

The Role of Non-Executive Chairman On The Board of Company Directors

Hafiza Aishah Hashim*

Abstract

The purpose of this paper is to examine the relationship between the role of non-executive chairman and the quality of reported earnings. Recent changes in corporate governance recommend firms to appoint an independent leader to ensure the success of a split leadership structure (The Combined Code on corporate Governance, 2006; Higgs Report, 2003. Research on leadership structure to date has tended to focus solely on role duality (i.e. role duality occurs when chairman on the board is also the CEO of the firm) and find weak or insignificance relationship between no role duality and financial reporting quality. Although separating the roles of the chairman and the CEO seems appropriate, researcher argue that it would not necessarily lead to independence of the board if the chairman has lack of independence. Consistent with recent recommendations by various policy groups to strengthen board leadership by appointing independent chair, this study documents a positive and significant association between non-executive chairman and earnings quality. The study suggests that non-executive chairman plays an important role in enhancing the board's independence, thus improving earnings quality.

Field of Research: Non-executive chairman, role duality, earnings quality.

* Dr Hafiza Aishah Hashim, Faculty of Management and Economics, Universiti Malaysia Terengganu (UMT), email: hafizaashah@umt.edu.my.