Also, instead of mainly focusing on investors' buy and sell decision frameworks, researchers in the behavioural finance tradition should take into account investors' motivations, stylistics and preferences.

Considering the many contributions above, the study generally adds to knowledge by actually designing a study to demonstrate empirically the aptness of the arguments and recommendations by authors such as Daily et al. (2003), Gabrielsson and Huse (2004), Huse (2005), Aguilera and Jackson (2003), Gomez-Mejia et al. (2005), amongst others; of the need to view governance in a path-dependent, contextualised, holistic and embedded manner while retaining the principal-agency relationship as the core (Gomez-Mejia et al., 2005).

From the new insights obtained by the current study, it is clear that such new approaches to empirical governance research (i) are able to deepen our understanding of how governance actually works/features in reality rather than just depending on theoretical conceptions and explanations and (ii) are shown to be promising new avenues for future governance research. Further elaboration is given in the following section on the study's contribution to research methodology.

In terms of the analytical framework developed by Brennan and Solomon (2008) intended to guide governance researchers to new frontiers of research within the field, this study contributes to the areas of (i) new methodological approach and techniques applied (mixed methods), (ii) globalisation (developing economy study and also exploration of the influence of culture), and (iii) theoretical framework (that includes both environmental/institutional factors as well as investors' individual characteristics).

8.6.2 Contributions to Research Methodology

Viewed from a methodological angle, the study contributes to knowledge by heeding the calls by Daily et al. (2003), Gabrielsson and Huse (2004) and Huse (2005) to adopt new methodological approaches in governance research and by empirically showing (i) that the assumptions regarding investors' motivations for exhibiting certain behavioural tendencies provided by previous studies relying on statistical models and/or aggregated market data are far abstracted from reality, (ii) that there are indeed important variables that those statistical models fail to identify and (iii) the empirical benefits of approaching individual investors on a first-hand basis.

In particular, the study's findings show the advantages (in terms of insights gained) of conducting a governance study in the pragmatic tradition emphasising appreciation of governance (i) as it is being practised and (ii) from the standpoint of the practitioners themselves. Indeed, the study has shown that to better understand the governance phenomenon, it is crucial for academics and regulators to not only take into account observed individual investor actions but more so their underlying motivations for exhibiting such behaviours.

In addition, it demonstrates the advantages of pragmatic research where flexibility is key in coming up with the best research designs (as conceived by the researcher) to address the particular research questions posed. Hence, a related contribution is the study's use of a two-stage, sequential mixed methods procedure to address the questions pertaining to individual investors' corporate governance inclinations and practices.

It must be noted, however, that as the nature of the current study is exploratory and broad-based, extensive future empirical work is required to understand each of the various phenomena, trends and key findings in a more detailed manner.

8.6.3 Contributions to Practice

Some of the study's findings entail certain practical implications and thus, contributions, to actual governance-related practices/initiatives of practitioners and policymakers.

First, the study showed that Malaysian policymakers' expectations that individual investors can be encouraged to be proactive, while not wholly unreasonable, are rather misplaced (at this stage). Perhaps, this is simply a sign that a culture of active shareholding is still in its infancy.The important contribution to practice, however, is the fact that governance is taken into account by a proportion of individual investors in a number of less costly, harder to observe, ways.

This also suggests that the Malaysian government and capital market regulators can and should, for now (i.e. at this stage), encourage more individual investors to play a role in governance by making their investment decisions governance-influenced rather than concentrating on promoting more proactive, expensive forms of shareholder activism.

Once a sizeable proportion of individual investors in Malaysia become more aware, knowledgeable and also experienced in taking into account corporate governance, the active shareholding culture can then be cultivated more easily. Indeed, Allen (2000: 8) argued that *"and as small shareholders become more aware of their rights, they may... form investor action groups and publicize their activities (as some in Korea do already). These ideas may seem radical today, but could become commonplace tomorrow".*

Even so, for now, the establishment of cost effective, easily understandable and widely available firm-specific governance-related sources of information merits consideration. Considering this suggestion, in terms of effective strategies to promote corporate governance amongst the individual investor group, the study's findings vindicate the Malaysian government's move to establish the independent Minority Shareholders Watchdog Group (MSWG). This is because individual investors can make use and take advantage of MSWG's regular write-ups and summaries of governance issues and also material developments specific to many Malaysian publicly-listed firms (especially pre-AGMs, mainly to highlight substantive governance concerns) to be more informed (For a detailed description of MSWG's various initiatives/services/activities that are targeted at individual investors, please refer to Appendix 3).

Moreover, investor education programmes, especially those conducted by the Securities Commission (mainly through the Securities Industry Development Centre) and MSWG, are seen to be good complements as better educated investors should demonstrate better understanding and appreciation of the different governance issues being raised. In short, the policy is suitable for Malaysia as it aims to enhance the general sophistication of the individual investor group. The need for such initiatives is also well reflected by the indicative tendency where seven out of ten individual investors make use of heuristically-simplified investment strategies.

Investors can also opt to become members (or, more specifically, fee-paying subscribers) of the MSWG to:

(i) gain access to much relevant governance-related information and ratings pertaining to Malaysian publicly-listed firms and

(ii) be informed of any significant governance concerns relating to any publicly-listed firms that they partly own (being a watchdog, the MSWG is able to alert investors to any significant lapses in governance, as and when such issues arise).

Put simply, the study contends that the MSWG indeed provides (i) a suitable platform to increase investors' interest and attention on various corporate governance issues and, (ii) a practical, cost effective governance monitoring and sounding mechanism for individual shareholders. Furthermore, investors are better able to participate in relatively costly activism-related initiatives, if not during normal times then, when governance problems are acute (since they are being alerted/advised of such a need beforehand).

Even for the majority of investors who are not likely to engage in proactive governance activism, increased awareness of governance and also the wealth of governance information available at little cost are argued to be able to considerably increase the likelihood of them considering the corporate governance aspects of the firms that they invest in. Again, investor education programmes generally support such developments.

For individual investors who are more proactive, since representatives of MSWG do attend and speak up during the AGMs of many such firms both as shareholders or representatives/proxies of shareholders, these investors could lend support and, at the same time, be guided and encouraged to participate more actively during these meetings. It has been noted that most attending investors do not speak up during AGMs or find those who do a hassle but a culture of active shareholding can only be fostered through time and with much perseverance and effort. Even for individual investors who do not attend, their collective welfare will also be better championed by the attending ones as a result of such an initiative.

As shown by cases such as the United Shareholders Association (Strickland et al., 1996) and Securities Investors Association (Singapore) (Pulses, 2006), monitoring by small individual investors is indeed possible and, if developed in the right ways and given the right ingredients, can be fairly successful. Once again, individual investors can play a significant role in corporate governance.

Another one of the study's contributions to practice is mainly to draw attention and emphasis to the importance of:

(i) ensuring that governance reforms are both rigorous and practically effective, especially given the fact that investors seem to be able to see through window dressing measures,

(ii) strong political will for real improvements since substantive reforms are closely linked to political reforms, and

(iii) the government assuming a leading role in promoting governance and also undertaking public enforcement since private enforcement, by itself, is mostly inadequate to impose corporate discipline.

Closely related to the factors summarised above is the key finding that a bigger proportion of individual investors would seriously consider corporate governance in their share investment if only they had more confidence in the actual effectiveness of its various mechanisms in the Malaysian capital market. This suggests that individual investors can and will play a role in governance if they are sufficiently confident in both country-level and firm-level governance institutions and mechanisms.

As for the individual investors themselves, the study is practically useful in terms of increasing these investors' understanding of their own governance-related behavioural tendencies and practices. A key lesson is for them to realise and address their apparent credulity in claiming/reporting to be aware of general governance concerns pertaining to the firms that they invest in but yet, not adopting any measures to mitigate or circumvent them. In this sense, many individual investors in Malaysia seem to fail to apply adequate prudence and/or do not make full use their understanding/skills in their investment decision making.

Perhaps they are unwilling to spend the time and resources needed to make such evaluations. It is hoped that, with greater awareness of the importance of good governance and also the potential negative implications of poor governance, such credulous norms in investment practice can be changed. Related to this, individual investors must also realise the negative implications of engaging in speculation, rumour as well as emotionally-driven share investment decision-making.

A further contribution is the study's findings that ethnic-Chinese investors have a greater latent potential for proactive governance (especially in seeking redress post-exploitation) as this suggests that certain subgroups of individual shareholders/investors can be targeted to lead the intended cultural/habitual changes necessary for the practice of shareholder activism to become more mainstream. More generally, this finding clearly demonstrates the fact that cultural considerations are central to the understanding, and in itself is an integral part, of any system of corporate governance.

Overall, the various contributions point to the suitability of the pragmatic approach in (i) better appreciation of the phenomena of corporate governance as it is understood and practised by investors themselves and (ii) discovering which of the public policies adopted are more effective practically and/or have aims that complement other effective initiatives to advance corporate governance.

In the course of conducting this research, the study found that "corporate governance" is indeed a highly complex, all-encompassing yet elusive and hard-to-define concept. The intention was very much to delve into and unravel certain components of this complex phenomenon holistically in order to shed some light on how (and also, why) it features in reality. Here, the researcher posits that it is important to explicitly acknowledge the complexity of researching corporate governance. Even though the study has made certain contributions to our understanding, investigating the many different aspects of the phenomenon in real life remains difficult and much ambiguity persist. At the very least, this exploratory attempt has clearly demonstrated the sheer amount of future research that is still required in this subject area.

8.7 Limitations of the Study and Suggestions for Future Research

One of the limitations of the study mentioned towards the end of Chapter 5 is the lack of access to investors' buy/sell transactions history. Such a data set could significantly increase the credibility and also reliability of the inferences made by the study. As such, future studies should endeavour to obtain such information besides negotiating direct access to the individual investors themselves. One possibility is to conduct the studies in countries, regions and/or jurisdictions that allow access to retail client records/information.

Another one of the study's limitations is that the researcher was not able to carry out a systematic sampling procedure and also only certain/select branches of different local brokerages actually participated in the main data collection stage. The design and also size of the study's sample is partly due to the limited amount of resources available, especially time and cost constraints. Even though the study did attempt to address a number of potential and likely biases, better access and fuller participation could have improved the quality of findings of the study as well as increased the overall number of participants.

Since the study has initiated preliminary exploration of the various governance-related tendencies and inclinations of individual investors across the entire share investment cycle, future studies could focus on specific governance treatments, aspects and/or stages of the cycle for more in-depth empirical scrutiny. Hence, instead of broad-based understanding of each behaviour/tendency within a set of related tendencies/action, the finer nuances for each could be explored in detail.

Future studies could also be an expanded version of the current one, perhaps with a much bigger individual investor sample to reaffirm the study's many findings and interpretations. Alternatively, they could repeat the researcher's methodological procedures for group(s) of investors based in another country or region (thus enabling out-of-sample comparisons). This would undoubtedly produce result sets that offer new insights and understanding since differing contexts are like to result in unique sets of behaviours/tendencies.

Governance researchers could also extend the study to other investor groups such as institutional investors in order to compare their investment inclinations and tendencies with those of individual investors. Another possibility is to make sense of the tendencies/action of other key market participants using a similar approach rather than only focusing on shareholders/investors.

Appendix 1

Case 1: Transmile.

MSWG Comments on Securities Commission (SC) Charges on Three Former Executives at Transmile.
16 July 2007

SC has matched its words with deeds. We congratulate SC on its swift action in charging three former executives of Transmile for abetting Transmile in making misleading statements.

SC also offered compounds of RM500,000 each to two Independent Non-Executive Directors of Transmile who are also members of the Audit Committee for knowingly permitting the making of misleading statements to Bursa Malaysia Securities Berhad.

Those who are would-be perpetrators or are prone to wrongdoings, should now take heed to expect tougher regulatory controls and swift enforcement as a result of all the recent scandals that have sprung up with surprises to many investors' dismay and disappointment.

It is the view of MSWG that no one single company worth the mantle of true and fair performance will be making the headlines next for all the wrong accounting reasons.

SC's swift actions demonstrated that it will come down quickly on transgressors and will not tolerate abuses from market players. Nevertheless MSWG urges that other gatekeepers, such as management, external auditors, internal auditors and shareholders must continue to play their respective roles effectively to protect and enhance the credibility of our capital market.

Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated: 16 July 2007

Source: www.mswg.org.my

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Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated: 16 July 2006

Source: www.mswg.org.my

Transmile Fiasco: MSWG Intrigued By Deloitte Statements.
26 July 2007

"SHAREHOLDERS, WAKE UP AND UNITE TO DEMAND ANSWERS TO MISMANAGEMENT OF THE COMPANY'S AFFAIRS BY PREVIOUS MANAGEMENT OF MP TECH"

MSWG is intrigued by the press statements attributed to Mr Chaly Mah, who is both Senior Partner of Deloitte Singapore and head of Deloitte Asia-Pacific, in which he defends the work of Deloitte Malaysia in the audit of Transmile.

Whilst some of Mr Mah's points are well considered, Deloitte has not appropriately addressed the importance of auditing and that poor auditing can hide flaws that have the potential to bring a company to its knees. The market confidence has been marred by these scandals. Companies, directors and auditors need to work diligently to make sure that their books are accurate and audits are conducted with due skill and care. Anything short of this requires swift and effective actions, not from someone outside Malaysia telling us that we are going through "the process of growing up". Let's not forget what happened in Barings and China Aviation Oil. Unless Mr Mah has found Harry Potter's magic wand, it will take more than statements to explain the firm's Transmile situation.

It is good that Deloitte should speak up. We would however have preferred to see the Deloitte senior partner in Malaysia clarify the matter. He is close to the situation. He could have put more thoughts and needs on issues surrounding improving financial reporting and audit quality. All too often, this has not been addressed head-on: QUALITY.

Quality is the hallmark of an auditors' trade and competence/integrity. With a number of 'strikes' involving Deloitte including Transmile, Nasioncom and Pasaraya Hiong Kong, isn't the market justified in being wary of the firm's practical commitment to quality?

In practical terms, a commitment to quality means huge investments in dollars and cents: flying in trainers, and flying out trainees; people seconded to overseas etc in numbers; independent quality reviews which can make or break careers; investment beyond technical training to develop industry skills; investment in specialist technical and methodology teams who do no client-facing work; and yes disciplined partners. In short, any audit firm which has not changed beyond recognition in the last 10 years has not got its quality under control.

All the major audit firms must realise that they often confer a certain amount of respectability on their clients by their very presence. Like it or not, less diligent analysts and shareholders continue to do less due diligence of their own if a major firm is on the job. Therefore, these firms must be careful, especially whilst integrity levels amongst certain of our businessmen seem to remain at 'developmental' levels. They must be careful to choose their clients carefully, and to charge the fees which allow them to do excellent work. If the fee is too small, then market-watchers need to beware.

Mr Mah really should not lecture "countries like Malaysia" that we place too much emphasis on the duties of auditors and not enough on the Directors. Anyone who has studied the matter will be aware that Malaysian laws and regulations are very similar to those of the UK and Singapore in this respect, and place the primary responsibility for the running of companies and for the accounts on the Directors. He should also be aware that several Directors/Senior Management of Transmile have been charged by our Securities Commission. Our Code of Corporate Governance is similar to that of Singapore, and has been in place a year longer.

It will be very hard for any audit firm to regain the public's trust after being associated with several bad client episodes. However, it is not impossible.

Instead of waving Harry Potter's wand around in a vain attempt to "magic away" the Quality issue, we recommend a more serious approach. We would like to suggest that the major accounting firms adopt, if they have not done so, a simple 5-Point Plan for Quality:

1. Call in a Quality Review of all aspects of the firm - not just Audit Quality, but Tax, HR, Risk Management, Independence and overall Firmwide Management. The benchmarks should be Global standard.
2. Implement the recommendations in full. Penalise partners and staff who do not measure up. The modern accountancy firm is not a collection of individuals doing as they please. The partners follow rules and adhere to strict standards, or face the consequences.
3. Import 2 or 3 partners to bring up the day-to-day quality. Staff secondments are normal in the large firms. They cost money, but fines and loss of reputation cost many times more.
4. The firms should keep the market abreast of the steps taken. We all know it is a journey, but openness will be more believable than denial.
5. Repeat 1-4 for two years. That should do it.

Harsh? Perhaps, but realistic too. For in MSWG's view, it is intriguing to say the least for the shareholders of Transmile who have lost many millions resulting from the financial fiasco going back a number of years to read the press statements attributed to Mr Mah. The current high profile of governance issues/failures governing irregular accounting will not necessarily last forever and audit could slip back towards being a commodity service sold on price. The profession itself can and should do what it takes to ensure that the value of audit judgement is not undervalued.

Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated: 26 July 2007

Source: www.mswg.org.my

Case 2: KFC Holdings Bhd.

MSWG Comments On Mandatory Offer for the Control of QSR The Solution to the Tussle?
20 October 2005

The greatest tension between management and shareholders may arise when a company is the target of a take-over bid. The rival groups will feel an added tension when they view Kulim (Malaysia) Bhd's (Kulim) take-over bid to be unfriendly.

The boardroom tussle has come under close scrutiny by various parties including the regulators, given that the publicity had generated anxiety, uncertainty or even confusion among shareholders not involved.

Kulim's mandatory offer ought to be seen as a solution to the long term problems of QSR Brands Berhad (QSR) and KFC Holdings (Malaysia) Bhd (KFCH). It is not a smash and grab bid undertaken by Kulim for quick financial gain but it is essential to ensure order and control for the common good of all stakeholders.

Broadly, Kulim's mandatory offer is to provide for the possibility that, after its take-over of QSR and KFCH, which would be likely to involve a change of control and direction, certain directors or even employees, either in its own view or in that of the companies concerned, might not fit into the new organization.

However, questions arise in relation to the fiduciary duties of the directors as such:-

How far incumbent directors could and should do to prevent the take-over bid for QSR?

What is the best course of action and conduct for directors in this particular situation?

Should they enter into some schemes which, in effect, can block the take-over?

Are they obliged to inform shareholders, particularly minority shareholders about the facts and let them decide or determine just what they should do?

How far could the directors-shareholders involved in the boardroom tussle interfere or meddle with the day-to-day management and the Company's affairs while the take-over bid is in progress?

To consider whether or not their actions are valid, they would have to look after the interests of the company and shareholders as a whole. Their rationale is not only to retain control but to justify their intentions in order not to cause the company deteriorate further. It is a matter of attitude that is quite different from directors seeking to retain control because they think they are better quality directors than their rivals would be.

All their attempts to retain control would test the outer limits of their powers to face the take-over bid fairly and squarely. Indeed, it is perhaps important to note that directors need to have total regard to the interests of the present and future members of the company on the grounds that QSR and KFCH are a going concern.

MSWG is of the view that as Kulim has more than 50 per cent of QSR's share capital, it will likely make its mandatory offer to be unconditional.

Rival groups and parties in concert may stay put not to accept the offer but will they be able to stop the take-over bid? This question will be answered in the coming weeks.

Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated: 20 October 2005

Source: www.mswg.org.my

Board Tussle in QSR for Control of KFCH
Real Minority Shareholders - The Pitiful Lot?
7 October 2005

The events and meetings taking place between different groups (or parties) to get the control of KFCH Holdings (Malaysia) Bhd (KFCH) are so dramatic that shareholders not involved are either left in the lurch or confused. The groups are Kulim (Malaysia) Bhd (30.64%), Wisdom Innovative Technology Sdn Bhd (20.79%), Eagle Option Sdn Bhd (19.73%) and Delta Armada Sdn Bhd (10.24%) in QSR Brands Berhad (QSR).

Each group (or party) has a substantial stake in QSR in a fashion significantly frightening to convince one another that a mandatory take-over could be imminent and it might win in the race. However, this may or may not be the actual intention. Perhaps, one party might hope to persuade another to buy him up with a promise that it would not bid and join the fray for KFCH.

The board tussle might lead to a proxy battle between one group and some of its own interested shareholders. It may start with some dissident shareholders soliciting proxies in order to force a bid for KFCH and to obtain a shareholder resolution for control. In any eventuality, a friendly party might appear, willing to offer more for QSR's shares or KFCH's shares than any existing contesting shareholders.

In all cases, the groups (or parties) are minority shareholders who are instrumental in trying for control of KFCH via QSR. They are not the first such instances nor will they be the last. However, much scepticism is cast on the term "minority shareholders." Some might suggest that the term "minority shareholders" is probably a euphemism for directors' proxies. One cannot be faulted for concluding that the shareholders who called for the meetings were working for some of the directors especially when the main agenda of the EGMs were removal of certain other directors.

After all, the real minority shareholders are those with a few lots each and who normally will not have the strength or support needed to call for EGMs. On the other hand, can they muster enough funds to pay for the EGMs or the frequent visits to the courts especially when it involved protracted battles to remove directors. They normally will not have enough votes to pass a resolution or a proposal through without the support of major shareholders. This move at times may be healthy but at other times, it is not.

One obvious thing has emerged. It gives rise to rather unpleasant thought that the term "minority shareholders" be bandied about or that their importance be emphasized only when it suits some certain parties. Often times, when this happened, the real minority shareholders are the ones who really suffer whether for all intents and purposes, from actions rival groups or their directors are taking. In the current quagmire of QSR/KFCH board tussle, respect for the real minority shareholders is sadly lacking.

Questions then arise. How many companies have minority shareholders represented really on their boards? In how many more companies can the votes of minority shareholders be enough to determine the way their companies are run ? How many times have there been cases when resolutions or proposals are passed through despite vocal opposition from minority shareholders?

Even in cases where only minority shareholders are allowed to vote, skepticism is still abound on the sanctity of the voting process with many minority shareholders may not be the real minority shareholders but proxies of directors or the extension of some directors' interests.

In the case of QSR/KFCH board tussle, what is the position of the real minority shareholders? The outcome of any board tussle is the need for competent and quality directors as this will ensure that both majority and minority shareholders get fair and equitable returns on their shareholder value. However, the common factor among many, if not most, is the absolute and total control by a few, often acting in concert for the benefit of himself or themselves and pushing their wishes irrespective of the views of the real minority shareholders or at their expense. The real minority shareholders who do not have significant influence among board members, should be consciously aware of this fact. These real minority shareholders could be indeed be a pitiful lot!

However, do the real minority shareholders have to be in this position - a pitiful lot? The answer is in the negative - a categorical no! The Minority Shareholder Watchdog Group (MSWG), an independent as well as non-profit making organisation and funded by the Capital Market Development Fund will continue its level best to enhance shareholder activism and protect minority interests.

Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated: 7 October 2005

Source: www.mswg.org.my

MINORITY SHAREHOLDER WATCHDOG GROUP (MSWG) COMMENTS ON TRIAL BY THE MEDIA? PUBLIC RELEASE OF PWC REPORT ON KFC HOLDINGS (MALAYSIA) BHD
12 July 2005

KFC Holdings (Malaysia) Bhd (KFCH) had on 11 July 2005 announced that its Board of Directors has suspended the Group Managing Director, Datuk Johari Abdul Ghani (DJAG) for 21 days to enable DJAG to respond to the findings of the PriceWaterhouse Coopers High Level Business Review (PwC Report).

MSWG is of the view that good corporate governance practice calls for a thorough review and discussion of the PwC Report by the Board of KFCH to understand the findings and issues raised in the PwC Report. Next, proper procedures must be accorded to DJAG to enable him to respond to the findings as requested by the Board.

Although DJAG has been given time to respond to the findings of the PwC Report, MSWG is concerned that the summary of the PwC Report have been released to the media by KFCH immediately upon suspension of DJAG and not until DJAG has reverted to the Board with his response. The Board of KFCH may be seen as engaging in a â€œtrial by mediaâ€• tactic, which has the potential to cause significant damage to the reputation of the Company, the Board and the individual concerned who is the subject of the query before the person has had the opportunity to respond appropriately. The Board of KFCH must also be mindful of possible legal and financial implications as a result of the publication of the findings to the public if some findings and deliberations turn out to be inaccurate.

The Board of Directors is the ultimate authority for full and effective control of and responsibility of a company. This includes the overall responsibility of ensuring good corporate governance and ethics to be observed by the directors of the company. The Board of KFCH should have in good faith given DJAG the opportunity to respond to the Board members first, and following that the directors to deliberate on the appropriate actions to be taken for the best interest of KFCH and its shareholders. For the integrity of the board and the company, there must always be a strict observance of obligations between the directors, which is important to maintain confidence and accountability for each other's actions.

MSWG is also concerned over the discharge of the Board of Directors' duties and responsibilities whilst the alleged wrongdoings were happening. For ultimately, the ones to suffer are the various stakeholders including minority shareholders.

Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated: 12 July 2005

Source: www.mswg.org.my

MINORITY SHAREHOLDER WATCHDOG GROUP (MSWG) COMMENTS ON SHAREHOLDER ACTIVISM IN KFC HOLDINGS (MALAYSIA) BHD
5 July 2005

The chicken at KFC Holdings (Malaysia) Bhd ("KFCH") is indeed feeling the heat of the frying pan. This is shown by the tussle for control in QSR Brands Berhad ("QSR"), the holding company of KFCH which is increasing in intensity and complexity.

The announcement by Kulim (Malaysia) Bhd ("Kulim") on 20 June 2005 that it has acquired 6.3% stake in QSR via a direct business transaction and that it has signed conditional Sale & Purchase agreements to buy an additional stake of 36.7% in QSR had given some clarity to the identity of the party controlling QSR. Nevertheless, the recent announcement that Tan Sri Dato' Nik Ibrahim Kamil ("TSDNIK"), a director of QSR since March 2005 had raised his stake in QSR from 13.5% to 19.7% raises a question mark as to who will ultimately control the QSR/KFCH Group. To add intrigue to the tussle is the court injunction by TSDNIK.

The board of directors of QSR currently comprise of fifteen (15) directors. Kulim has also applied for the appointment of three (3) directors and a joint company secretary to the QSR board. If these nominations are accepted, this would result in a total of eighteen (18) directors on the board of QSR. KFCH currently has fourteen (14) directors on its board.

Minority shareholders should be worried as to the level of corporate governance in the QSR/KFCH Group. Firstly, the number of directors on the board of QSR and KFCH keep increasing. Where does this end? The large numbers of directors brings to question the effectiveness and efficiency of decision making in the board room. This will ultimately affect the running of the QSR/KFCH Group and have a detrimental effect to the shareholders, in particular the minority shareholders. Secondly, the Articles of Association of KFCH allow important decisions affecting the company be passed through a circular resolution approved by majority of the directors, without any meeting or discussion. Thirdly, the remuneration level of some directors may need to be reviewed when bench-marked against the performance of the group. Total directors' remuneration for QSR and KFCH in respect of the financial year ended 31 December 2004 totalled RM1.459 million and RM3.637 million respectively.

Minority Shareholder Watchdog Group (MSWG) is of the view that it is now time for the Institutional Shareholders of KFCH collectively to step up and take actions to ensure that the Group is being run properly with good corporate governance. The institutional shareholders of KFCH include the Employees Provident Fund, Great Eastern Life Assurance (Malaysia) Bhd, Lembaga Tabung Haji, Malaysia National Insurance Berhad, Permodalan Nasional Berhad, Takaful Nasional, Lembaga Tabung Angkatan Tentera, Petroliam Nasional Bhd, Tenaga Nasional Bhd, ING Insurance Bhd, Kumpulan Wang Amanah Pencen, to name a few. Based on KFCH's annual report for year 2004, the abovementioned institutional shareholders collectively hold over 33% of the shares in KFCH.

MSWG as a body for shareholder activism and protection of minority interest would be more than happy to be the platform to initiate a collective shareholder activism for these institutional shareholders. We also call for the institutional shareholders to collectively take the necessary actions to improve the running and corporate governance of the QSR/KFCH Group, which may include re-looking at the relevant Articles of Association and the composition of the board. This will lead to the development of vibrant and effective minority shareholders which will create greater confidence of investors in the capital market.

Institutional shareholders represent extensive stakeholders and hence have the duty and responsibility to ensure that that their investments are not only being protected but also enhanced to the best of their abilities. In this case, it will be very disheartening if the institutional shareholders do not take any action to ensure that KFCH is being run properly and maximising shareholder value. Minority shareholders, acting together can have a strong influence on the way things are done and will lead to a better performance for the QSR/KFCH Group. Otherwise, the chicken may not be that finger-licking good.

Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated: 5 July 2005

Source: www.mswg.org.my

Case 3: Padiberas Nasional Bhd.

MSWG COMMENTS ON INSIDER TRADING CASE OF PADIBERAS NASIONAL BHD (BERNAS) SHARES - A LESSON TO BE LEARNT
25 August 2006

MSWG welcomes the Securities Commission (SC)'s civil enforcement programme which has enabled 41 other investors to claim their entitlement under the compensation scheme by which the 275 investors were earlier compensated.

Please refer to SC's press release on 90% aggrieved Bernas investors compensated on 24 August 2006.

Besides a significant milestone for the SC, their civil enforcement programme has also made it easier for aggrieved investors to take legal action and to recover their losses. Previously, the laws stated that such action by aggrieved parties against insider trading could only be taken through the court which would need to be proven, costly and time consuming..

The SC's civil enforcement programme has cast the net wider without fear or favour in search of the culprits or guilty ones and punish them appropriately. Effectively, the civil enforcement programme has extended the scope of the law to deal with insider trading offences and to remove abuses on what constitutes improper conduct or abuses of insider information. Insider trading is not only unfair to genuine investors but it also undermines investor confidence for fair dealing.

MSWG is of the opinion that the more astute the recourse to civil enforcement processes the more effective it will be to expedite the prosecution and conviction of insider traders. The civil enforcement programme will make the SC more effective and useful to track down errant directors and CEOs who have indulged in insider trading.

In line with the saying "Do what you preach," MSWG endorses that the SC has kept truthful to its words from the time when the Securities Commission Act 1993 and the Securities Industry Act 1983 have been broadened significantly to empower them to disqualify and remove errant directors and CEOs from office since January 2004.

The advice of MSWG to be cautious and accountable is:

Do not trade while in possession of confidential price sensitive information unless you disclose the information to the public

Do not trade if confidentiality of the information does not allow disclosure.

When in doubt, always disclose.

Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated: 25 August 2006

Source: www.mswg.org.my

Case 4: FCW Holdings Bhd.

AGM OF FCW HOLDINGS BERHAD - IS THIS WAY TO CREDIBILITY AND SUSTAINABILITY
22 December 2006

On 22 December 2006, the Fifth-First (51st) Annual General Meeting (AGM) of FCW Holdings Bhd continued despite the strong objections of substantial number of minority shareholders against the absence of the Non-Independent, Non-Executive Chairman for at least the last three (3) consecutive years.

MSWG pointed out that the continuing absence of the Chairman and he was away overseas, was unacceptable and the continuation of the AGM indicated that minority shareholdersâ€™ rights could have otherwise been better served. Certain shareholders and proxies present, who voted for the AGM to continue, could be interpreted to have not acted in the interest of all shareholders.

An important aspect of corporate governance is shareholdersâ€™ rights. Often, provisions that move away from one share for one vote, and to vote by show of hands, contribute to weak shareholdersâ€™ rights. The greater number of certain shareholders and proxies came prepared for the AGM and voted against their fellow other shareholders and in disunity, they have failed to protect their interest collectively.

MSWG is of the view that often much of the shareholder democracy is focused on the rights of retail shareholders. However, when the result of voting is carried by votes of certain shareholders and proxies, shareholder democracy is no longer practised, but is an illusion.

It is important that retail shareholders understand their rights correctly and effectively. The AGM is the most important event and an opportunity for shareholders to see their Directors and Chairman in person, and to gauge their attitude and responsibility towards them. Generally, in most AGMs, shareholders are bemused by the silence of other directors throughout the meeting while the meeting is largely conducted by the Chairman. In this particular case, it is odd that the Chairman has been absent for the three consecutive years. Shareholders can question his commitment and sincerity towards shareholders. Oddly, one independent director openly defended him, trying to explain his absence unconvincingly.

MSWG took to account the conduct of certain directors to get certain shareholders and proxies to support the continuing absence of the Chairman. This did not augur well for our capital market, detracting from the spirit of good corporate governance for directors to exercise collective responsibility of the Board for company performance and prospects. Why did the Chairman not face shareholders, met them and openly explained matters to them that affected the company.

The absence of the Chairman for three consecutive years reflected his lack of accountability for his role and a serious breakdown for shareholder comfort. This is even so especially now that the Company is classified as an affected issuer under PN17. Although the AGM continued, the Chairman had failed to offer himself to be questioned and subject to scrutiny, while the Executive Director took the blunt from aggrieved shareholders as the Chair of the AGM on his behalf.

In trying to enhance shareholders activism and protect minority interest, MSWG takes a serious view of the absence of Board chairman and directors from general meetings. MSWG will not hesitate to have these meetings adjourned and even move not to reelect these directors. Only in this way, can we protect the credibility and sustainability of our capital market.

Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated: 22 December 2006

Source: www.mswg.org.my

Case 5: Megan Media Holdings Bhd.

The Star Online > Business

Thursday June 14, 2007

Megan Media defaults on RM894m bank facilities

By KATHY FONG

PETALING JAYA: Megan Media Holdings Bhd, which is being investigated by the Securities Commission, and its subsidiaries have defaulted on RM893.97mil in maturing banking facilities (principal only).

The optical disk maker, which has been found to be involved in fictitious trading, said it had defaulted on all facilities granted by its bankers.

The company was unable to repay the debts due to the constraints to its current cash flow from its manufacturing operations, it told Bursa Malaysia late last night.

Megan Media's problems are not confined to the mounting debts, but also the fictitious transactions that might have involved more than RM500mil cash.

The creditor banks hired Ferrier Hodgson MH Sdn Bhd to conduct investigations on Megan Media's unit Memory Tech Sdn Bhd (MTSB).

The interim findings of Ferrier Hodgson show that MTSB's suspect transactions included a RM211mil deposit paid for 13 production lines that could be fictitious, in addition to the fictitious trading that resulted in receivables totalling RM334.3mil.

It also revealed that MTSB's assets could potentially fall short by RM456mil.

Ferrier Hodgson said the value of MTSB's fixed assets of RM585mil needed to be investigated further while the net realisable value was unknown.

The investigation discovered that the payments to all trading creditors were actually made to other parties in a move to channel cash out of MTSB.

Megan Media's balance sheet as at Jan 31 shows that borrowings stood at RM888mil.

Its receivables grew to RM430.3mil from RM319mil a year earlier. The cash flow statement showed a negative net cash of RM57.9mil generated from operating activities.

Megan Media said it would engage the creditor banks to formulate the debt restructuring scheme and regularisation plan in "ensuing weeks."

It will also initiate legal action to recover all amount lost due to the irregularities.

The statement said Megan Media's state of solvency would ultimately depend on the outcome of the debt restructuring and regularisation endeavour.

However, the company pointed out that the report on interim findings of Ferrier Hodgson indicated that it had sufficient short-term cash flow based on its current modus operandi.

It may incur a net loss of RM552mil for the fiscal third quarter ended Jan 31 after adjustments for fictitious transactions, instead of a profit of RM10.5mil as per the published unaudited accounts.

Media Megan shares were dragged down to a record low of 14.5 sen on Tuesday. It closed at 15 sen yesterday.

Source: www.thestar.com.my

Appendix 2

A RISING VOICE AND POWER - THE VOCIFEROUS MINORITIES AT THE ANNUAL GENERAL MEETING OF MALTON BERHAD ON SATURDAY, 15 DECEMBER 2006
18 December 2006

On 16 December 2006, Encik Abdul Wahab Jaafar Sidek, the Chief Executive Officer (CEO) of MSWG and minority shareholders of Malton Berhad dressed down the board for the absence of their executive chairman and executive director for two consecutive annual general meetings (AGMs) as well as their excessive remuneration when shareholders received no dividends. At several points during the three-hour shareholders' meeting, the aggrieved shareholders put pressure on the board, demanding the whereabouts of the Executive Chairman and the executive director. In the annual report, they are both substantial shareholders via a private limited company, Malton Corporation Sdn Bhd which has a 37.91 per cent stake.

Encik Abdul Wahab Jaafar Sidek pointed out that their absence did not reflect well on their attitude and their responsibility for not taking minority shareholders seriously at once a year's shareholders' meeting. He and minority shareholders present at the AGM found that the Deputy Chairman, chairing the AGM (also an independent director)'s explanation is totally unacceptable by saying that they were overseas and that he would convey shareholders' sentiments to them. As he tried, chairing the AGM not even passing the first resolution in tabling the company's financial statements, the CEO of MSWG and shareholders viewed their absence with skepticism and the chairman's explanation unconvincing. Also noted in the directors' profile in the annual report, the Executive Chairman has been described as the executive director's spouse.

MSWG then brought up several critical issues to the board's attention and shareholders followed up vociferously, demanding for answers. The most critical ones, among others, are as follows:-

- The Group's five-year summary showed that year-on-year comparison, the group's profit before taxation shrank by 88.7 per cent although turnover was rising by 36.2 per cent. The Group's profit margins declined to as low as 2.6 per cent from 4.1 per cent on the back of rising operating expenses, that eroded earnings of the Group while executive directors' remuneration kept rising;
- For two consecutive financial years ended 30 June 2005 and 2006, the Company paid tax penalties of RM3.67 million and RM3.35 million when it made a net loss of RM14.10 million in 2005 and a net profit of RM2.44 million in 2006 respectively. Shareholders could not believe their eyes that such tax penalties happened and questioned the competence of tax agents/tax advisers doing the Group's tax computation even though the board tried to explain and relate these payments back to 2001.
- Two related party transactions comprised the insurance premium of RM800,000 paid to a company controlled by one Lim Bin Hooi, a sister of the Executive Chairman and the purchase of corporate gifts (or hampers) of RM400,000 from a company controlled by the Executive Director (i.e. the Executive Chairman's spouse), both were absent from the AGM. The directors tried to clarify that even if such transactions were given to outside parties, the same amount of expenses would still be incurred and it made no difference whether related or not. However, the shareholders doubted, especially the purchase of corporate gifts (or hampers) whether it was necessary to be so much.
- The Executive Chairman and Executive Director were both retiring under the Company's articles and had offered themselves for re-election while both were absent from the AGM. Their absence fumed shareholders present at the AGM to

question their remuneration, demanding to slash down their remuneration to below the net profit of RM2.44 million for the year attributable to shareholders.

- MSWG also asked for clarification as to the duties and responsibilities of Executive Chairman, three Executive Directors (one of whom is his spouse) and one Managing Director in the context of corporate governance principles and best practices for the Board comprising one Deputy Chairman (an independent director) and two independent directors.

The AGM got heated, with shareholders refusing to accept the explanation for their absence and inappropriate answers provided by the board to the above issues. At this juncture, Encik Abdul Wahab Jaafar Sidek virtually advised the board to consider the necessity to adjourn the AGM which was well supported by the shareholders. He hoped that the adjourned AGM would enable both the executive chairman and executive director be present at the AGM to meet shareholders. At this stage, the Chairman (supposed to be an independent director) asked for a poll instead of a show of hands.

MSWG then took to account whether or not the chairman had conducted himself appropriately as an independent director chairing the AGM while faced with mounting objections from shareholders. The shareholders gathered that the board wanted to get over the AGM with probably proxies and the poll to see to their success easily over the aggrieved shareholders. Much arguments, persuasions and exchange of words between shareholders and the Chairman of the AGM prevailed, culminating with directors requesting to meet among themselves for ten minutes. Only then, they reluctantly decided to adjourn the AGM to another date.

MSWG is of the view that the affairs at Malton Bhd’s AGM have, if nothing else, shown that minority shareholders have ‘teeth’ and will bite whenever their patience is over-tried or over-tested. In this case it is the unsatisfactory absence of both Executive Chairman and Executive Director (his spouse) for two consecutive AGMs and their high remuneration besides other critical issues as mentioned above.

The recent AGMs of public listed companies (PLCs) have indicated that shareholders’ meeting is no longer an anachronism or a dull event which, at times, could often result in varying degrees of excitement, trepidation or glee. We believe rising shareholder activism is healthy and in many ways, can make PLCs more accountable to shareholder democracy which is now a real challenge and no longer a mirage.

Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated: 18 December 2006

Source: www.mswg.org.my

MSWG COMMENTS ON FLEXING MUSCLES OF MINORITY SHAREHOLDERS
8 March 2006

Minority Shareholders flexed their muscles and forced the withdrawal of all the three resolutions at the recent EGM of Bandar Raya Developments Bhd (or BRDB) on 23 February 2006.

The Board of BRDB had to withdraw these three resolutions when it failed to obtain the 75 per cent majority. The three resolutions were the share split, the amendment of BRDB's Articles to allow the share split, and the divestment of BRDB's 56.7 per cent-owned subsidiary, Mieco Chipboard Bhd (or Mieco) to make capital repayment to its shareholders.

Voting against the resolutions included an institutional shareholder with a significant equity stake in BRDB.

MSWG is of the view that the resolutions were bad timing attributed to BRDB's and its subsidiary, Mieco's deteriorated performances and weak share prices.

For the current financial year ended 31 December 2005, BRDB reported an unaudited net loss after taxation and minority interests of RM66.80 million. Mieco also reported an unaudited net loss after taxation and minority interests of RM8.18 million.

In addition, Mieco is now facing a lawsuit claim of RM2.14 million taken by RB Project Resources Sdn Bhd for alleged breaches of contract on installation works done including the supply of labour, material and equipment.

Over the last one year, MSWG noted that minority shareholders have grown in strength either in persons or as proxies to vote against resolutions which are against their interests. Never has this growing power of minority shareholders been truer and effective at the EGM of BRDB to make the board accountable.

Public listed companies are only well governed if minority shareholders take their role and voting seriously without fear or favour.

Minority shareholders must test their courage to stand against unfair treatment, not to waste their votes but stay united and to appoint proxies to act if need be on their behalf.

Minority shareholders and other shareholders have three fundamental rights i.e. the right to information, the right to express opinion and the right to seek redress. Voting is a responsibility for one's rights and protection as shareholders and ownership.

In this context, MSWG's mission is to enhance shareholder activism and protect minority interest.

Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group

Dated: 8 March 2006

Source: www.mswg.org.my

26-05-2008: Tasek minority unhappy over HLA deal
by Cindy Yeap
Email us your feedback at fd@bizedge.com

KUALA LUMPUR: A minority shareholder of Tasek Corp Bhd has written to the authorities, voicing his dissatisfaction over the company's proposed purchase of Hong Leong Asia Ltd's (HLA) building materials business for S$323.5 million (RM773.6 million) to be satisfied by new Tasek shares.

The shareholder complained to the company's independent directors, major shareholders such as Lembaga Tabung Haji and the regulators, seeking a better deal for the minorities.

Describing himself as a long-time value investor, the shareholder said he does not question the value of HLA's assets but reckons Tasek's shares are "worth much more" and should be issued "at a much higher price" than the proposed RM3.54 per share.

The transaction is tied to a 54-sen special dividend, which means the Tasek shares are valued at RM4.08. The value was based on the average market price when the deal was proposed.

"A fair ball park estimate to Tasek minorities would be about RM1 net cash dividend and to issue the new shares at RM5 to RM6.50," the dissident Tasek minority wrote.

He gave several reasons why the new Tasek shares should be issued at a higher price. For one, the net tangible asset per share of RM4.29 as at March 31, is higher than the proposed issue price.

A higher issue price for the new Tasek shares would mean that HLA gets fewer Tasek shares in exchange for the assets it is selling. Both HLA and Tasek are companies under the Hong Leong Group which is controlled by Tan Sri Quek Leng Chan.

Based on the proposed issue price of RM3.54, 212.25 million new Tasek shares, or 53.5% of its enlarged share capital, are to be issued for the purchase. This would more than double the HLA group's stake in Tasek from 31.92% to 68.34%, making the latter its subsidiary.

HLA is seeking a waiver from undertaking a mandatory general offer.

The minority shareholder also said Tasek's cement operations alone would be worth close to RM1 billion or RM5.39 per share. This was arrived at by pricing Tasek's cement plant capacity of 2.3 million tonnes at RM434 per tonne. As such, he reckons Tasek minorities would be better off if there were competing bids for its cement mill.

"Many reputable foreign parties like French-owned Vicat SA, which made an unsuccessful bid for Cement Industries Malaysia Bhd (CIMA), and Swiss-owned Holcim could be interested in the Tasek cement plant,'' the minority said.

In the letter, he asked that Tasek's independent non-executive chairman Datuk Dr Hussein Awang table the points he raised in his letter at a board meeting.

"Tasek is basically exchanging solid steel and mortar cement mill for essentially a group of related companies trading in building materials. Hopefully, the approving authorities will ask for profit guarantees from HLA for at least two to three years," he said.

theedgedaily.com

Appendix 3

All materials presented in Appendix 3 are extracted from the official website of the Minority Shareholder Watchdog Group (MSWG). Available at: www.mswg.org.my

MSWG

MINORITY SHAREHOLDER WATCHDOG GROUP
Shareholder Activism and Protection of Minority Interest
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia . Company No : 524989-M)

PRESS STATEMENT
RELEASED ON 9 JANUARY 2009

Objective of Press Briefing

The objective of this Press Briefing is to introduce myself as the Chief Executive Officer (CEO) of Minority Shareholder Watchdog Group (MSWG) and to reiterate MSWG's vision, objectives and Business Plan for 2009 which was endorsed by the Capital Market Development Fund (CMDF) in July 2008.

Background

MSWG was incorporated on 30 August 2000 as a public company limited by guarantee. It was set up as the Government's initiative based on the recommendation in the Report on Corporate Governance by the High Level Finance Committee in February 1999 as the ***'first step towards encouraging shareholder activism in Malaysia***".

MSWG commenced its operations in July 2001 and was funded by its five founding members for a total of RM5.8 million for the initial three years, i.e. 2001 to 2004 for its start-up and development costs. MSWG has since been under the funding of CMDF for its operations and to-date, it has received RM5.75 million from CMDF.

Role and Objectives of MSWG

We will continue to fulfil our role and objectives as set out in the Business Plan and Memorandum & Articles of Association of the Company, which I summarise as follows :-

To increase awareness regarding minority shareholders' rights and to act as a platform to initiate shareholder activism in order to influence public listed companies (PLCs) to adhere to best practices. In this regard, we would :-

- advise on proxy voting;
- influence the decision making process in public listed companies as the leader for the minority shareholders' legitimate rights and interests;
- become the platform to initiate collective shareholder activism on unethical or questionable practices by management of PLCs;
- monitor for breaches and non-compliance in corporate governance practices by PLCs that may be detrimental to the rights and interests of the minority shareholders and disclose current practices to stakeholders and publicize such matters, hence supporting the Government's drive for globalization to attract foreign investment;
- initiate reports to regulatory authorities and in doing so, transforming the company into an effective deterrent of such events or activities which may be against the interest of the minority shareholders; and
- become the think-tank and resource centre on minority interests and corporate governance matters.

Going Forward and Positioning MSWG

The groundwork had been put in place to work towards achieving these objectives.

My principal aim is to continue in the quest to bring MSWG to a greater height in fulfilling its basic role in shareholder activism and protection of the minority interest for the betterment of the capital market as well as bringing MSWG to the international level.

We want to build MSWG's capacity and capability and make it known, particularly among global market participants. We would like to position MSWG as the premier body for shareholder activism and influencing good corporate governance among PLCs. The end result is that investors will see this market as attractive and as the market of choice.

In pursuing this goal, MSWG is always cognizant of the importance of the following factors:-

- Buy-in and support from the retail shareholders, institutional shareholders and fund managers; and
- Level of cooperation from target audience, relevant industry associations, authorities and the media.

I have looked into the Business Plan and fine tuned it for 2009 and beyond to ensure MSWG's sustainability and credibility as a capital market institution.

We are enhancing the products that we are currently offering in the areas of :-

- ***Proxy advisory and voting services***
  - We will continue to encourage shareholders to appoint us as their proxy both retail and institutional to vote in general meetings.
  - We would be looking closely and monitoring 160 companies for a start and provide our value added service to our subscribers for a nominal fee.
  - Before an AGM/EGM, we would do an independent study to look at the resolution and advise to vote whether for or against a resolution.
  - We would then post it on our website for subscribers.
  - Post the AGM/EGM, we will inform the subscribers on the proceedings of the AGM so that subscribers would know very quickly what had transpired during the AGM/EGM.

- ***Publications***
  - We will also continue with our publications and currently have identified more research topics and surveys to be done in collaboration with relevant organisations.
  - Surveys will continuously be improved to ensure quality and timeliness.

- ***Investor Education Programmes***
  - We will conduct intensive investor education programmes in Klang Valley and outside to reach the retail investors in various regions in Malaysia.
  - The investor education programme will give special focus to retail investors and we shall continue our efforts to have dialogues with institutional investors as well.

- ***Global Networking***
  - MSWG is now well-known amongst market participants in Malaysia and we want to show case ourselves to the international bodies such as the World Bank, OECD, ACGA and ICGN. We want to build this strength and make MSWG known to the global market participants such as overseas fund managers. ***We believe the presence of MSWG to promote the minority shareholders' interests is important for investors, both local and global to invest in Malaysian PLCs.***

- ***Subscriber Services***
  - We are looking into increasing our Subscriber base locally and internationally. The public is encouraged to use our website as a communication portal where they can voice their views and concerns pertaining to their rights as minority shareholders. MSWG website can be viewed at www.mswg.org.my.
  - MSWG is offering its Subscriber Services at a promotional annual fee of RM80 for Individual Subscriber and RM800 for Corporate Subscriber until 29 February 2009.
  - The Individual and Corporate Subscribers shall be entitled to the following benefits :-
    - Proxy Advisory and Proxy Voting Services - A nominal fee will be charged for attendance and services rendered including monitoring and surveillance of the PLCs;

- ❖ Access to MSWG's letters to the PLCs and written replies from the PLCs concerned (where appropriate) on the points to be raised at the General Meeting of the PLCs;
- ❖ Appropriate responses to the subscribers on issues, complaints or grievances to be resolved for the subscribers' benefit;
- ❖ Regular dialogue sessions on common issues in PLCs affecting the minority interest; and
- ❖ Discounted price for all MSWG's publications.

- ***Speaking Engagements***
  - o We will continue with our speaking engagements in seminars and roundtable discussions on good practices and governance issues, both locally and internationally.

Capacity Building

It is also now my task to look at capacity building and some reorganizing. Currently, we only have 4 Client Services Consultants. The critical mass is at least 10 to ensure that more in-depth and quality research is conducted on companies in the area of governance. We are looking to expanding our expert pool to include people from diverse background such as law, economics or journalists to complement one another.

Funding

However, it goes without saying that all this would require funding to ensure that the organisation does not have to face the issue of funding constraints once again. The Capital Market Development Fund has been supporting MSWG since 2005 and I believe it will continue to support MSWG in its public mandate to spearhead shareholder activism. MSWG will also continue to generate its own revenue from its surveys and products to complement the funds from CMDF to meet annual operational expenditure.

Current Economic Environment and Corporate Governance Issue

The US credit crunch has caused a global financial tsunami. It has not spared any nation and had even almost bankrupted Iceland. This is indeed a wake-up call for PLCs to be prepared to face greater challenges. Although Malaysia's economic outlook is expected to weather the financial crisis better as we have put in place regulatory framework in the banking and securities industries as well as accounting practices and standards, the current financial crisis has shown that it would not be prudent to unquestioningly accept standards as an end-all.

PLCs will be facing tough and challenging times. These PLCs are expected to post below than expected results for the year. The Boards of Directors as a first line of body to institute corporate governance, have to carefully evaluate company strategies and direction against backdrop of rising operational costs and uncertainties. It is vital that the independent directors in particular, step up to play their roles effectively as the guardian of corporate governance and minority shareholders' interests.

This is in view that in these times of financial crisis, more accounting irregularities in problematic companies could surface. The latest example is Satyam Computer Services where the company's profits had been inflated over the recent years.

Conclusion

The year 2009 is expected to have more mergers and acquisitions, related party transactions, privatizations and share buy-backs as well as lower dividends declared. It is anticipated that 2009 will be a challenging year for MSWG with many shareholders-related and corporate governance issues . Thus, more so now than ever, MSWG's role will be important to highlight such issues for the interest of minority shareholders.

With this, I would like to end my briefing. Thank you.

RITA BENOY BUSHON
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated : 9 January 2009

An Example of MSWG Initiatives to Encourage and also Increase Retail (Individual) Investor Participation in Corporate Governance: Retail Investor Subscription Service.

MSWG

MINORITY SHAREHOLDER WATCHDOG GROUP
Shareholder Activism and Protection of Minority Interest
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia • Company No : 524989-M)
TINGKAT 11, BANGUNAN KWSP, NO. 3, CHANGKAT RAJA CHULAN, OFF JALAN RAJA CHULAN,
50200 KUALA LUMPUR. TEL : (603) 2070 9090 FAX : (603) 2070 9107
E-mail : watchdog@mswg.org.my Website: www.mswg.org.my

RETAIL SUBSCRIBER

Joining Fee : RM20 per annum or
RM100 one-off payment as Life Retail Subscriber

Value Proposition

- Special 30% discount for the investor education programmes organised by MSWG annually
- Special 30% discount for MSWG publications
- Free one month access to MSWG Tracker - password given upon signing

- Special fee at RM160 for one year access to MSWG Tracker (normal price for MSWG Tracker = RM360)

MSWG Tracker includes the following services :-

(i) **MSWG Monitoring of AGMs/EGMs**
- MSWG Letters
- Reply from PLCs

(ii) **MSWG Publications**
- MSWG-NUBS Corporate Governance Survey 2008
- Shareholdings Analysis Report 1997-2006

Complimentary Tracker Services

(iii) **Corporate Actions on all PLCs in Bursa**
- Mergers & Acquisitions and Privatisations

- Related Party Transactions for the last one year
- Dividend payout
- Boardroom Changes

(iv) **MY Watchlist - Alerts**

- Latest company announcements
  (each user will receive alerts on PLCs)

(v) **Financials of PLCs**

- Including financial ratios for 10 years

(vi) **Benchmarking by Sub-Sector for Comparison**

Examples of Other Retail (Individual) Investor Education and Engagement Programmes/ Initiatives:

MSWG Organised a Dialogue with the Retail Shareholders
30 December 2008

MSWG organised its Fourth (4th) Dialogue with the Retail Shareholders on 30 December 2008 at its premises.

The objectives of the dialogue were to obtain feedbacks/suggestions/views from these retail shareholders to enable MSWG to play a more effective and efficient role in enhancing shareholder activism and protection of minority interest that will help improve the credibility of the capital market for all stakeholders.

Source: www.mswg.org.my

MSWG Participated as a Speaker and Set Up a Booth at the National Investors Symposium 2008
7 September 2008

MSWG participated as a Speaker at the Inaugural National Investors Symposium which gathers stock analysts, listed companies and traders as well the general investing public.

A booth was also set up at the event which was held at the Kuala Lumpur Convention Centre.

This activity is part of MSWG's investor education programmes. The objective of this activity is to promote MSWG's activities and services, in particular the Subscriber Services, which are targeted at the retail shareholders.

Source: www.mswg.org.my

MSWG Organised a Seminar on "Getting Behind The Figures"
30 June 2008

A one-day workshop on "Getting Behind The Figures" was held on 30 June 2008 at the Conference Room, Bursa Malaysia Berhad. This Workshop is part of MSWG's investor education programmes for the Retail Shareholders. It was to enable the participants to acquire a thorough knowledge and skills on the accounting concepts and terms used in annual reports & financial statements and to assess the overall financial performance of a public listed company – whether it is profitable and financially sound.

Each participant was charged RM120 for the seminar materials and refreshment as well as lunch. MSWG Subscribers were given 30% discount on the fee, i.e. RM70 per person.

Source: www.mswg.org.my

MSWG Organised a Workshop on "How to Read, Analyse and Interpret Annual Report and Financial Statements" (Basic Level)
28 May 2008

MSWG organized a one-day workshop for the Retail Shareholders on "How to Read, Analyse and Interpret Annual Report and Financial Statements (Basic Level)". This Workshop was a 'repeat' program of the Workshop held on 27 December 2007 as requested by the Retail Shareholders. It is aimed to guide the Retail Shareholders to acquire a comprehensive understanding of Annual Report and Financial Statements.

This Workshop was held at the Conference Room, Bursa Malaysia Berhad. Each participation was charged RM100 for the seminar materials and refreshment as well as Lunch. Subscribers were given 30% discount on the fee, i.e. RM70 per person.

Source: www.mswg.org.my

NEWS AND COMMENTARIES BY MSWG AND NEWSPAPERS (NOTE: Samples of Write-Ups and Press Articles for June 2009)	
Date	**Title**
29 June 2009	MSWG AGM/EGM weekly watch June 29-30
22 June 2009	MSWG AGM/EGM weekly watch June 22-26
19 June 2009	Non re-election of KUB audit committee chairman raises questions
15 June 2009	MSWG weekly watch June 15-20
10 June 2009	MSWG launches corp governance index
10 June 2009	MSWG introduces Malaysia Corporate Governance Index 2009
10 June 2009	MSWG introduces Malaysia Corporate Governance Index
10 June 2009	Corporate Governance Index to pick top 100
10 June 2009	MSWG introduces Malaysia Corporate Governance Index – To ensure PLCs to follow the best practises
10 June 2009	Malaysia Corporate Governance Index helps minority shareholder to better comprehend the quality of PLCs
10 June 2009	MSWG: Media plays key role in corporate governance
10 June 2009	Indeks MCG 2009 diperkenal
10 June 2009	Shareholders are effective enforcers in corporate governance
9 June 2009	A gauge for investors
8 June 2009	Heightened vigilance against corporate transgressions
8 June 2009	MSWG AGM/EGM Weekly Watch June 8-12
3 June 2009	MSWG cari pengarah baru
3 June 2009	You can join MSWG's pool if you have the right skills
1 June 2009	MSWG AGM/EGM weekly watch June 1-5

Appendix 4

Enforcement Related Press Releases

2009

- Former MIH Operations Manager sentenced to 3 years jail and fined RM1 million - 25/3/2009
- Former Multi-Code directors charged with CBT and securities fraud - 13/3/2009
- SC charges former Welli Multi CEO - 11/3/2009
- Court upholds conviction for short-selling of shares - 2/3/2009

2008

- Gensoil Director pleaded guilty for submitting false information to SC - 26/12/2008
- SC charges director for defrauding FX Capital investors - 17/12/2008
- High Court dismisses Nasioncom's judicial review application - 23/10/2008
- SC completes restitution to Powerhouse investors - 15/10/2008
- Swisscash: Landmark judgement for the SC- Monies overseas to be traced and repatriated - 29/9/2008
- SC welcomes ACA's action against Chee Kok Wing - 21/5/2008
- SC investigates FX Capital Consultant - warns public against unlicensed investment activities - 9/5/2008
- Be on guard: SC warns against 'CSI' Investment Product and Beneficence International Investment (Group) Co Ltd - 7/5/2008
- Misleading revenue figures - SC charged ex-Welli Multi MD and ED; compounded former CEO - 15/4/2008
- Iris share manipulation: SC files landmark civil suit - 9/4/2008
- Duo fined RM150,000 for breach of securities laws - 25/3/2008
- Multiple share application accused pleads guilty and fined RM70,000 - 11/3/2008
- SC charges perpetrator of internet investment scheme-filed civil forfeiture action against another internet investment scam - 29/2/2008

2007

- SC charges two more directors of GP Ocean - Dato' Lim Kim Ming and Lim Kim Hai for submitting misleading information in GP Ocean listing proposal - 22/5/2007

- Soh Chee Wen pleads guilty, maximum fine imposed - 14/5/2007

- SC charges Tan Siok Wan and Lee Sin Teck for falsifying information in GP Ocean listing proposal - 18/4/2007

- SC raps Nasioncom and directs company to re-issue 2005 financial statements - Ensures investors have true financial figures - 15/2/2007

- SC charges Dato' Ng Kim Weng for falsifying information in Polymate Holdings Berhad's 2003 Annual Report - 7/2/2007

Source: http://www.sc.com.my

Enforcement Milestones in 2008

Civil Action against Market Manipulators

The SC, on 9 April 2008, filed a civil action against 8 foreign and 2 local defendants, seeking the following :

- Declaration that all the defendants conspired to manipulate the market and the share price of Iris, and defrauded investors;
- Declaration that all profits earned by the defendants are held in constructive trust for the affected investors benefit;
- Orders that all the assets and properties of each defendant be paid to SC after being traced and followed in order to compensate the affected investors;
- Permanent injunction restraining the defendants from trading in said shares;
- Permanent injunction restraining the defendants from trading in any counter on Bursa Malaysia or Mesdaq; and
- General and exemplary damages.

Source: http://www.sc.com.my

Kuala Lumpur, 21 August 2009

SC appeals against RM350,000 fine imposed by Sessions Court in Megan Media case

The Securities Commission Malaysia (SC) today filed an appeal against the Kuala Lumpur Sessions Court's sentence on Kok Hen Sen @ Kok Liew Sen for furnishing false information on the revenue of Megan Media Holdings Berhad (MMHB). The SC views seriously all offences involving breaches of securities laws, and will continue to seek heavier penalties to serve as a deterrent in order to maintain investor confidence in the integrity of the Malaysian capital market.

Kok, aged 63, pleaded guilty in the Sessions Court for abetting the public-listed MMHB in submitting false revenue figures of over RM1 billion ringgit in its Financial Statement for the year ended 30 April 2006. He also admitted to three other outstanding charges of falsifying MMHB's revenue figures for the first three quarterly financial statements of 2007. Sessions Court Judge Encik Asmadi Hussin had on 18 August 2009 sentenced Kenneth Kok to a fine of RM350,000 to be paid the next day in default of a year's imprisonment.

At the material time, Kok was the personal assistant to the Executive Chairman of MMHB. The Executive Chairman, Dato Mohd Adam Che Harun was also charged under the same section as Kok, for furnishing false information on the revenue figure for MMHB's third quarter 2007 financial figure.

This fraud made a significant impact on the market price of the company as the share price dropped by 85% over a period of 3 months after the news of the false statements became known to the public.

The SC had earlier urged the Sessions Court to mete out a deterrent sentence, taking into account the fact that Kok had played a key role in the creation of fictitious invoices to support the false revenue figures. Furthermore, several financial institutions had been deceived into providing to the company trade facilities which were then used to resemble payments for the sales that did not take place.

SECURITIES COMMISSION MALAYSIA

http://www.sc.com.my/main.asp?pageid=379&linkid=2272&yearno=2009&mod=paper

MSWG Comments on Securities Commission's RM2.5 Million Restitution Suit Against FTEC Resources Managing Director
1 October 2007

The Securities Commission stands ready to take restitution actions against the managing director of FTEC Resources Berhad (FRB) for his wrongful utilization of cash proceeds raised from the Company's Initial Public Offering (IPO) is to be applauded.

Research and development	RM3,200
Working capital	13,046
Estimated listing expenses	1,700
	17,946

Based on the issue price of RM0.45 per share of RM0.10 each under its prospectus for a public listing, the Company raised a total of about RM17.946 million from its IPO, which were expected to be used as follows:
The Managing Directorâ€™s utilization of RM2.496 million for his personal purpose (not reflected in FRB Groupâ€™s unaudited quarterly results ended 31 March 2004, accounted for 13.9% of the total proceeds.

SCâ€™s restitution actions against the Managing Director would strongly remind companies to abide by regulation. A director of a company owes certain fiduciary duties to the company and shareholders. One of the foremost fiduciary duties that a director owes is the duty to act bona fide and in the interest of the company. This duty is referred to as the duty of trust and diligence, which is also referred to a director as a trustee over the companyâ€™s funds. In a strict legal sense of certain proven legal cases, directors could be liable as trustees for breach of trust, if they misapplied the funds of the company.

Any misuse or misapplication of funds should have been detected by members of audit committee where qualified, committed, independent and tough-minded independent directors representing the most reliable guardians of the public interest, would have spotted it and queried. Audit committeeâ€™s duties should not be limited to a perfunctory function; it should be much more to raise tough questions on management (in this case, the managing director/executive director heading the management team) internal and external auditors, if not how could investorsâ€™ interest be served.

The SC whose duty it is to bring dubious directors to book, has done its part well, without fear or favour. The general interest of all shareholders and stakeholders is to request SC and the Government to be tough and weed out bad and unethical directors. As generally many investors feel such directors need to be subject to a thorough, exhaustive investigation to determine whether they are still worthy of directorship.

Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated: 1 October 2007

Source: www.mswg.org.my

MSWG Comments on Securities Commission (SC) Charges on Three Former Executives at Transmile.
16 July 2007

SC has matched its words with deeds. We congratulate SC on its swift action in charging three former executives of Transmile for abetting Transmile in making misleading statements.

SC also offered compounds of RM500,000 each to two Independent Non-Executive Directors of Transmile who are also members of the Audit Committee for knowingly permitting the making of misleading statements to Bursa Malaysia Securities Berhad.

Those who are would-be perpetrators or are prone to wrongdoings, should now take heed to expect tougher regulatory controls and swift enforcement as a result of all the recent scandals that have sprung up with surprises to many investors' dismay and disappointment.

It is the view of MSWG that no one single company worth the mantle of true and fair performance will be making the headlines next for all the wrong accounting reasons.

SC's swift actions demonstrated that it will come down quickly on transgressors and will not tolerate abuses from market players. Nevertheless MSWG urges that other gatekeepers, such as management, external auditors, internal auditors and shareholders must continue to play their respective roles effectively to protect and enhance the credibility of our capital market.

Abdul Wahab Jaafar Sidek
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

Dated: 16 July 2007

Source: www.mswg.org.my

Appendix 5

Individual Investor Interview Schedule

Investment Motivation and Objectives

1. Do you actively invest in the Malaysian stock market?
2. How many years have you been buying shares in the Malaysian stock market?
3. What are your main objectives investing in shares?
4. Do you aim for short- or long-term returns?
5. Are there other important reasons why you actively invest in shares? Besides making profits, what else do you get out of it?
6. In terms of returns, do you compare your share account performance with any standard, target or benchmark?

Psychological Tendencies and Investment Preferences/Stylistics

1. What proportion of shares in your portfolio is long-term and what proportion of it is short-term, generally?
2. What is your typical investment horizon? Do you normally invest in terms of days, weeks, months or years?
3. How do you normally identify which stocks to consider buying? Sources of information.

Investment Cycle Stage 1

1. When buying a share, what aspects of a share or the company that it represents do you consider?

2. Are there any other factors or aspects that you normally consider when making your decision on whether to invest or not?
   Possible probes:- Anyway, do you consider:
   - The quality and capability of company management?
   - How transparent, accountable and honest management are of their actions?
   - The structure and composition of the board of directors?
   - The existence of majority shareholder/managers?
   - How much directors/managers are being paid?
   - What about how quickly the company publishes/announces latest important information?
   - Who the auditors are?
   - The company's internal risk controls?
   - The basic ownership rights accorded to investors?

3. Are any of your investment decisions made on the basis of speculations, rumours or perceived insider information?

4. For a typical Malaysian public-listed firm, what would you say are the chances of:
   - Mismanagement?
   - Managers' involvement in illegal acts like fraud?
   - Exploitation or unfair treatment of small shareholders?

5. Are you aware that some public-listed companies are linked to certain political parties and/or politicians?

6. How do you think that affects the running of these companies?

7. Do you think that your personal brokers give fair and unbiased investment advice to you?

8. When buying shares, do you set any general rules for yourself in terms of what kinds of shares/companies you would consider investing in?
   (Possible probes: Well-run/managed companies, politically-connected ones, non-politically connected ones, no general criteria, etc)

9. Under what situations or market conditions will you be more concerned about the long-term management of companies when buying shares?
   (Possible probes: general economic uncertainty, bearish stock markets, when fraud happens often, etc)

Investment Cycle Stages 2 and 3

1. For those companies where you do own shares, do you attend any of their Annual General Meetings? Why?

2. For those companies where you do own shares, have you tried any one of the following activities:
   - Communicating with company management via emails or letters or shareholder relations department?
   - Submitting shareholder proposals?
   - Using the media to highlight your concerns regarding the company?

   Why?

3. Imagine yourself owning some shares in a company that is involved in a big scandal (e.g., management fraud) and the share price dropped more than half overnight, before you get the chance to sell your shares, what would you do next?
   - Sell the shares or keep them?
   - Would you keep quiet and suffer in silence or complain about it to family and friends?
   - Next, do you take any official action to complaint or do nothing? Why?

4. Generally, if the performance of the company that you've invested in is declining/ worsening, would you rather sell your shares than pressuring management to improve performance?

5. As long as the share price/operating profits/dividends go up, how the company is actually run doesn't really concern you. Do you agree or disagree?

6. Lastly, as long as your investment is profitable, you can tolerate managers abusing their power (even stealing company assets) .Do you agree or disagree?
7. If such a situation was discovered in one of the companies that you have invested in, would you take any action, assuming that your investment in that company is still profitable?

Broker Interview Schedule

1. Could you please describe the nature of your involvement with the Malaysian stock market?

2. Taking your role as a stock broker into account, do you offer investment advice or discuss trading/investment strategies with your clients?

3. What are some of your clients' main objectives investing in shares?

4. Besides making profits, are there other important reasons why retail investor clients actively invest in shares?

5. What is the typical investment horizon of these investors? Do they normally invest in terms of days, weeks, months, or years?

6. Do they tend to hold on to loss-making investments for longer?

7. Based on these exchanges, do individual retail share investors generally display any awareness or interest in particular aspects of corporate governance?

8. Are they generally concerned with any of the following aspects of firm governance?
   Possible probes:-
   - the quality and capability of company management?
   - how transparent, accountable and honest management are of their actions?
   - the structure and composition of the board of directors?
   - the existence of majority shareholder/managers?
   - how much directors/managers are being paid?
   - what about how quickly the company publishes/announces latest important information?
   - who the auditors are?
   - the company's internal risk controls?
   - the basic ownership rights accorded to investors?

9. Are company fundamentals important? Is it important to the valuation of the companies?

10. What are some of the general investment criteria or rules that they normally apply? (Possible probes: Well-run/managed companies, politically-connected ones, non-politically connected ones, no general criteria, etc)

11. Would it be fair to suggest that most of the trades being made in Malaysian stock market by retail investors are based on rumours, speculations and perceived insider information?

12. What can you tell me about your retail clients with regards to the nature of their involvement in shareholder activism-related activities? For example, do they attend any AGMs? What are the reasons for attendance/non-attendance?

13. Next, do any of your clients: –
    - Communicate with company management (emails/letters/investor relations department)?
    - Submit shareholder proposals?
    - Publicly criticize company managers/directors through the media?
14. Why? If yes, do you know what governance issues they normally raise?

15. The Malaysian government has been aggressively promoting better corporate governance standards and awareness since the 1997 Asian Financial Crisis, is

this having any impact at all?

16. Do you think that corporate governance in Malaysia is effective? Why?
17. What are the main problems and impediments to better corporate governance in this country?

Company Secretary Interview Schedule

1. By taking your specific role as company secretary into account, just to reconfirm [Note: The participant has detailed her nature of involvement in earlier correspondence] - you are charged with the collection and presentation of all shareholder and management proxy resolutions annually. You are also given AGM attendance records and handling all other manners of correspondence such as emails and letters with outside shareholders, is that so?

2. Since you are charged with the safekeeping of all such information over the years, what is your observation with regards to the general levels of minority shareholder involvement or participation in the affairs of the company? We will start by exploring shareholder attendance numbers and voting at AGMs. Is there a noticeable rise in the numbers of minority retail shareholders attending AGMs in recent years?

3. What kinds of shareholders or proxies of shareholders typically attend these AGMs?

4. Do these people form the majority of the numbers or are there some other proxies of shareholders that are supposed to be there for different reasons?

5. Are other forms of communication initiated by minority shareholders such as writing letters or emails to management or attempting to hold informal discussions with the top management, rare occurrences?
6. Why do you think this is so?
7. What are the main impediments to such activities?

8. The Malaysian government has been aggressively promoting better corporate governance standards and awareness since the 1997 Asian Financial Crisis, is this having any impact at all?

9. Do you trust that corporate governance in Malaysia is effective? Why?
10. What are the main problems and impediments to better corporate governance in this country?

Market Insider Interview Schedule

1. Could you please describe the nature of your involvement with the Malaysian stock market?

2. Taking your role as a stock broker into account, do you offer investment advice or discuss trading/investment strategies with your clients?

[Note: Questions 3 - 14 outlined under the Broker Interview Schedule are posed to interviewee at this point]

3. Now, I am now more interested in your role as a former member of the top management of a certain public-listed firm. What is your observation in regards to minority shareholders involvement or participation into the affairs of the company? For example, attendance at AGMs.

[Note: Questions 3 - 7 listed under the Company Secretary Interview Schedule are posed to interviewee at this point]

4. The Malaysian government has been aggressively promoting better corporate governance standards and awareness since the 1997 Asian Financial Crisis, is this having any impact at all?

[Note: The participant has briefly detailed his nature of involvement in earlier correspondence – specifically, he alleged to being directly involved in market-based activities that are manipulative in nature and also provided firsthand accounts of (i) window dressing measures adopted by the government in terms of governance reforms, and (ii) lapses in enforcement of capital market rules/ regulations. Subsequent questions are designed with such information at hand in order to capture the richer details]

5. What are the main problems and impediments to better corporate governance in this country?

6. Can you please provide examples of these window dressing measures and "insincerity" *(Note: the descriptive term used by the interviewee in earlier correspondence)* in terms of enforcement?

7. How did you come to know about these? Do you have any personal experiences with regards to market manipulation?

8. Can you briefly describe how these "market operators" work? How do they manipulate share prices?

9. Does the Securities Commission know or suspect such activities are going on in the background?

10. After being personally involved in these alleged activities, what was the Securities Commission's response?

11. So, which scenario is it? Are regulatory agencies simply turning a blind eye or do they simply allow these activities to take place or are they colluding or are involved themselves?

Appendix 6

SECTION A: PERSONAL CHARACTERISTICS

Age *(**Tick ONE**)*

☐ 18 – 25 years ☐ 26 – 35 years ☐ 36 – 45 years ☐ 46 – 55 years ☐ 56 – 65 years ☐ Above 65 years

Gender *(**Tick ONE**)*

☐ Male ☐ Female

Race *(**Tick ONE**)*

☐ Malay ☐ Chinese ☐ Indian ☐ Other *(Malaysian)* ☐ Other *(Foreign)*

Years of Share Investment Experience *(**Tick ONE**)*

☐ 0 – 2 yrs ☐ 3 – 5 yrs ☐ 6 – 8 yrs ☐ 9 – 11 yrs ☐ 12 – 15 yrs ☐ More than 15 yrs

Your MAIN Share Dealing Brokerage*:* ____

State of Residence *(e.g., Johor, Kuala Lumpur)*: ____

SECTION B: INVESTMENT MOTIVATIONS & OBJECTIVES

1) What do you mainly seek from your share investments? Please rate the following in terms of their importance *(**Tick ONE for EACH**)*

	Very Important	***Important***	***Slightly Important***	***Irrelevant (Not Important)***
Short term share price increase.	☐	☐	☐	☐
Long-term share price increase.	☐	☐	☐	☐
Dividend Income.	☐	☐	☐	☐
Fun/Excitement *(like casino gambling).*	☐	☐	☐	☐
Pride/Ego *(to show people that you own shares).*	☐	☐	☐	☐

2) What do you use to compare your share account performance with? *(**Tick ONE**)*

☐ Interest rate of savings/fixed deposit *(FD)* accounts.
☐ My own personal target of returns.
☐ No standards, simply hope for the best.
☐ Returns of KL Composite Index *(KLCI)* or similar Index.
☐ Investment returns achieved by family/friends.
☐ Other, please specify ____

SECTION C: RISK, KNOWLEDGE & CONTROL

1) The extent to which you agree/disagree with the following *(**Tick ONE for EACH**)*

	Strongly Agree	***Agree***	***Neutral***	***Disagree***	***Strongly Disagree***
I am willing to take *high risk* in exchange for *high* expected share returns.	☐	☐	☐	☐	☐
I feel comfortable investing in shares that are considered risky.	☐	☐	☐	☐	☐
My past *profitable* investments were mainly due to my specific investment skills	☐	☐	☐	☐	☐
My investment *losses* have often resulted from factors beyond my control *(e.g., unexpected economic downturn).*	☐	☐	☐	☐	☐
I am *fully responsible* for the *results* of my investment decisions.	☐	☐	☐	☐	☐
I make all the important share *investment decisions* myself.	☐	☐	☐	☐	☐
I am more knowledgeable in share investments compared to the *average* investor	☐	☐	☐	☐	☐

2) How well can you ***explain*** the following terms to a friend? *(**Tick ONE for EACH**)*

	Can explain very well	***Can explain partly***	***Cannot explain well***	***Cannot explain at all***	***I DON'T KNOW myself***
Price earnings *(PE)* ratio of a particular share.	☐	☐	☐	☐	☐
A Share Bonus Issue or Stock Split.	☐	☐	☐	☐	☐

SECTION D: INVESTMENT STRATEGY, EVALUATION, INFO SEARCH & DECISION-MAKING

1) Which approach do you ***USUALLY*** take in deciding which stocks to buy? ***(Tick ONE)***

- ☐ Just select shares of companies with established reputations *(e.g., Genting, Maxis)*.
- ☐ Just select shares that ***catch your attention*** in the media **or** stock market *(top volume/heavily traded).*
- ☐ Rely on Others – tips/recommendations of your own broker/brokerage/family/friends.
- ☐ Fundamental Analysis *(e.g., company earnings, management quality).*
- ☐ Technical/Chart Analysis *(e.g., share price movements, volume).*
- ☐ ***Both*** Fundamental & Technical Analyses.
- ☐ Other, please specify ____

2) When considering buying a share, how important are the following? ***(Tick ONE for EACH)***

	Very Important	*Important*	*Slightly Important*	*Irrelevant (don't consider)*
Unconfirmed tips/insider info/speculation predicting a rise in share price soon.	☐	☐	☐	☐
The qualifications, abilities & experience of company directors/managers.	☐	☐	☐	☐
Quality & speed by which the company publishes latest/important information.	☐	☐	☐	☐
How transparent & accountable company managers are of their actions.	☐	☐	☐	☐

3) Will you ***be more concerned*** with the long-term management of companies under any of the situations below? ***(TICK ALL relevant options)***

- ☐ In times of general economic uncertainty *(weak economy)*.
- ☐ In a bullish/rising stock market.
- ☐ None of the above.
- ☐ In a bearish/declining stock market.
- ☐ When public company fraud happens often.
- ☐ Other, please specify ____

4) How USEFUL are the following information sources to you? ***(Tick ONE for EACH)***

	Always	*Usually*	*Sometimes*	*Never*
A company's annual reports & website *(company published material)*.	☐	☐	☐	☐
Your brokerage/broker.	☐	☐	☐	☐
The financial press, *non*-Internet *(e.g., The Star Business)*.	☐	☐	☐	☐
The Internet *(investment-related websites, blogs & chat forums)*.	☐	☐	☐	☐
Family & friends.	☐	☐	☐	☐

5) Which ONE of the following would you most likely refer yourself as? ***(Tick ONE)***

- ☐ *Long-term* Shareholder/Owner/Investor.
- ☐ *Short-term* Trader/Investor.
- ☐ Punter/Speculator/Gambler.

SECTION E: PORTFOLIO COMPOSITION & CHANGES

1) On ***average***, how many trades do you make ***per month***? ***(Tick ONE)***

☐ 0 – 2 trades ☐ 3 – 5 trades ☐ 6 – 8 trades ☐ 9 – 11 trades ☐ 12 – 15 trades ☐ More than 15

2) On ***average***, how many different companies' shares do you hold in your share account? ***(Tick ONE)***

☐ 0 – 2 companies ☐ 3 – 5 companies ☐ 6 – 8 companies ☐ 9 – 11 companies ☐ 12 – 15 companies ☐ More than 15

3) On ***average***, how many % of shares that you own in your share account is for speculation/gambling/punting? ***(Tick ONE)***

☐ 0% ☐ 20% ☐ 40% ☐ 60% ☐ 80% ☐ 100%

SECTION F: EXTERNAL FACTORS

1) Based on your investment experience, the chances of the following incidences happening are *(Tick ONE for EACH)*

	Highly Likely	*Likely*	*Unlikely*	*Highly Unlikely*	*DON'T KNOW*
Managers run the company poorly resulting in disappointing overall performance	☐	☐	☐	☐	☐
Managers make decisions that are against shareholders' interest *(e.g., taking on unprofitable pet projects)*.	☐	☐	☐	☐	☐
Managers exploit small shareholders *(secretly transfer assets out of the company)*	☐	☐	☐	☐	☐
Managers involved in illegal acts *(self dealing & share manipulation)*.	☐	☐	☐	☐	☐
Managers providing insufficient important company information.	☐	☐	☐	☐	☐
Political parties/leaders using certain companies to raise political funds through share price manipulation & other corrupt practices.	☐	☐	☐	☐	☐
Market regulators* are ***independent*** *(free from political influence)* in carrying out their duties.	☐	☐	☐	☐	☐
Market regulators* carry out ***effective enforcement*** all the time.	☐	☐	☐	☐	☐
Brokers can be trusted ***not*** to give biased/self interested advice to clients *(honest & proper conduct)*.	☐	☐	☐	☐	☐
Auditors can be trusted ***not*** to approve fraudulent/misleading financial statements *(honest & proper conduct)*.	☐	☐	☐	☐	☐

**Market regulators include Bursa Malaysia and the Securities Commission.*

2) When buying shares, do you set any of the following rules for yourself? *(**TICK ALL relevant options**)*

☐ Only invest in well-run companies.
☐ Only invest in companies run by professional managers rather than big shareholder/managers.
☐ Only invest in speculative/penny stocks.
☐ Only invest in govt/politically linked companies.
☐ Only invest in ***non***-govt/***non***-politically linked companies.
☐ I do not set any fixed criteria.

SECTION G: ACTIVE SHAREHOLDING

1) For those companies where you do own shares, do you attend any of their Annual General Meetings *(AGMs)*?

☐ YES ☐ NO

If YES, WHY? (Tick ONE)	*If NO, WHY? (Tick ONE)*
☐ To ask questions, vote or have a say in how the company is run.	☐ I didn't know I am entitled to attend.
☐ For the free food/free gifts that they hand out.	☐ Too costly & time consuming.
☐ Just for the experience.	☐ I am unsure of what to say/do.
☐ Only to protest after being mistreated/cheated/exploited.	☐ Not relevant to my investment style.
☐ My employer's request *(for the company where I work)*.	☐ My vote/presence won't change management decisions.

2) For those companies where you do own shares, have you tried doing any one OR more of the following?

i) **Communicate with company management (emails/letters/investor relations department).** ii) **Submitting shareholder resolutions.**
iii) **Publicly criticizing company managers/directors through the media.**

☐ YES ☐ NO

3) If you have answered ***YES*** to ***ANY*** of the activities above, what kinds of issues do you focus on? *(**TICK ALL relevant options**)*

☐ Long-term ***underperformance*** *(share price or profits)*.
☐ How much/how directors/managers are paid.
☐ Unfair/questionable business decisions; mismanagement; fraud; negligence; etc.
☐ Changing board of directors' structure & composition.
☐ Appointment of company Auditors.
☐ Improving amount & speed of company disclosures.
☐ Reducing the power of big shareholder/managers.
☐ Company strategy-related issues & other important corporate decisions such as mergers/takeovers.
☐ Shareholder voting-related.
☐ Other, please specify ______

4) Imagine yourself owning some shares in a company that is involved in a big scandal *(e.g., management fraud)* and the ***share price dropped more than 50% overnight***, ***BEFORE*** you get the chance to sell your shares, what would you do next?

☐ Keep the shares. ☐ Sell the shares.

AND (Tick ONE)

☐ Keep quiet & suffer in silence. ☐ Complain about it to family/friends.

AND (TICK ALL relevant options)

☐ ***Do nothing*** - take NO formal/official/legal action.
☐ Attend the company's AGM or demand an EGM to voice your dissatisfaction & demand accountability.
☐ Use the media *(e.g., newspapers)* to highlight your protest.
☐ Send a formal complaint letter to company management.
☐ File a formal complaint with market regulators *(e.g., Securities Commission)* and demand them to take action.
☐ Other, please specify ____

5) ***IF*** you choose to ***Do nothing - take NO formal/official/legal action*** above, what are the main reasons? ***(TICK ALL relevant options)***

☐ It was just my bad luck, fated to be involved.
☐ I am not sure what to do/how to complain.
☐ Even if I complain, ***the authorities*** will not take action anyway.
☐ Even if I complain, ***company management*** would not respond/change anyway.
☐ I don't usually complain – not used to it.
☐ I fear getting some form of revenge.
☐ I can still tolerate being mistreated this way.

6) The extent to which you agree/disagree with the following ***(Tick ONE for EACH)***

	Strongly Agree	*Agree*	*Neutral*	*Disagree*	*Strongly Disagree*
As long as the share price/operating profits/dividends go up, ***how the company is run*** doesn't really concern me.	☐	☐	☐	☐	☐
As long as my investment is profitable, I can tolerate managers abusing their power *(even stealing company assets)*.	☐	☐	☐	☐	☐
I'd rather sell my shares than pressuring management to improve performance.	☐	☐	☐	☐	☐
Company operations/fundamentals are less important in a speculative market.	☐	☐	☐	☐	☐

SECTION H: EXIT & PERFORMANCE EVALUATION

1) How often is your decision ***to sell a particular share*** due to ***(Tick ONE)***

	Always	*Usually*	*Sometimes*	*Never*
Tips/Insider Information that you've received predicting a fall in the share price soon.	☐	☐	☐	☐
Negative rumours you've heard regarding the company's business operations.	☐	☐	☐	☐
Company's recent operating performance/fundamentals are worsening.	☐	☐	☐	☐
Whenever you feel like selling.	☐	☐	☐	☐

2) On average, how long do you hold on to shares of a particular company? ***(Tick ONE)***

☐ Less than 1 day ☐ 1 – 4 weeks ☐ 2 – 6 months ☐ 6 months to 1 year ☐ 1 to 2 years ☐ More than 2 years
☐ Less than 1 week ☐ 1 – 2 months

3) What are the ***average yearly returns*** on your share investments? ***(Tick ONE)***

Profit	☐ 0 to +5%	☐ +5% to +10%	☐ +10% to +15%	☐ +15% to +20%	☐ More than +20%
OR					
Loss	☐ 0 to -5%	☐ -5% to -10%	☐ -10 to -15%	☐ -15 to -20%	☐ More than -20%

4) Are the following statements ***(Tick ONE for EACH)***

	True	*False*	*Don't Know*
Companies ***must*** send annual reports to shareholders every year.	☐	☐	☐
Shareholders can vote during the election of company directors ***through the post*** *(postal vote)*.	☐	☐	☐
All shareholders have ***the right*** to tour company's head office at anytime & hold meetings with managers.	☐	☐	☐

Thank you for your help. If you have any queries/comments or would like to receive this survey's results, please send an email to ken.yeoh@unn.ac.uk

Appendix 7

Cross-tabulation results for General Investment Strategy/Average Risk Propensity

			Average Risk Propensity									
			1	1.5	2	2.5	3	3.5	4	4.5	5	Total
General Investment Strategy/Approach	Based on Company Reputation	Count	**4**	**14**	**51**	**41**	53	23	13	6	0	205
		Expected Count	**3.9**	**7.4**	**29.8**	**28.7**	53.6	36.1	26.7	12.0	6.7	205.0
		% within General Investment Strategy/Approach	**2.0%**	**6.8%**	**24.9%**	**20.0%**	25.9%	11.2%	6.3%	2.9%	.0%	100.0%
	Catch Attention	Count	4	4	29	29	**88**	**61**	**56**	**30**	**23**	324
		Expected Count	6.2	11.7	47.2	45.4	**84.7**	**57.1**	**42.2**	**19.0**	**10.5**	324.0
		% within General Investment Strategy/Approach	1.2%	1.2%	9.0%	9.0%	**27.2%**	**18.8%**	**17.3%**	**9.3%**	**7.1%**	100.0%
	Rely on Others	Count	3	**9**	30	**34**	**70**	**47**	**32**	11	6	242
		Expected Count	4.6	**8.8**	35.2	**33.9**	**63.2**	**42.7**	**31.5**	14.2	7.9	242.0
		% within General Investment Strategy/Approach	1.2%	**3.7%**	12.4%	**14.0%**	**28.9%**	**19.4%**	**13.2%**	4.5%	2.5%	100.0%
	Fundamental Analysis	Count	**4**	**10**	**36**	**42**	**50**	26	9	2	2	181
		Expected Count	**3.4**	**6.5**	**26.3**	**25.4**	**47.3**	31.9	23.6	10.6	5.9	181.0
		% within General Investment Strategy/Approach	**2.2%**	**5.5%**	**19.9%**	**23.2%**	**27.6%**	14.4%	5.0%	1.1%	1.1%	100.0%
	Technical Analysis	Count	1	0	2	4	15	**16**	**16**	**8**	**3**	65
		Expected Count	1.2	2.4	9.5	9.1	17.0	**11.5**	**8.5**	**3.8**	**2.1**	65.0
		% within General Investment Strategy/Approach	1.5%	.0%	3.1%	6.2%	23.1%	**24.6%**	**24.6%**	**12.3%**	**4.6%**	100.0%
	Combination of Fundamental and Technical Analysis	Count	**5**	3	13	5	13	**22**	**18**	**8**	2	89
		Expected Count	**1.7**	3.2	13.0	12.5	23.3	**15.7**	**11.6**	**5.2**	2.9	89.0
		% within General Investment Strategy/Approach	**5.6%**	3.4%	14.6%	5.6%	14.6%	**24.7%**	**20.2%**	**9.0%**	2.2%	100.0%
	Total	Count	21	40	161	155	289	195	144	65	36	1106
		Expected Count	21.0	40.0	161.0	155.0	289.0	195.0	144.0	65.0	36.0	1106.0
		% within General Investment Strategy/Approach	1.9%	3.6%	14.6%	14.0%	26.1%	17.6%	13.0%	5.9%	3.3%	100.0%

1=the lowest average risk propensity category, 5 = the highest risk propensity category.

Cross-tabulation results for Degree of Perceived Knowledge/General Investment Strategy

			More knowledgeable than the average investor					
			Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
General Investment Strategy/Approach	Based on Company Reputation	Count	14	**39**	**97**	49	6	205
		Expected Count	16.1	**34.3**	**91.3**	49.9	13.4	205.0
		% within General Investment Strategy/Approach	6.8%	**19.0%**	**47.3%**	23.9%	2.9%	100.0%
	Catch Attention	Count	**40**	51	135	76	21	323
		Expected Count	**25.4**	54.1	143.8	78.6	21.0	323.0
		% within General Investment Strategy/Approach	**12.4%**	15.8%	41.8%	23.5%	6.5%	100.0%
	Rely on Others	Count	**27**	**69**	**114**	28	4	242
		Expected Count	**19.1**	**40.5**	**107.8**	58.9	15.8	242.0
		% within General Investment Strategy/Approach	**11.2%**	**28.5%**	**47.1%**	11.6%	1.7%	100.0%
	Fundamental Analysis	Count	2	16	**82**	**60**	**21**	181
		Expected Count	14.3	30.3	**80.6**	**44.1**	**11.8**	181.0
		% within General Investment Strategy/Approach	1.1%	8.8%	**45.3%**	**33.1%**	**11.6%**	100.0%
	Technical Analysis	Count	0	5	**32**	**20**	**8**	65
		Expected Count	5.1	10.9	**28.9**	**15.8**	**4.2**	65.0
		% within General Investment Strategy/Approach	.0%	7.7%	**49.2%**	**30.8%**	**12.3%**	100.0%
	Combination of Fundamental and Technical Analysis	Count	4	5	32	**36**	**12**	89
		Expected Count	7.0	14.9	39.6	**21.7**	**5.8**	89.0
		% within General Investment Strategy/Approach	4.5%	5.6%	36.0%	**40.4%**	**13.5%**	100.0%
	Total	Count	87	185	492	269	72	1105
		Expected Count	87.0	185.0	492.0	269.0	72.0	1105.0
		% within General Investment Strategy/Approach	7.9%	16.7%	44.5%	24.3%	6.5%	100.0%

Chi-Square Test results for Race/Tendency to Complaint

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	63.417[a]	3	.000
Likelihood Ratio	63.419	3	.000
Linear-by-Linear Association	32.615	1	.000
N of Valid Cases	1106		

a. 2 cells (25.0%) have expected count less than 5. The minimum expected count is .87.

Cross-tabulation results for Race/Tendency to Complaint

			QuiComp		
			1	2	Total
Race	Malay	Count	**159**	84	243
		Expected Count	**105.9**	137.1	243.0
		% within Race	**65.4%**	34.6%	100.0%
	Chinese	Count	285	**496**	781
		Expected Count	340.4	**440.6**	781.0
		% within Race	36.5%	**63.5%**	100.0%
	Indian	Count	**37**	43	80
		Expected Count	**34.9**	45.1	80.0
		% within Race	**46.2%**	53.8%	100.0%
	Other (Foreign)	Count	1	**1**	2
		Expected Count	.9	**1.1**	2.0
		% within Race	50.0%	**50.0%**	100.0%
	Total	Count	482	624	1106
		Expected Count	482.0	624.0	1106.0
		% within Race	43.6%	56.4%	100.0%

Chi-Square Test results for General Investment Strategy/Ability, Qualification and Experience of Directors/Managers

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.946E2	15	.000
Likelihood Ratio	412.351	15	.000
Linear-by-Linear Association	64.266	1	.000
N of Valid Cases	1106		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 12.58.

Cross-tabulation results for General Investment Strategy/ Ability, Qualification and Experience of Directors/Managers

			Ability, qualification and experience of directors/managers				
			Irrelevant (don't consider)	Slightly Important	Important	Very Important	Total
General Investment Strategy/Approach	Based on Company Reputation	Count	38	**55**	**77**	35	205
		Expected Count	52.3	**51.0**	**62.1**	39.7	205.0
		% within General Investment Strategy/Approach	18.5%	**26.8%**	**37.6%**	17.1%	100.0%
	Catch Attention	Count	**120**	**104**	77	23	324
		Expected Count	**82.6**	**80.6**	98.1	62.7	324.0
		% within General Investment Strategy/Approach	**37.0%**	**32.1%**	23.8%	7.1%	100.0%
	Rely on Others	Count	**79**	**82**	69	12	242
		Expected Count	**61.7**	**60.2**	73.3	46.8	242.0
		% within General Investment Strategy/Approach	**32.6%**	**33.9%**	28.5%	5.0%	100.0%
	Fundamental Analysis	Count	3	11	**71**	**96**	181
		Expected Count	46.2	45.0	**54.8**	**35.0**	181.0
		% within General Investment Strategy/Approach	1.7%	6.1%	**39.2%**	**53.0%**	100.0%
	Technical Analysis	Count	**39**	15	8	3	65
		Expected Count	**16.6**	16.2	19.7	12.6	65.0
		% within General Investment Strategy/Approach	**60.0%**	23.1%	12.3%	4.6%	100.0%
	Combination of Fundamental and Technical Analysis	Count	3	8	**33**	**45**	89
		Expected Count	22.7	22.1	**27.0**	**17.2**	89.0
		% within General Investment Strategy/Approach	3.4%	9.0%	**37.1%**	**50.6%**	100.0%
	Total	Count	282	275	335	214	1106
		Expected Count	282.0	275.0	335.0	214.0	1106.0
		% within General Investment Strategy/Approach	25.5%	24.9%	30.3%	19.3%	100.0%

Chi-Square Test results for General Investment Strategy/The Degree of Management Transparency and Accountability

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.236E2	15	.000
Likelihood Ratio	337.571	15	.000
Linear-by-Linear Association	86.510	1	.000
N of Valid Cases	1106		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 10.46.

Cross-tabulation results for General Investment Strategy/The Degree of Management Transparency and Accountability

			The degree of management transparency and accountability				
			Irrelevant (don't consider)	Slightly Important	Important	Very Important	Total
General Investment Strategy/Approach	Based on Company Reputation	Count	63	**61**	**52**	29	205
		Expected Count	66.5	**58.2**	**47.3**	33.0	205.0
		% within General Investment Strategy/Approach	30.7%	**29.8%**	**25.4%**	14.1%	100.0%
	Catch Attention	Count	**151**	**107**	45	21	324
		Expected Count	**105.2**	**92.0**	74.7	52.1	324.0
		% within General Investment Strategy/Approach	**46.6%**	**33.0%**	13.9%	6.5%	100.0%
	Rely on Others	Count	**89**	**90**	49	14	242
		Expected Count	**78.6**	**68.7**	55.8	38.9	242.0
		% within General Investment Strategy/Approach	**36.8%**	**37.2%**	20.2%	5.8%	100.0%
	Fundamental Analysis	Count	14	29	**65**	**73**	181
		Expected Count	58.8	51.4	**41.7**	**29.1**	181.0
		% within General Investment Strategy/Approach	7.7%	16.0%	**35.9%**	**40.3%**	100.0%
	Technical Analysis	Count	**41**	16	5	3	65
		Expected Count	**21.1**	18.5	15.0	10.5	65.0
		% within General Investment Strategy/Approach	**63.1%**	24.6%	7.7%	4.6%	100.0%
	Combination of Fundamental and Technical Analysis	Count	1	11	**39**	**38**	89
		Expected Count	28.9	25.3	**20.5**	**14.3**	89.0
		% within General Investment Strategy/Approach	1.1%	12.4%	**43.8%**	**42.7%**	100.0%
	Total	Count	359	314	255	178	1106
		Expected Count	359.0	314.0	255.0	178.0	1106.0
		% within General Investment Strategy/Approach	32.5%	28.4%	23.1%	16.1%	100.0%

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