Does Governance Structure Matter In Post-Spinoff?

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ABSTRACT

This study examines corporate governance role in the post spinoff from the perspective of the new entity or spinoff firm. Using yearly data of Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange) listed firms that announced and completed their spinoff exercises, for the period of 1994 to 2015. We focused on the new entity or spinoff firm's governance structure represented by board size, number of independent director and director's ownership. No variables were significant in direct effect term but the number of independent directors and percentage of directors' ownership respectively interact positively significant with debt ratio on firm performance measured by return on assets (ROA). This study recommends more board of directors' ownership and independent directors respectively for the new entity to optimize its capital structure policy as reflected in firm's debt ratio as shown by an increase in firm performance following a spinoff. In other words, an increase in board of directors'ownership and independent directors in board composition would negate risk associated with increasing debt in firm's capital structure.