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# MALAYSIAN CHINESE CEOS AND FIRM PERFORMANCE

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## ABSTRACT

This paper investigates whether Malaysian Chinese CEOs produce higher firm performance, in particular, the effect of ethnicity on financial performance from cultural dimensions. While the cultural dimension receives widespread attention in economics and sociology research, it has received much less attention in finance studies. The data covered were hand collected information on CEOs and board characteristics of firms listed in Bursa Malaysia over the 2009-2015 period. Using panel regression, the study documented empirical evidence that Malaysian Chinese CEOs deliver higher firm performance, especially if they graduated from overseas. Results are consistent even after controlling for firm level corporate governance characteristics. The findings suggest that Malaysian Chinese CEOs possess some quality traits that enable them to deliver higher firm performance. This is not only due to their cultural beliefs, but education profile as well. These findings contribute practical implications for CEO selection in corporations.

***Keywords:*** Malaysian Chinese CEOs, firm performance, corporate governance, board meeting, age.

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## 1. INTRODUCTION

The fast-growing Southeast Asian economy over the last century is believed to have rooted from the active participation of overseas Chinese through several waves of migration from Southern China.[1] According to Lockard (2013), more than 30 million Chinese live outside of China and over 20 million of them are in Southeast Asia. Chinese have long sailed to Southeast Asia to trade and many of them eventually became dominant in the commercial sector of many economies. The 'Chinese century' in the Southeast Asian economies spanning from around 1700 into mid 1800s had witnessed the arrival of an increasing number of migrants to trade or mine for tin and gold. During World War II, western businesses were disrupted due to the invasion and occupation of Japanese soldiers. After the war, Chinese firms took over the markets which were previously owned by western firms (Samphantharak, 2011). They have since played a predominant role in the economy sector of the region. The World Bank has estimated that overseas Chinese contributed about US$600 billion in 1996 and controlled 500 of the largest corporations in Southeast Asia

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[1] Official migration of Chinese to Southeast Asia has been continuously recorded since the 16th century, but the big waves of migration from Southern China happenned during the colonial era in the 19th century until early 20th century. This is encouranged by the colonial government to support industrial revolution in Europe which consumed massive primary products from Southeast Asia, especially tin and rubber (Samphantharak, 2011).

(Tong, 2014), while Weidenbaum (1998) stressed that Chinese family businesses have dominated the economy sector and made a remarkable economic transformation in Southeast Asia.

The influence of overseas Chinese in the corporate sector in Southeast Asia are large whereby they provided the key source of capital and entrepreneurship in Southeast Asia and control dozens and hundreds of businesses in five or more countries in the region (Weidenbaum, 1998). They controlled some 80% of corporate assets in Indonesia, about 50% in Malaysia; and 90% of manufacturing in Thailand (Wu & Duk, 1995; Weidenbaum & Hughes, 1996). While Chinese ownership issue often receives widespread attention in academic research, the managerial dominancy issue receives scanty deliberation in the academic context. Related works on the performance of Chinese CEOs and Chinese firms are predominantly based on Chinese from China mainland, on a country basis, rather than on ethnicity basis; see for example, Jung et al. (2010) on Chinese CEOs, and Rugman et al. (2016) and Shapiro and Li (2016) on Chinese firm's effective managerial decision making and outstanding performance. The work closest to the scope of this paper is the study by Li et al. (2000) where they compare overseas Chinese with non-Chinese Western manufacturing firms in mainland China. Therefore, this study aims to fill the gap in the literature.

Table 1 reports the percentage of Chinese CEOs in local listed firms in Southeast Asia. It is obvious that the percentage of Chinese CEOs is much higher than the ratio of Chinese population in those countries. Despite being minority in the local population, except for Singapore (about 76%) and Malaysia (about 23%), Table 1 shows that the percentage of Chinese CEOs in listed firms is higher than the percentage of their population, especially in Malaysia and Philippines where the proportion of Chinese CEOs is 66.4% in Malaysia compare with their size of 22.6% in population; and 25% in the Philippines compare with their size of only 1.8% in population.

**Table 1**: The Influence of Overseas Chinese in Southeast Asia

| Countries | Chinese in Population | Chinese CEO in Public Listed Companies |
|---|---|---|
| Indonesia | 1.2% | 3.4% |
| Malaysia | 22.6% | 66.4% |
| Philippine | 1.8% | 25% |
| Singapore | 74.3% | 81% |
| Thailand | < 1% | 4.7% |

***Source:*** Percentage of Chinese population are obtained from the official statistics from The World Factbook in 2018, compiled by Central Intelligence Agency, except for the case of Philippine where the data on Chinese is not clear. Hence, the author obtained the estimates from Wikipedia. The percentage of Chinese CEOs in public listed companies are calculated by the author based on the 2017/2018 data from Osiris database.

In management literature, the theoretical foundation on the traits of CEO and firm performance can be traced from the Upper Echelons Theory (UET) proposed by Hambrick and Mason (1984) where organization outcome is believed to be determined by the value and cognitive bases of the chief executive, including observable managerial characteristics like age, gender, education, and socioeconomic roots which include religion, gender, and ethnicity. What makes overseas Chinese stand out from the others as the candidate for managerial leadership in the industry? Based on UET, can one deduce whether their religion, education, or culture contribute to their better managerial skills? Perhaps, a more relevant question in this context is whether Chinese managers deliver better firm performance to ensure business success? If they do, what is(are) the essential enabler(s) for

such observation? Overseas Chinese in Southeast Asia are predominantly multi-religion, and this can be true even within a single family. Majority of them are Buddhist or Taoist, but many others are Protestant, Methodist, as well as followers of other religions like Islam and Atheism. For example, in Malaysia and Singapore, 83.6% and 57.4% of Chinese are either Buddhist or Taoist, respectively; 11.1% and 20.1% are Christian, respectively; 0.7% and 0.4% are Muslim, respectively; and the rest are either other religions or no religion (Goodkind, 2019). This fact implies that religion is not likely the key reason why Chinese managers are preferred.

Education is an explicit hiring condition that employers used as a filter. Moreover, in the last three decades, global education quality has reached a high level where degree holders are common on the streets, unlike half a century ago. Employers can easily recruit candidates for managerial positions with equal competitive education profile regardless of races and ethnics. Hence, education too, could not be the key reason why a Chinese manager is preferred.

Therefore, the most likely reason for the favorable number of Chinese managers in Southeast Asia are their managerial skills and values shaped by the Chinese culture, or if they are working in their own family firm, a succession CEO. Family manager is a widely investigated academic topic in strategic management and corporate governance. Recent governance literature documented family ownership as a common phenomenon in Southeast Asia and the family succession plan does play a role in their business sustainability (Claessens et al., 2000). The governance literature, however, do not emphasize family ownership in Southeast Asia, which are predominantly owned by overseas Chinese. On the other hand, in the cultural context, although Chinese in Southeast Asia are segregated into many different clans or groups of dialect, most of them are well versed in Mandarin, the official language in China, as well as by Chinese in other parts of the world, thanks to the unification of the Qin dynasty 2000 years ago. Regardless of dialects, Chinese share the same writing system, the symbolic Chinese character. They also share the same popular folklores and celebrate major festivals like Chinese New Year, Qingming, Duanwu, Mid-Autumn, and Dongzhi, just to name a few. These are believed to be another pillar of Chinese culture as they shape the values, judgement, lifestyles, activities, and many aspects of lives. Another commonality of all ethnic Chinese is the worship of Confucianism. Confucianism is not a religion. It is a common aspiration of Chinese that remains as the essence of Chinese culture that shape their common morality like entrusted education (Confucius is also known as the Great Teacher), obedience to authority, interpersonal harmony, family royalty and affiliation kinship, and individual responsibility (Fu et al., 2004). Therefore, besides language, writings, folklore, and festival, Confucianism is another main pillar of Chinese culture that built the thinking and values of an individual.

This study is interested to investigate whether Malaysian Chinese CEOs deliver higher firm performance. Malaysia is chosen because it has the third largest number of Chinese population in Southeast Asia after Indonesia and Thailand (Statista, 2018). Identifying someone in Indonesia or Thailand as a Chinese from a formal source of public information is not an easy task, if not impossible. As a result of intermarrying between Chinese and locals over the years, it is hard to distinct Indonesian Chinese from the rest of the population, either by physical characteristics, languages, names or lifestyles. Furthermore, the policy of the Indonesian government in the early 1990s strongly advocated the assimilation of Chinese into Indonesian society. The assimilation has

been easier for Chinese in Thailand. Many Thai Chinese has taken up Thai names. Unlike Indonesia or Thailand, Malaysian Chinese have not become as assimilated as other Southeast Asian Chinese. Malaysian Chinese is the second largest ethnic group after the ethnic Malay majority. Across the years, Malaysian Chinese has learnt to adapt to the customs of the local Malays while retaining their ancestral culture. They still use Chinese name, attend Chinese national-type primary schools and independent Chinese high schools, use their own dialects and celebrate Chinese festivals. Therefore, Malaysian Chinese should provide a better representation of overseas Chinese than Indonesia and Thailand.

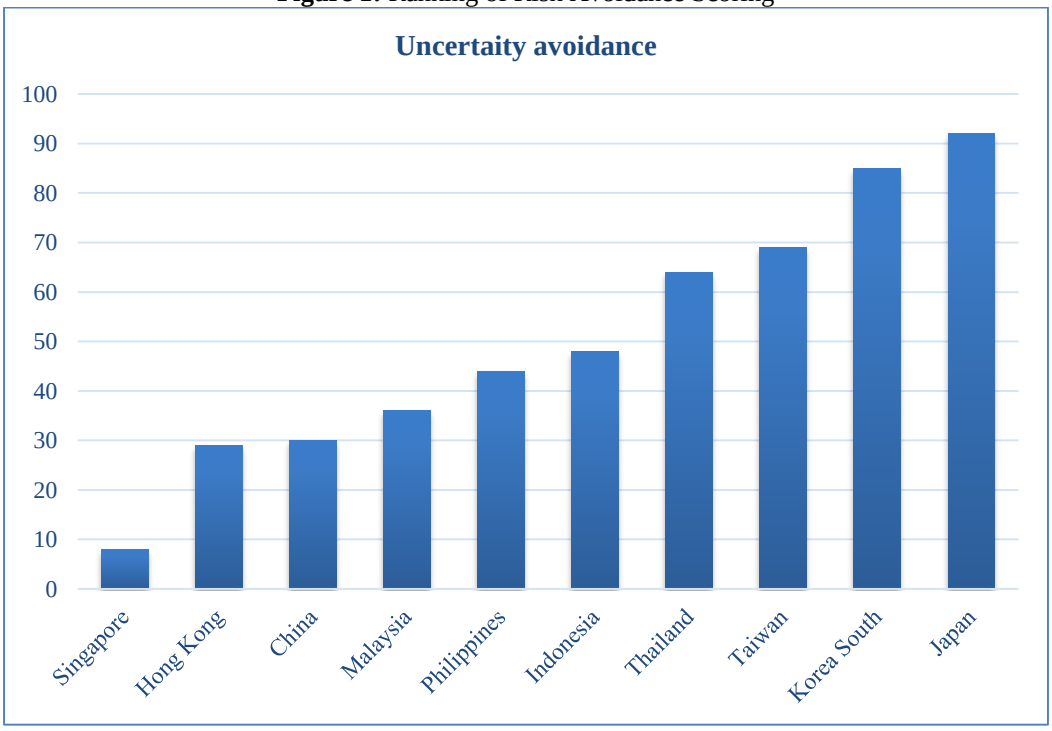
## 2. HYPOTHESIS DEVELOPMENT

### *2.1. Malaysian Chinese CEOs and Firm Performance*

Culture is the collective programming of the mind which differentiates members of one group of people from another (Hofstede, 2001). Empirical evidence has shown that culture affects managerial philosophies (Laurent, 1986), management and leadership styles (Child, 1981), and motivational techniques (Sirota & Greenwood, 1971). Culture also has significant impact in the formation of personality (Ciroka, 2014). From the perspective of a business organization, personality of the CEO is of utmost importance as he/she is the leader of the organization. CEO personality is hypothesized to be related to a broad set of organizational outcomes through the effect on organizational culture (O'Reilly III et al., 2014).

Based on Hofstede (2001), the six main dimensions of culture are power distance, individualism, masculinity, uncertainty avoidance, long term orientation and indulgence, respectively. Except for uncertainty avoidance, which is clearly related to lower risk taking, the other five dimensions are less obvious in the risk-taking context. The study tabulated the uncertainty avoidance index in Hofstede's cultural dimensions scores of ASEAN 5, together with mainland China, Taiwan, Hong Kong and Singapore. These four countries are dominated by Chinese population, but the degree of diversity is different due to the mixture of ethnicity and different degree of influence by foreign culture historically across these countries. China has the largest Chinese population, and the influence of foreign culture is the least, followed by Taiwan with some degree of influence by the U.S. during the cold war and by the Japanese culture due to colonial experience in the last century from 1895-1945. China and Taiwan can be regarded as pure Chinese countries where Chinese community make up more than 99% of the country's population. Out of the four, Singapore is the most ethnically diverse country although it is dominated by more than 75% overseas Chinese, while Hong Kong has about 92% of Chinese in its population. Both countries were British colonial for more than a century and hence are highly influenced by the Western culture. South Korea and Japan are added as control group as both are monoethnic East Asian countries; speaking different languages from the Chinese but are strongly influenced by Confucianism and Buddhism culture. However, both Japan and South Korea are recognized as Western modernize capitalist societies like Taiwan and Singapore.

**Figure 1:** Ranking of Risk Avoidance Scoring




***Source:*** Hofstede (2001).

Figure 1 shows the risk avoidance scoring of Hofstede (2001) for selected East Asia and Southeast Asia countries. Japan tops the list with a scoring above 90, followed by South Korea (85). Taiwan, being a Western modernize capitalist society, has the third highest risk adverse scoring of 69. China, and other Chinese dominated countries, ranked the lowest in the group. The scores of China and Hong Kong are quite close, 30 and 29, respectively. Singapore scored the lowest, with only 8. In these low uncertainty avoidance societies, people have high tolerance for uncertainty and therefore, are more risk taking. Therefore, it can be deduced that Chinese dominated nations are generally more risk taking. Singapore is a high risk-taking society, probably due to their sense of survival as a small island. The only exception of Chinese dominant nation that have low risk taking is Taiwan. A possible explanation is that Taiwan could be strongly influenced by Japanese culture due to 50 years of Japanese colonial experience. ASEAN countries are in the middle range group, in line with the different proportion of overseas Chinese influences in their local economy development. The order of their position is quite consistent with Table 1. Malaysia for example, has a scoring of 36, the second lowest among the ASEAN countries after Singapore, consistent with their Chinese proportion in population reported in Table 1.[2] In short, the scoring of Hofstede's

[2] The study assumes that the scoring of Hofstede (2001) reflects the behaviour of the respective general society, as proportionate to their social structure. Of course, this deduction could be subject to further research but that is beyond the scope of this study. For the basis of positive relation between Chinese population proportion and economic performances, see for example in Priebe and Rudolf (2015).

uncertainty avoidance index illustrates that Chinese society has lower risk avoidance. With the low scores in the uncertainty avoidance index, this implies that they are more risk taking.

The main principle in finance is high risk high return. Does the relatively higher risk-taking behavior of Chinese CEOs enable them to deliver higher firm performance? Generally, there is empirical evidence that the Chinese diaspora all over the world does contribute and speed up the economic growth of the host countries (see Priebe & Rudolf, 2015), but research on economic impact at firm level of Chinese CEOs is rather scarce. Closest to this area is managerial studies on Chinese CEOs, focusing more on their leadership styles. Tsui et al. (2004) for example, identified four distinct leadership styles among Chinese CEOs that lead to successful firm performance. Jung et al. (2010) further re-examined the same context but concluded that environmental uncertainty would have an interaction effect on the outcome of firm performance. These management research provided a standing ground for this study to further carry out an empirical examination at the firm level on whether Malaysian Chinese CEOs deliver relatively higher firm performance in Malaysia.

In other words, Malaysian Chinese could be as risk taking as the Singaporean Chinese. This motivates the study to investigate whether there is empirical evidence to support that Malaysian Chinese CEOs in Malaysian firms deliver higher firm performance statistically. As a result, the first hypothesis is:

*Hypothesis 1: Malaysian Chinese CEOs deliver higher firm performance.*

### *2.2. Corporate Governance and Risk Taking*

Firm performance is believed to be affected by firm's corporate governance (CG). Among the list of corporate governance mechanism, board governance remains one of the most important aspects that one can gauge on firm's governance quality. The attributes of board governance can be reflected in few aspects. The first is the board size. The size of the board has greater collective information advantage, valuable expertise and potentially important connection that subsequently lead to higher performance (Dalton et al., 1999). Although large board size is often associated with coordination and communication problems, but generally larger board size is still preferred, consistent with general understanding on resource-based view on better performances.

Past studies have also reported a positive relationship between board independence and firm performance. The ratio of independent non-executive directors is a strong internal control mechanism that supervise the action of managers and prevent opportunistic actions (Fama & Jensen, 1983). They preserve the value and ensure adequate return on investments for the shareholders (Shleifer & Vishny, 1997).

CEO duality is another channel to gauge a healthy corporate governance, however, it is a controversial one. On one hand, CEO duality leads to conflict of interest between the two roles of shareholders representative (board chair) and professional manager (CEO), hence, the issue of accountability arises. Fama and Jensen (1983) basically highlighted that CEO duality denote the absence of separation of management and control. Most empirical studies put the blame on CEO duality for poor firm performance, see for example White and Ingrassia (1992). However, proponent of duality, for example Anderson and Anthony (1986), pointed out that duality brings

stability as the firm will have a focused leadership that prevent chaos and better align the mission and strategy of the firm which could lead to better firm performance.

Next, is director's diligence which can be proxied by director's commitment to board meetings. As board meeting is the main platform for directors to monitor and supervise the management, collect information and make strategic decision, failure to attend board meetings regularly are seen as a director inability to fulfil his or her duties to ratify managerial initiatives and evaluate the performance of top managers. High board meeting attendance is also found to enhance the performance of the firm (Chou et al., 2013).

In terms of board diversity, literature have shown that more female directorship may insert positive impact on firm performance as female directors are more diligent in monitoring and demand higher audit efforts than male directors (Gul et al., 2008). Board of directors with higher female fractions also have better attendance record and are more likely to join monitoring committee (Adams & Ferreira, 2009).

The above arguments led to the next hypothesis, whether there is supporting evidence that Malaysian Chinese CEOs deliver higher firm performance statistically after controlling for firm level corporate governance characteristics:

*Hypothesis 2: Malaysian Chinese CEOs deliver higher firm performance even after controlling for firm level corporate governance.*

### *2.3. CEO Foreign Education and Risk Taking*

Although culture can be inherited in one's attitude and behavior, education will always shape it further. With globalization, businesses have become more complex than ever. Corporations must ensure a competitive individual stay in the board to contribute to strategic insights. Resource-based theory emphasizes on knowledge and information as one of the important resources that determine a firm's performance. Barroso et al. (2011) suggested that a director's knowledge, experience and expertise are gained from his or her international background, level of education, industry-specific experience, previous CEOs or management experiences and previous board tenure. In this context, most corporations would prefer to have board members with foreign education or international working experience since they will have more resources to contribute to a firm's needs.

Dai and Liu (2009) focused on small and medium enterprises (SMEs) in China and found that firms owned by returnees performed better than those owned by local entrepreneurs due to their technological and commercial knowledge as well as their internationalization orientation. While Giannetti et al. (2015) focused on corporate board in China and found that directors who have foreign working or education experience are more dominant in firms. In Korea, Lee and Roberts (2015) also reported that returnee directors reduced debt ratio and hence minimized the excessive risk taken by firms.

Since 1980s, many Malaysians have gone overseas for tertiary education, and went on to work in the country of the host university, where among the popular destinations were Singapore, Australia,

Brunei Darussalam, and the UK (Tyson et al., 2011). Among them, a significant portion were Malaysian Chinese. This is regarded as a strategy to achieve social upward mobility (Yu, 2020). Hence, the third hypothesis on Malaysian Chinese CEOs and firm performance is:

*Hypothesis 3: Foreign education adds value to Malaysian Chinese CEOs performance.*

## 3. METHODOLOGY

Previous literature has covered how culture affects firm organization structure, business strategy and management changes (Bluedorn & Lundgren, 1993; Lau, 1995; Westwood et al., 1992; Woodman, 1989), but only limited studies examined how overseas Chinese culture affects business performance, not to mention to provide empirical insights on whether overseas Chinese outperform in managing businesses and what is(are) the underlying factor(s) that contribute to this higher performance, if there is any. This study attempts to provide some insights on these issues by examining the relative firm performance of Chinese CEOs in Malaysia. To test the first hypothesis, the baseline model for the study is:

$$Performance_i = \alpha + \beta_1 D\_CEO_i^{Chinese} + \sum \beta_k Control_{k,i} + \varepsilon_i \quad (1)$$

Where *i* denote firm and $\varepsilon_{ci}$ is the error term. Performance refers to measurement for firm performance. ROA is used as the dependent variable because it is a widely used profitability ratio that measures how well a firm is generating profit from its assets. The set of *k* control variables comprises of standard firm performance determinants including firm size (FirmSize), leverage (Leverage), book-to-market value (MTBV), and firm age (FirmAge). The model is estimated via a panel regression while controlling for firm and year effect.

To test for hypothesis 2, five control variables are added to model (1). They are firm level corporate governance variables which include size of the board (BoardSize), measured by the number of directors; board independency (Independent) – the ratio of independent directors in the board; CEO duality (D_Duality) – a dummy variable denoted 1 if the CEO is also chairing the board; director's diligence (D_Diligence) – a dummy variable if total director's attendance to board meetings exceeded 75%; and last but not least, board gender diversity (Female) which is the ratio of female directors on the board.

To test for hypotheses 3, the following model is estimated:

$$Performance_i = \alpha + \beta_1 D\_CEO_i^{Chinese} + \beta_2 ForEdu_i + \beta_3 \left(D_{CEO}{}_i^{Chinese} * D\_CEO_i^{ForEdu}\right) + \sum \beta_k Control_{k,i} + \varepsilon_i \quad (2)$$

where $D\_CEO_i^{ForEdu}$ is a dummy variable denoted 1 if the Malaysian Chinese CEO has graduated from overseas.

## 4. SAMPLING AND DATA SOURCES

The sample of this study consists of listed firms in the main board of Bursa Malaysia, covering the 2009-2015 period. Data on financial information, which include ROA, total asset, debt to asset ratio, market to book ratio and firm age are collected from Thomson Reuters DataStream while board and characteristics of CEO are collected manually from firm's annual reports and cross checked with information available on the firm's official website. Variables on CEO characteristics are race, gender, and education background of the CEO whereas information on board characteristics are the number of board members, CEO duality, ratio of independent directors, ratio of female directors, and board attendance. Descriptions of the key variables used in this study are given in Table 2.

**Table 2:** Variable Descriptions

| Variable Name | Variable Description |
|---|---|
| Dependent variables | |
| *Return on assets (ROA)* | Net income divided by total asset. |
| Independent Variables | |
| $D\_CEO^{Chinese}$ | Dummy variable that equals one if the CEO is a Malaysian Chinese. |
| $D\_CEO^{ForEdu}$ | Dummy variable that equals one if the CEO has graduated from overseas. |
| Control Variables | |
| *FirmSize* | Natural logarithm of total asset of firm *i* in year *t*. |
| *Leverage* | Total debt over total asset of firm *i* in year *t*. |
| *Market-to-book value ratio (MTBV)* | Market value of equity divided by book value of equity of firm *i* in year *t*. |
| *FirmAge* | The years of incorporation of firm *i* in year *t*. |
| Additional Corporate Governance Control Variables | |
| *BoardSize* | Natural logarithm of total number of board of directors. |
| *Independent* | Ratio of independent directors to total number of the board of directors. |
| *D_Duality* | Dummy variable that equals one if the CEO is also a board of director. |
| *D_Diligence* | Dummy variable that equals one if the directors attended more than 75% of board meetings. |
| *Female* | Ratio of female directors over the total number of the board directors in firm *i*. |

## 5. RESULTS AND DISCUSSION

Table 3 provides the descriptive statistics of variables used in the study. The mean, standard deviation, minimum, median and maximum values for each variable are reported. Starting with dependent variables, the study documented that ROA has a mean of 0.04 and a standard deviation of 0.07. The mean value is much lower than the mean ROA of 0.0914 reported by Yap et al. (2017) in their study with similar sampling time frame from 2009-2013. However, this comparison could be misleading since they have a much smaller sample with only 76 Malaysian firms.

**Table 3:** Descriptive Statistics

| Variable | Obs | Mean | S.D. | Min | 0.25 | Mdn | 0.75 | Max |
|---|---|---|---|---|---|---|---|---|
| *ROA* | 4384 | 0.040 | 0.070 | -0.150 | 0.010 | 0.040 | 0.080 | 0.220 |
| *FirmSize (in million)* | 4464 | 1.300 | 2.700 | 0.042 | 0.140 | 0.340 | 0.950 | 13.000 |
| *Leverage* | 4456 | 0.090 | 0.110 | 0.000 | 0.000 | 0.040 | 0.130 | 0.750 |
| *MTBV* | 4466 | 1.050 | 0.860 | 0.210 | 0.500 | 0.760 | 1.290 | 4.160 |
| *Firm age* | 4474 | 24.17 | 15.96 | 1.000 | 13.000 | 19.000 | 34.000 | 108.000 |
| *Board Size* | 4474 | 8.000 | 2.140 | 4.000 | 6.000 | 8.000 | 9.000 | 21.000 |
| *Independent* | 4474 | 0.460 | 0.120 | 0.200 | 0.380 | 0.430 | 0.550 | 0.860 |
| $D\_CEO^{Duality}$ | 4474 | 0.120 | 0.320 | 0.000 | 0.000 | 0.000 | 0.000 | 1.000 |
| *D_Diligence* | 4474 | 94.000 | 10.000 | 33.000 | 89.000 | 100.000 | 100.000 | 100.000 |
| *Female* | 4474 | 0.090 | 0.110 | 0.000 | 0.000 | 0.000 | 0.140 | 0.500 |
| $D\_CEO^{Chinese}$ | 4474 | 0.780 | 0.410 | 0.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| $D\_CEO^{ForEdu}$ | 4474 | 0.560 | 0.500 | 0.000 | 0.000 | 1.000 | 1.000 | 1.000 |

***Notes:*** *ROA* is measured by net income divided by total assets. *FirmSize* is measured by natural logarithm of total assets. *Leverage* is measured by total debt-to-total assets. *MTBV* is measured by market value of equity divided by book value of equity. *FirmAge* is measured by number of years since the firm is incorporated. *BoardSize* is measured by natural logarithm of total number of board of directors. *Independent* is measured by the ratio of independent directors to total number of the board of directors. $D\_CEO^{Duality}$ is a dummy variable given value of one if the CEO is also a board of director. *D_Diligence* is a dummy variable given value of one if the directors have attended more than 75% of board meetings. *Female* is the ratio of female directors over the total number of the board of directors in a firm. $D\_CEO^{Chinese}$ is a dummy variable given value of one if the CEO is a Malaysian Chinese. $D\_CEO^{ForEdu}$ is a dummy variable given value of one if the CEO has graduated from an overseas university.

The descriptive statistics for the CG characteristics show that the average board size is 8 persons. In general, board size should be kept to 7 or 8 members as any numbers higher than that, the board is less likely to function effectively (Jensen, 1993). Firms in the sample do follow the guideline provided by the Malaysian Central Bank which requires that at least one-third of the firm's board members are independent directors. The mean percentage of independent directors is found to be 46%. Only 12% of the CEOs in the sample hold duality role in their firms. On average, 94% of directors attended more than 75% of board meetings. This is in accordance with the corporate governance guideline provided by the Malaysian Central Bank which requires individual directors to attend at least 75% of the board meetings held in each financial year. The mean percentage of female on the board of directors is 9%. This percentage is higher than the mean percentage of female directors of 8.61% reported in Yap et al. (2017). Turning to the race variable, it is found that more than 70% of the firm's CEOs are Chinese, and more than 50% of the CEOs in the study have graduated from overseas.

The strength of the relationship between all variables is checked for potential occurrence of multicollinearity. The correlations are tabulated in Table 4. The absolute value of 0.7 is the standard threshold proposed in many textbooks in statistics to imply strong correlation. Since none of the variable pairings has a correlation coefficient above 0.7 in magnitude, multicollinearity problem in the sample can be ruled out. Hence, all the variables are retained in the panel regression estimations.

Panel A in Table 5 shows the trend of percentage for Malaysian Chinese CEOs, the trend of ROA for firms managed by Malaysian Chinese CEOs versus firms managed by non-Chinese CEOs, and the trend of Malaysian Chinese CEOs with foreign education versus non-Chinese CEOs having foreign education, over the 2009-2015 period. It is found that the percentage of Malaysian Chinese CEOs gradually increases over the period. On firm's relative performance, it is shown that ROA is higher for firms with Malaysian Chinese CEOs. This is also true for the standard deviation of the firm performance. The stability of firm performance in a way, is a reflection for managerial risk taking of the CEO.[3] Generally, firms with Malaysian Chinese CEOs have consistently higher managerial risk taking; it is obvious in terms of ROA, the standard deviation is higher for firms with Chinese CEOs. Finally, the percentage of Malaysian Chinese CEOs who received foreign education also increases over the years, from about 37% to 43%.

**Table 4:** Correlations

| | *ROA* | *FirmSize* | *Leverage* | *MTBV* | *FirmAge* | *BoardSize* |
|---|---|---|---|---|---|---|
| *ROA* | 1 | | | | | |
| *FirmSize* | 0.193 | 1 | | | | |
| *Leverage* | -0.058 | 0.432 | 1 | | | |
| *MTBV* | 0.244 | 0.110 | 0.040 | 1 | | |
| *Firm age* | -0.012 | 0.304 | 0.061 | 0.021 | 1 | |
| *Board Size* | 0.056 | 0.336 | 0.158 | 0.064 | 0.068 | 1 |
| | *Independent* | $D\_CEO^{Duality}$ | *D_ Diligence* | *Female* | $D\_CEO^{Chinese}$ | $D\_CEO^{ForEdu}$ |
| *Independent* | 1 | | | | | |
| $D\_CEO^{Duality}$ | -0.033 | 1 | | | | |
| *D_Diligence* | -0.018 | 0.014 | 1 | | | |
| *Female* | 0.006 | -0.031 | -0.010 | 1 | | |
| $D\_CEO^{Chinese}$ | -0.131 | 0.095 | 0.053 | 0.052 | 1 | |
| $D\_CEO^{ForEdu}$ | 0.065 | -0.119 | -0.037 | -0.001 | -0.205 | 1 |

***Notes:*** *ROA* is measured by net income divided by total assets. *FirmSize* is measured by natural logarithm of total assets. *Leverage* is measured by total debt-to-total assets. *MTBV* is measured by market value of equity divided by book value of equity. *FirmAge* is measured by number of years since the firm is incorporated. *BoardSize* is measured by natural logarithm of total number of board of directors. *Independent* is measured by the ratio of independent directors to total number of the board of directors. $D\_CEO^{Duality}$ is a dummy variable given value of one if the CEO is also a board of director. *D_Diligence* is a dummy variable given value of one if the directors have attended more than 75% of board meetings. *Female* is the ratio of female directors over the total number of the board of directors in a firm. $D\_CEO^{Chinese}$ is a dummy variable given value of one if the CEO is a Malaysian Chinese. $D\_CEO^{ForEdu}$ is a dummy variable given value of one if the CEO has graduated from an overseas university.

[3] The author would like to thank an anonymous referee for the suggestion to tabulate the standard deviation of the performance measures in order to gauge the risk taking of firms.

**Table 5:** Summary Descriptive of Malaysian Chinese CEOs and Firm Performance over the Sample Period

| | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
|---|---|---|---|---|---|---|---|
| Percentage of Chinese CEO (%) | 77.86 | 77.84 | 77.31 | 78.53 | 78.77 | 78.51 | 78.63 |
| ROA | | | | | | | |
| Chinese CEO | 0.022 | 0.037 | 0.035 | 0.032 | 0.012 | 0.012 | 0.036 |
| | (0.108) | (0.086) | (0.098) | (0.080) | (0.361) | (0.833) | (0.199) |
| Non-Chinese CEO | 0.013 | 0.010 | 0.018 | 0.014 | 0.010 | 0.008 | 0.012 |
| | (0.072) | (0.043) | (0.233) | (0.097) | (0.068) | (0.061) | (0.069) |
| Foreign Education | | | | | | | |
| Chinese CEO | 0.374 | 0.379 | 0.384 | 0.402 | 0.392 | 0.403 | 0.431 |
| | (0.484) | (0.485) | (0.487) | (0.491) | 0.489) | (0.491) | (0.496) |
| Non-Chinese CEO | 0.161 | 0.160 | 0.170 | 0.160 | 0.167 | 0.169 | 0.168 |
| | (0.368) | (0.367) | (0.376) | (0.367) | 0.373) | (0.375) | (0.374) |

***Note:*** Figure in parenthesis is standard deviation.

### *5.1. Regression Analysis*

Table 6 shows the results of the baseline model, tested with several regression specifications, namely pooled ordinary least square, firm and year fixed effect, 1-way and 2-way standard error clustering. Across all the specifications, the estimates of the control variables are unchanged. *FirmSize* and *MTBV* are shown to be positively related to *ROA* at 1% level of significance, while *Leverage* shows negative relation with *ROA* at 1% level of significance. *FirmAge* also found to be negatively related to *ROA* but the level of significance changes across different regression specifications, except for one. The estimates of $D\_CEO^{Chinese}$ show significant positive in all models, except for the setting with firm fixed effects, but the adjusted $R^2$ is very low. To select the best specification to be applied in the subsequent analysis, adjusted $R^2$ is referred. Both model 3 and model 6 shared the highest adjusted $R^2$. Model 6 added the additional year clustering but there is not much improvement in the standard errors and significancy of the estimated coefficients. Hence, model 3 is employed for the rest of the analysis, which is the firm-cluster year-dummy model. In model 3, firms with Malaysian Chinese CEOs generally have higher *ROA* (0.92%) compare with firms with non-Chinese CEOs. In short, the study found statistical evidence that Malaysian Chinese CEOs contribute to higher firm performance in the baseline results.

**Table 6:** Baseline Results

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|---|---|---|---|---|---|---|---|
| *FirmSize* | 0.0106*** | 0.0106*** | 0.0106*** | 0.0169*** | 0.0181*** | 0.0106*** | 0.0106*** |
| | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) |
| | - | - | - | | | | |
| *Leverage* | 0.1161*** | 0.1161*** | 0.1153*** | -0.0959*** | -0.0949*** | -0.1161*** | -0.1153*** |
| | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) |
| *MTBV* | 0.0318*** | 0.0318*** | 0.0322*** | 0.0208*** | 0.0216*** | 0.0318*** | 0.0322*** |
| | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) |
| | - | | | | | | |
| *FirmAge* | 0.0066*** | -0.0066** | -0.0058* | -0.0329*** | -(0.0134) | -0.0066** | -0.0058* |
| | (0.0000) | (0.0270) | (0.0586) | (0.0000) | (0.2071) | (0.0209) | (0.0526) |
| *D_CEO*$^{Chinese}$ | 0.0088*** | 0.0088** | 0.0092** | -0.0150 | -0.0153 | 0.0088* | 0.0092* |
| | (0.0003) | (0.0295) | (0.0246) | (0.1354) | (0.1305) | (0.0632) | (0.0559) |
| *Constant* | - | - | - | | | | |
| | 0.1040*** | 0.1040*** | 0.1122*** | -0.0787* | -0.1600*** | -0.1040*** | -0.1122*** |
| | (0.0000) | (0.0000) | (0.0000) | (0.0574) | (0.0057) | (0.0000) | (0.0000) |
| Firm Clustering | No | Yes | Yes | Yes | Yes | Yes | Yes |
| Year Clustering | No | No | No | No | No | Yes | Yes |
| Firm Dummies | No | No | No | Yes | Yes | No | No |
| Year Dummies | No | No | Yes | No | Yes | No | Yes |
| Data Observation | 4372 | 4372 | 4372 | 4372 | 4372 | 4372 | 4372 |
| Adjusted $R^2$ | 0.2065 | 0.2065 | 0.2087 | 0.064 | 0.0684 | 0.2065 | 0.2087 |

***Note:*** *ROA* is measured by net income divided by total assets. *FirmSize* is measured by natural logarithm of total assets. *Leverage* is measured by total debt-to-total assets. *MTBV* is measured by market value of equity divided by book value of equity. *FirmAge* is measured by number of years since the firm is incorporated. *D_CEO*$^{Chinese}$ is a dummy variable given value of one if the CEO is a Malaysian Chinese. Figures in the parenthesis (.) are p-value and the asterisk ***, **, * denote statistically significant at 1%, 5% and 10% respectively. The 1-way SE clustering refers to clustering of standard error by firms while 2-way SE clustering refers to clustering of standard error by firms and years.

### *5.2. Controlling for Firm Level Corporate Governance*

The relationship between Malaysian Chinese CEOs and firm performance is further tested by adding firm level corporate governance as control variables. Table 7 presents the regression results. CG control variables are added one by one from column (1) to column (5). All five CG variables are added together in column (6). Generally, the estimated coefficients remain consistent. Firms with Malaysian Chinese CEOs have significant positive firm performance, regardless of which CG variable is added, individually or collectively, but the magnitude of the coefficients has generally declined, except for the one with *Female* control variable. As for column (6), the coefficient of Malaysian Chinese CEOs dummy declined to only 0.68%. Out of five CG control variables, only board size has significant negative effect on firm performance while CEO duality and board diligence have a significant positive effect on firm performance. This implies that firm CG has some effects on Malaysian Chinese CEOs managerial performance. Most likely the good monitoring from CG mechanism can balance or control the risk-taking behaviour of the CEO, but not to the extent of limiting his/her performance as the Malaysian Chinese CEO dummy still has a significant positive coefficient. Therefore, hypothesis 2 is supported.

**Table 7:** Controlling for Corporate Governance

| | **(1)** | **(2)** | **(3)** | **(4)** | **(5)** | **(6)** |
|---|---|---|---|---|---|---|
| *FirmSize* | 0.0115*** | 0.0105*** | 0.0108*** | 0.0103*** | 0.0106*** | 0.0109*** |
| | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) |
| *Leverage* | -0.1149*** | -0.1146*** | -0.1146*** | -0.1102*** | -0.1150*** | -0.1085*** |
| | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) |
| *MTBV* | 0.0327*** | 0.0321*** | 0.0322*** | 0.0320*** | 0.0322*** | 0.0323*** |
| | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) |
| *FirmAge* | -0.0059* | -0.0054* | -0.0054* | -0.0058* | -0.0057* | -0.0052* |
| | (0.0509) | (0.0792) | (0.0711) | (0.0535) | (0.0595) | (0.0859) |
| $D\_CEO^{Chinese}$ | 0.0088** | 0.0085** | 0.0086** | 0.0082** | 0.0093** | 0.0068* |
| | (0.0293) | (0.0369) | (0.0349) | (0.0453) | (0.0223) | (0.0985) |
| *BoardSize* | -0.0019** | | | | | -0.0015* |
| | (0.0163) | | | | | (0.0595) |
| *Independent* | | -0.0148 | | | | -0.0203 |
| | | (0.2517) | | | | (0.1238) |
| $D\_CEO^{Duality}$ | | | 0.0105* | | | 0.0093* |
| | | | (0.0539) | | | (0.0831) |
| *D_Diligence* | | | | 0.0733*** | | 0.0671*** |
| | | | | (0.0000) | | (0.0000) |
| *Female* | | | | | -0.0061 | -0.0052 |
| | | | | | (0.3895) | (0.4419) |
| *Constant* | -0.1078*** | -0.1040*** | -0.1160*** | -0.1771*** | -0.1117*** | -0.1597*** |
| | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) | (0.0000) |
| Firm Clustering | Yes | Yes | Yes | Yes | Yes | Yes |
| Year Dummy | Yes | Yes | Yes | Yes | Yes | Yes |
| Data Observation | 4372 | 4372 | 4372 | 4372 | 4372 | 4372 |
| Adjusted $R^2$ | 0.2113 | 0.2091 | 0.2107 | 0.2182 | 0.2088 | 0.222 |

***Notes:*** *ROA* is measured by net income divided by total assets. *FirmSize* is measured by natural logarithm of total assets. *Leverage* is measured by total debt-to-total assets. *MTBV* is measured by market value of equity divided by book value of equity. *FirmAge* is measured by number of years since the firm is incorporated. *BoardSize* is measured by natural logarithm of total number of board of directors. *Independent* is measured by the ratio of independent directors to total number of the

board of directors. $D\_CEO^{Duality}$ is a dummy variable given value of one if the CEO is also a board of director. *D_Diligence* is a dummy variable given value of one if the directors have attended more than 75% of board meetings. *Female* is the ratio of female directors over the total number of the board of directors in a firm. $D\_CEO^{Chinese}$ is a dummy variable given value of one if the CEO is a Malaysian Chinese. Figures in the parenthesis (.) are p-value and the asterisk ***, **, * denote statistically significant at 1%, 5% and 10% respectively.

### *5.3. Malaysian Chinese CEO with Foreign Education*

In this section, Table 8 reports whether having foreign education adds value for Malaysian Chinese CEOs in managing firms. The interaction terms of Malaysian Chinese CEO dummy ($D\_CEO^{Chinese}$) with foreign education ($D\_CEO^{ForEdu}$) is introduced and results are reported in model (1) and (2), with and without controlling for CG variables, respectively. A positive coefficient of the interactive term at 10% significant level implies that foreign education contributes additional value to firm performance. Hence, there is some statistical evidence to support Hypothesis 3.

**Table 8:** Further Issues on Foreign Educated Malaysian Chinese CEO

| | **(1)** | **(2)** |
|---|---|---|
| *FirmSize* | 0.0110*** | 0.0113*** |
| | (0.0000) | (0.0000) |
| *Leverage* | -0.1153*** | -0.1087*** |
| | (0.0000) | (0.0000) |
| *MTBV* | 0.0326*** | 0.0326*** |
| | (0.0000) | (0.0000) |
| *FirmAge* | -0.0057* | -0.0052* |
| | (0.0593) | (0.0821) |
| $D\_CEO^{Chinese}$ | -0.0026 | -0.0046 |
| | (0.6870) | (0.4720) |
| *BoardSize* | | -0.0015* |
| | | (0.0663) |
| *Independent* | | -0.0197 |
| | | (0.1326) |
| $D\_CEO^{Duality}$ | | 0.0084 |
| | | (0.1203) |
| *D_Diligence* | | 0.0658*** |
| | | (0.0000) |
| *Female* | | -0.0053 |
| | | (0.4491) |
| $D\_CEO^{ForEdu}$ | -0.0211*** | -0.0199*** |
| | (0.0027) | (0.0040) |
| $D\_CEO^{Chinese}$ x $D\_CEO^{ForEdu}$ | 0.0140* | 0.0139* |
| | (0.0840) | (0.0814) |
| *Constant* | -0.1025*** | -0.1490*** |
| | (0.0000) | (0.0000) |
| Firm Clustering | Yes | Yes |
| Year Dummy | Yes | Yes |
| Data Observation | 4372 | 4372 |
| Adjusted $R^2$ | 0.2137 | 0.2261 |

***Notes:*** *ROA* is measured by net income divided by total assets. *FirmSize* is measured by natural logarithm of total assets. *Leverage* is measured by total debt-to-total assets. *MTBV* is measured by market value of equity divided by book value of equity. *FirmAge* is measured by number of years since the firm is incorporated. *BoardSize* is measured by natural logarithm

of total number of board of directors. *Independent* is measured by the ratio of independent directors to total number of the board of directors. $D\_CEO^{Duality}$ is a dummy variable given value of one if the CEO is also a board of director. *D_Diligence* is a dummy variable given value of one if the directors have attended more than 75% of board meetings. *Female* is the ratio of female directors over the total number of the board of directors in a firm. $D\_CEO^{Chinese}$ is a dummy variable given value of one if the CEO is a Malaysian Chinese. $D\_CEO^{ForEdu}$ is a dummy variable given value of one if the CEO has graduated from an oversea university. Figures in the parenthesis (.) are p-value and the asterisk ***, **, * denote statistically significant at 1%, 5% and 10% respectively. 1-way SE clustering refers to clustering of standard error by firms while 2-way SE clustering refers to clustering of standard error by firms and years.

## 6. CONCLUSION

The Upper Echelons Theory (UET) stressed that organization outcome could determine the value and cognitive bases of a CEO, including observable managerial characteristics such as education and ethnicity. This study provides some empirical evidence on how UET can be utilised to explain firms with Malaysian Chinese CEOs that have better performance. The empirical study is conducted on Malaysian data because Malaysia is a country with multi-racial society. This allows the study to examine whether Malaysian Chinese CEOs outperformed their non-Chinese counterparts. This cannot be done for other countries due to the ratio of Chinese CEOs which is not at a comparable manner with non-Chinese CEOs. Using firm data from 2009 to 2015, the results provide support for the hypothesis that Malaysian Chinese CEOs deliver higher firm performance. The results remain consistent when the study further control for various firm corporate governance characteristics, but the magnitudes of Malaysian Chinese CEOs performance have declined slightly. Further analysis shows that foreign education increases the ability of Malaysian Chinese CEOs. Chinese culture emphasizes education. It is the aim of most Chinese families to provide their children with top quality international education. A limitation of the research is lack of robustness testing on the results, such as using market-based performance measures. Comparing book-based with market-based performance itself is another interesting research per se. Hence, the study leaves it for further research. In short, the findings of the study inadvertently suggest that Malaysian Chinese CEOs possess some quality traits that enable them to deliver higher firm performance.

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