

## Corporate Leadership and the Myth of the Incompetent Malay Chief Executive Officers: Evidence from the Malaysian General Insurance Industry

**Khairudin Damhoeri**  
**Fuat Mashori**  
**Jaafar Mohamad**  
**Kamaruddin Sharif**

### ABSTRACT

*The dearth of Malaysian based literature on leadership in general, and corporate leadership in particular suggests that Malaysian scholars and investors are yet to be sensitized to the importance of leadership as a determinant of organizational outcomes. Arguably, this inattention helps perpetuate many unhealthy myths about corporate leadership. Notable among these myths, is that of the incompetent Malay managers. In examining the myth, this study takes a quantitative perspective of an otherwise "qualitative" subject. Using empirical evidence from the general insurance industry, this study demonstrates that Malay chief executive officers (CEOs), despite the myth and market perceptions, do not affect corporate performance any differently than non-Malay CEOs.*

### ABSTRAK

*Ketandusan hasil ilmiah Malaysia berkenaan dengan kepimpinan pada amnya, dan kepimpinan korporat khususnya membayangkan bahawa para ilmuan dan pelabur Malaysia masih belum lagi prihatin akan pentingnya kepimpinan sebagai satu penentu hasil sesebuah organisasi. Bolehlah didebatkan bahawa ketidakpekaan ini telah memanjangkan hayat banyak mitos yang tidak sihat tentang kepimpinan korporat. Di antara mitos yang menonjol ialah yang bersangkutan dengan ketidakcekapan pengurus-pengurus Melayu. Dalam meneliti mitos ini, kajian ini mengambil perspektif kuantitatif terhadap satu subjek yang lazimnya "kualitatif". Dengan menggunakan penemuan empirik dari industri insurans am, kajian ini membuktikan bahawa ketua eksekutif Melayu, walau pun dimetoskan dan dianggap sebaliknya oleh pasaran, tidaklah membawa kesan korporat yang berbeza dengan ketua eksekutif bukan Melayu.*

## INTRODUCTION

In the Malaysian context, the subject of a manager's ethnic origin has many unspoken implications. The business sector is the ground on which the silent and undeclared battle for ethnic dominance is fought. Since Malaysia's independence in 1957, the (widely believed to be) agrarian Malays have assumed political dominance and in this respect have proven their collective ability to lead and govern. Malaysia's impressive economic growth thus far, and of the last ten years especially, testifies in part that the Malays who make up the majority of parliament and the civil service can provide the country with the kind of political leadership and administrative infrastructure necessary for enviable material progress.

Following the racial riots of 1969, collectively, the Malays turned their attention to the business sector. The Chinese and to a lesser extent the Indians who traditionally control this economic front naturally do not view the new competitors with much sympathy. As in all freely competitive markets, business rivalries are sometimes ugly. The comparatively late Malay entry into the business sector and their supposed lack of business heritage are indeed weaknesses which are assailed by their established competitors. The lore of the incompetent Malay business professionals are among the many, albeit tacitly used "marketing effort" to reinforce market share and loyalty.

On an average day, one is most likely to dismiss such market talks as nothing more than banal ethnic jokes or petty slanders. However, from the perspective of the agency theory<sup>1</sup>, talks such as that of the incompetent Malay managers<sup>2</sup> have many damaging implications. Primarily, such talks effectively indict Malay business professionals as a collection of moral hazards<sup>3</sup>. From the economic perspective, the immediate consequence of moral hazard is that a firm which hires Malay business professionals or for that matter a Malay CEO, will incur relatively higher agency costs<sup>4</sup> than a firm that does not. It follows that the Malays are therefore not to be relied for effective corporate leadership. In the language of economics, this amount to stating that Malay managers are compensated at rates greater than their marginal revenue products.

## AGENCY THEORY AND ORGANIZATIONAL THINKING

Eisenhardt (1989) proposed that agency theory had influenced organizational thinking in two ways. First, by assuming that information is a commodity, transactable at a price, agency theory place emphasis on organization information systems, where such are viewed as investments in order "to control agent opportunism" (Eisenhardt 1989: 64). Second, agency theory contributes to the development of organization thinking by way explicitly

accounting for risk implications. By assuming that an organization is faced with uncertain future outcomes, based on partly controllable internal factors and largely uncontrollable external factors, examination of the role of the manager in risky situations “extends organizational thinking by pushing the ramifications of outcome uncertainty to their implication for creating risk” (Eisenhardt 1989: 65).

Agency theory is characterized by two streams of research, positivist and agent-principal. The main difference between the two streams is that the agent-principal stream has a broad focus while the positivist focus exclusively on the special case of the owner-CEO relationship in large corporations. The primary aim of the positivists is how to best structure CEO compensation and design employment contract which link pay to firm stock returns, thereby giving the CEO incentives to maximize stock returns. Empirical findings on the subject are however inconclusive. Some studies such as Jensen and Murphy (1990) had observed CEO compensation and stock returns relationship, others found no such relationship (Kerr & Bettis 1987; Hill & Phan 1991). A variation in the positivist general approach are studies of performance difference between owner-controlled firms and management-controlled firms. Similar to the earlier case, empirical findings are still indefinite. Daily and Dalton (1992) for example reject the commonly held belief that founder-managed firms performs significantly better than professionally-managed firms. In examining the various CEO employment contracts and their outcomes, the positivists have subsumed what a CEO does. Little attention has been given to the “toolkit” that enables the CEOs to produce the wealth outcomes. In this relation, the positivist approach of agency theory is dry.

## CORPORATE PERFORMANCE AND LEADERSHIP

A trace of the development of leadership theory<sup>5</sup> will reveal that this body of knowledge has evolved through three distinct phases (Schriesheim & Neider 1989). The first phase which started in the early 1900s is known as the “trait phase”. In that era the body of knowledge on leadership focussed itself on attempting to identify a set of universal characteristics common in successful leaders. This approach to studying leadership waned by about 1950 when it became clear that there is no such thing as a universal set of successful leadership traits.

The “behavioral approach” replaced the trait approach in the second phase. The preference of this era was to study leadership in terms of styles across the autocratic - participative continuum to determine the most effective leadership behavior. By early 1970s, the behavioral approach gave way to the contingency theory. This new thinking mode of leadership assumes that effective leadership is the outcome of the interaction of forces in the situation-leader-follower trilogy. Similar to the earlier world-view of

leadership, empirical studies failed to discover the formula to effective leadership.

It is perhaps interesting to note that lately there have been the occasional studies examining leadership in the trait perspective. Although these studies are not aimed at reestablishing the preeminence of the trait approach, they have certainly put the empirical basis of contingency theorist under close scrutiny. Weiner (1978) for example, pointed to the methodological weaknesses of Lieberson and O'Connor (1972)<sup>6</sup>, the much cited empirical research that showed the irrelevance of leadership in determining corporate outcomes. Extending Weiner, Thomas (1988) examined data from Britain and presented results showing the importance of leadership in influencing corporate performance. Mintzberg's (1973) approach and its variants are the prevailing trends to examining corporate leadership.

Conceivably, if a CEO is of any consequence to the firm, then it will be in the ways the CEO performs his managerial roles<sup>7</sup> (Mintzberg 1973). Leadership, a role that involves directing and coordinating subordinates, in conjunction with the role of the entrepreneur, wherein the CEO is required to be innovative and a risk taker, should partly influence the wealth outcome of the firm. Important as the centrality of leadership in organizational dynamics and leadership skills may be, it is doubtful if leadership is "clonable." Accordingly we find it insular the tendency for corporations to favor people with similar career specializations in cases of CEO succession as Smith and White (1987) observed. People of similar career specialization, say, accountants, may have similar technical skills, but this does not necessarily amount to having similar leadership skills<sup>8</sup>. On this line of reasoning, we posit that there is no natural monopoly of effective corporate leadership by any racial group.

## METHOD

### THE SAMPLE

We test our hypothesis on a sample of 54 general (non-life) insurance companies<sup>9</sup>. Of this number, 39 are companies with non-Malay CEO and 15 are with Malay CEO. The sample represents 96% of all companies in the industry. Financial data for the sample were obtained from the *27th Annual Report of the Director General of Insurance*. Appendix 1 shows the companies forming the sample.

The insurance industry is chosen for two reasons. First, the industry offers a relatively good mix of firms with Malay and non-Malay CEOs. The same cannot be said about other industries, which, casual observation suggests are predominantly represented by companies with non-Malay CEOs. In this respect, even companies listed on the Kuala Lumpur Stock Exchange are

found to be unsuitable for meaningful statistical analysis. cursory examinations of the current and past editions of the *Kuala Lumpur Stock Exchange Annual Companies Handbook* reveal that out of some 300 listed companies, less than 30 are companies with Malay CEO.

Data availability also influence the choice of industry. Owing to a quirk in its regulatory history, insurance is the only industry in Malaysia for which a regulatory agency (currently Bank Negara Malaysia) compiles and publishes individual company financial information for public dissemination. In this respect the data are consistently defined across companies. Having mentioned the consistency aspect about the data, it must pointed out that the breath and depth of what is made available to the public are limited. Unlike say, in the U.S., where insurers are mandated to lodge detailed financial statements as public documents, Malaysian policymakers and regulators have yet to fully come to terms with the concept of public interest and information transparency. As such, available data only allows the construction of rudimentary measures of an insurer’s operation.

### STATISTICAL METHOD

The multivariate analysis of variance (MANOVA) is used to test the hypothesis. MANOVA is preferred for the reason that it allows simultaneous assessment of group differences across a set of characteristics (variables), while taking into account the correlations across the characteristics<sup>10</sup>. This method is a generalization of the univariate analysis of variance (ANOVA) which assess the group differences one variable at a time (Stevens 1986; Hair, Anderson & Tatham 1987). In MANOVA the null hypothesis is tested as follows:

$$H_0 : \begin{pmatrix} \mu_{11} \\ \mu_{21} \\ \dots \\ \mu_{p1} \end{pmatrix} = \begin{pmatrix} \mu_{11} \\ \mu_{21} \\ \dots \\ \mu_{p2} \end{pmatrix}$$

where  $\mu_{pn}$  is the group mean vectors.

In this study the group variable (CEO) is binary coded ‘1’ for insurers with Malay CEOs and ‘0’ otherwise. Information on the racial origins of the CEOs was obtained from *The Malaysian Insurance Directory 1988/89*. For the purpose of comparison of results, the analysis also includes a group variable representing the type of insurer (TYPE). TYPE is coded ‘1’ for composite insurers and ‘0’ for insurers writing only non-life business.

## DEPENDENT VARIABLES

Besides the nature of data that precludes the construction of generating measures of an insurer's operating attributes, similar to the problem encountered in prior studies (Daily & Dalton 1992; Chakravarthy 1986), usage of MANOVA presents the unique research issue of determining the appropriate set of variables that ideally defines corporate performance, or in this case, insurer performance. In the absence of *a priori* of what constitute an ideal insurer performance definition, this study uses eight variables believed to best define performance.

### PREMIUM TO SURPLUS RATIO (OVERALL)

The relationship between premium and insurer's net worth is generally taken as an overall indicator of the viability of an insurer's operations. Conventionally, a calculated value of greater than 300 is considered unacceptable as it shows that the insurer is unduly exposing its net worth to greater chances of variation in underwriting risk (Troxell & Breslin 1983). The relationship is measured as follows:

$$\text{OVERALL} = \frac{\text{Total Net Premiums}}{\text{Shareholders' Funds}} \times 100$$

### LIQUIDITY RATIO (LIKUID)

Liquidity for a firm in the financial services industry is critical. In the US the measure of liquidity, as with other indicators of insurer performance are prescribed by the National Association of Insurance Commissioners (NAIC). In this the study following adaptation of the NAIC liquidity ratio is used.

$$\text{LIKUID} = \frac{\text{Cash + Deposit + Government Securities} + \text{Government Guaranteed Loans + Corporate Securities}}{\text{Unearned Premium Reserves + Provision For Outstanding Claims}}$$

By convention an insurer with a liquidity ratio of less than 1.00 is considered to have insufficient liquidity in meeting its obligations to policyholders (Troxell & Breslin 1983).

## CAPACITY CONSTRAINT (COVER)

The degree of capital adequacy that an insurer has in writing its business is normally captured by the cover ratio.

$$\text{COVER} = \frac{\text{Provision for Outstanding Claims} + \text{Shareholders' Funds}}{\text{Total Gross Premiums}}$$

In the U.S. the benchmark for this indicator is that an insurer should have the total of loss reserves and net worth covering at least 2.5 times the net premiums written.

## AGENT'S BALANCE-TO-SURPLUS RATIO (AGNMGT)

It has been observed in the U.S. that insurer with high agent balances, indicated by the agent's balance-to-surplus ratio greater than 40%, are more likely to experience financial distress.

$$\text{AGNMGT} = \frac{\text{Outstanding Premiums Including Agent Balances}}{\text{Shareholders' Funds}} \times 100$$

Aside from indicating illiquidity, high agent balances signal many other unfavorable aspects about an insurer. High balances could indicate one or a combination of the following problems: (a) insurer has an inefficient agency managing system, (b) insurer has poor financial control and information system and, (c) insurer is relying too much on its agents to the extent that it is held captive by agents' dictates. This situation suggests that insurer is lacking in marketing strategies and programs.

## COMBINED RATIO (COMBINE)

The combined ratio<sup>11</sup> is an index of an insurer profitability. In assessing an insurer's level of profitability, a calculated value of less than 100 indicates profitable operations, while values greater than 100 suggests otherwise. This ratio is calculated as follows:

$$\text{COMBINE} = \frac{\text{Net Claims Incurred} + \text{Commissions} + \text{Management Expenses}}{\text{Earned Premium Income}} \times 100$$

#### UNDERWRITING GAIN (UNDGAIN)

Although the combined ratio will indicate the level of overall profitability, the underwriting gain ratio is more specific in that it indicates an insurer's proficiency at forecasting losses on risks insured.

$$\text{UNDGAIN} = 100 - \text{Combined Ratio}$$

Ideally, an insurer would want the calculated value for this ratio to be positive since it implies that the insurer has adequately forecast the dollar value of losses on the risks insured.

#### MANAGEMENT EFFICIENCY (MGTEFF)

Unlike claims incurred which are probabilistic, or commissions which may be dictated by competitive forces or industrywide agreement, management expenses are largely controllable by the insurer. In the absence of refined data, a generalized measure of management efficiency as indicated below is used.

$$\text{MGTEFF} = \frac{\text{Management Expenses}}{\text{Earned Premium Income}} \times 100$$

Insurers with relatively high MGTEFF may be deemed inefficient.

#### DEPENDENCY ON REINSURANCE (ARISK)

An insurer may need reinsurance for two broad classes of reason: (a) risk diversification and (b) surplus aid (Webb, Laurie, Rokes and Baglini, 1984). In the Malaysian context however, the second reason is not applicable since there is no known regulatory dictate on insuring capacity. In this respect, it seems that regulators and policymakers have yet to fully appreciate the concepts of public interest and capital adequacy in the insurance business.

$$\text{MGTEFF} = \frac{\text{Total Premiums Paid for Reinsurances (in and out of Malaysia)}}{\text{Gross Premiums}} \times 100$$

Focussing on the risk diversification motives for purchasing reinsurance, we are of the opinion that insurers that cede away comparatively higher volume of business are intrinsically more risk averse than others. In the absence of better financial information, the ratio shown above is taken as the proxy for risk aversion.

## RESULTS AND DISCUSSION

Table 1 shows the sample and sub-sample averages of the gauges used in the analysis. The capacity measures OVERALL and COVER suggest that the insurers forming the industry, on average, if measured against known minimum standards, lack the financial capacity to conduct business, and at the same time are exposing their existing shareholders' (policyholders') funds to undue risks of further diminution. These operating characteristics explains the high ARISK, indicating that much of the written business is ceded away as reinsurance premiums. Within the boundaries of our definition of the ARISK construct, it can be said that Malaysian insurers are highly risk averse.

TABLE 1. Univariate tests of difference between insurers with Malay and non-Malay CEO

Dependent Variable	Mean			F-Value	Prob > F
	Sample (N=54)	Non-Malay (N=39)	Malay (N=15)		
OVERALL	-350,438	-485,047	-454.22	0.38	0.5427
LIKUID	1.23	1.35	0.95	0.93	0.3383
COVER	0.76	0.67	1.02	0.96	0.3305
AGNMGT	-44,479	-61,561	-68.89	0.38	0.5429
COMBINE	111.55	111.75	111.07	0.01	0.9330
UNDGAIN	-11.55	-11.75	-11.07	0.01	0.9330
MGTEFF	29.47	29.74	28.80	0.04	0.8370
ARISK	41.48	39.78	45.78	1.61	0.2104

From the standpoints of national fund flow and financial common sense however, the prevailing state of reinsurance arrangement is entirely unsatisfactory. If the bulk of the premiums were ceded to foreign reinsurers, then the present arrangement serves only to drain Malaysia's foreign exchange. In this respect we can justifiably say that the Malaysian insurers are in reality fronts, or are just elaborately set up agents for foreign insurers. On the other hand, if the bulk of the reinsurance is done within Malaysia, then the arrangement is self-deceiving. One can not realistically expect insurers<sup>12</sup> who on average, are themselves lacking in financial capacity to come to the rescue in the event of a financial crisis.

Notwithstanding the relatively acceptable level of financial liquidity (LIKUID), the rate at which the insurers are allowing their agents retain the premiums they collect (AGNMGT) suggests that the industry is still lacking in agency and financial controls. It is perhaps instructive to note that on

average, Malaysian insurers are allowing themselves the luxury of excessive trade credit to agents despite their negative shareholders' funds.

Group differences of COMBINE and UNDGAIN suggest that no racial group can claim they are more adept than others at generating superior profitability. With both F-values at 0.01, insurers with non-Malay CEO are not significantly different than Malay led insurers. It may be of interest to note that on balance, Malaysian insurers are obtaining profitability at levels close to what the US property and casualty insurers on average are experiencing<sup>13</sup>. Although we are unaware of any insurer management efficiency standards, we are inclined to believe that management costs in Malaysian general insurance companies are high, considering about 30% of premium income is used to pay for management expenses. In this respect it can be said that both Malay and non-Malay CEOs still have much to do to improve returns to their shareholders.

Although cursory examination of the average measures may suggest that insurers led by Malay CEOs are in some respect comparatively better than companies headed by non-Malay CEOs, the differences between the subsamples are all statistically insignificant. Similarly, the result of MANOVA assessment as shown in Table 2 also suggests that the overall difference between the groups is not statistically significant (F-value = 1.5843). From Table 2 it does not appear that composites and companies writing only general insurance are differently managed (F-value = 1.4401).

TABLE 2. MANOVA - Difference in corporate performance

Independent Variable	Test	Value	F-Value	df	Error df	Prob >F
CEO	Wilk's Lambda	0.8057	1.5843	7	46	0.1641
TYPE	Wilk's Lambda	0.8202	1.4401	7	46	0.2127

We approached the subject of the incompetent Malay CEOs from the perspective of corporate performance. On this subject we reasoned that if indeed there are inherent differences in the leadership attributes of Malay and non-Malay CEOs, then these differences will register themselves in the operating characteristics of the firms they lead. Recall that in assuming his managerial role, a CEO has tremendous influence on the policies and direction his firm takes in the course of doing business.

In the context of the general insurance business, if Malay CEOs are indeed incompetent, then this trait would have manifested itself in, say,

management costs of Malay led insurance companies that are higher than what they are in companies managed by non-Malay CEOs. But as the result of this analysis suggests, the difference in MGTEFF of insurers with Malay and non-Malay CEOs is not statistically significant (F-value = 0.04). Similarly, had Malay CEOs been less than competent in managing their agents, AGNMGT would have registered a higher average in Malay led companies than in companies with non-Malay CEO. However as the result stands, observed differences are not statistically significant (F-value = 0.38). The same line of reasoning can be extended to other measures of insurer operation.

A significant difference in one operating aspect compared in isolation, or for that matter three significant differences out of eight attributes similarly compared, do not make a case proving competency or otherwise about Malay CEOs. To be conclusive one would have to examine the overall difference across the gauges in use. The MANOVA is ideal for such purpose. The result of applying MANOVA to our research question indicates that a CEO's racial origin is not the variable accounting for any observed differences in corporate performance. By implication, the evidence suggest that Malay CEOs are not anymore incompetent than their non-Malay counterparts.

## CONCLUSION

The notion that a racial group is incapable or incompetent at certain economic functions is not trivial. From the agency theory perspective, anecdotes about the incompetent Malay CEOs carry the implication that shareholders are unnecessarily minimizing their returns if they were to hire a Malay CEO, or for that matter, Malay business professionals. And if taken in the context of leadership theories, such lore condemn the Malays to be the butt of all trait approach jokes. In addressing the question if indeed there are justifiable grounds for such lore to continue to exist, we examined the corporate performance differences of firms led by Malay and non-Malay CEOs. Although thus far we have only examined the general insurance industry, the empirical evidence gathered strongly suggests that allegations of the incompetent Malay CEOs are nothing but myths. Observe that the general insurance business is complicated owing to its dual portfolio (pure and speculative risks) nature. If Malay CEOs can stand shoulder to shoulder against their non-Malay counterparts in a sophisticated industry, then logically, there is no reason to believe that they cannot perform the same in other businesses. In a multi-racial country like Malaysia, myths such as that of the incompetent Malay CEOs, if allowed to perpetuate, serve no socially redeeming purpose other than to justify organizational caste systems based on racial origins. The time is now that other races accept the Malay nation as their economic equal.

## NOTES

1. Agency theory examines risk sharing and behavioral outcomes in a relationship in which one party (the principal) engages another person (the agent) to perform tasks which involve the delegation of some decision-making authority. See Jensen and Meckling (1976), Fama (1980) and Eisenhardt (1989) for evolutionary trace of the theory.
2. The terms “corporate leader,” “manager,” and “chief executive officer (CEO)” are used interchangeably. These descriptors are taken to denote the person shareholders hold accountable for the performance of the firm.
3. In agency theory “moral hazard” refers to the lack of effort on the part of the agent to fulfil his contract or that the agent is working more for his self interest than of the principal.
4. Jensen and Meckling (1976) defined “agency costs” as the sum of: cost of structuring contracts; cost of monitoring the behavior of agents; and in some cases the expenditure paid to the agents (bonding costs) to guarantee that they will not take certain actions that will harm the principal. The dollar amount of reduction in the principal’s welfare as a result of agents working in their self interest is also part of agency costs.
5. The inattention of Malaysian scholars to the subject of leadership is an amazement. Literature search suggest that there is yet to be one published Malaysian study on leadership of any kind. In contrast is the attention given by scholars elsewhere. Meindl and Ehrlich (1987, p. 92) described the fascination as follows:  
 Stogdill’s (1974) well-known Handbook of Leadership contains over 3,000 reference on the topic, and Bass’s (1981) revision of that volume contains well over 5,000 references. A search of the widely used Social Science Citation Index reveals over 3,000 entries under the single descriptor “leadership” in the period 1972 through 1983, for an average annual rate of about 250 scholarly studies and articles per year (p. 92).  
 Assuming that the annual rate 250 studies held constant for the period 1983 through 1992, we estimate that in the last ten years, there have to be at least 2,500 studies done worldwide. Against this number, it is disappointing to note that there is not one Malaysian based study on leadership in general, never mind corporate leadership.
6. Working on data from 167 American firms, Lieberman and O’Connor tested if corporate leadership accounted for differences in organizational performance. In Lieberman and O’Connor, leadership is defined as the number of years a firm is under the same president or chairman. The dependent performance variables are sales, earnings and profit margin. It was found that leadership is not statistically significant.
7. Mintzberg (1973) proposed that the managerial role comprised interpersonal, informational, and decision-making roles. Within the major role groups are the following sub-roles: (a) interpersonal; figurehead, liaison, and leadership (b) informational; monitor, disseminator, and spokesperson (c) decision-making; entrepreneur, disturbance handler, resource allocator, and negotiator.
8. We observed that the Malaysian industrial and commercial sectors tend to favor accountants or lawyers as CEOs, either at the point of establishing a firm or points of CEO succession. The historical antecedent to the preference is that prior to the era of easy accessibility to higher education, and the emergence of MBAs in the late 1970s, accounting and law were the only two known types of business training. As such, at the time when the Malaysian private sector was at the infancy stage, lawyers and accountants were the only trained business professionals available. To their credit, lawyers and accountants of that era have met their shareholders’ expectations. It appears that the preference for accountants and lawyers rests on the assumption that the past will replicate itself, and people of similar specialization will have similar leadership skills. It might be also of interest to note that the accounting profession in Malaysia is disproportionately represented by the Chinese.
9. The Malaysian general insurance industry is characterized by the presence of 13 “composites,” that being, insurers writing both life and non-life insurance. For these insurers we limit our analysis to their non-life portfolios.

10. MANOVA can be likened to a multiple regression analysis in the mirror image. Instead of measuring the statistical significance of a set of independent/predictor variables on one dependent/outcome variable, MANOVA measures the significance of one independent variable on a set of dependent variables.
11. Conventionally there are two ways to calculate the combined ratio: the “financial basis” and “trade basis.” The essential difference between the two versions lies in the denominator. Gross premiums is used in the trade basis version while earned premiums is used in the financial basis.
12. Malaysian National Reinsurance Berhad is the only professional reinsurer (company specializing in the reinsurance business) in Malaysia. The available statistics suggest that local insurers are also engaged in the reinsurance business.
13. For comparison see U.S. insurer profitability statistics in Randall (1987).

## **Appendix 1**

### **Insurers in the Sample**

#### *Insurer with Malay Chief Executive Officer*

American Home Assurance Company  
The American Malaysian Insurance Sdn Bhd.  
Capital Insurance Bhd.  
Malaysia British Assurance Bhd.  
Malaysian Assurance Alliance Bhd.\*  
Malaysia National Insurance Sdn Bhd.\*  
Mayban Assurance Bhd.  
Mercantile Insurance Sdn Bhd.  
Prudential Assurance Sdn Bhd.\*  
Public Assurance Malaysia Sdn Bhd.\*  
Progressive Insurance Sdn Bhd.  
South East Asia Insurance Bhd  
Talasco Insurance Sdn Bhd.\*  
Trust International Insurance (M) Sdn Bhd.  
UMBC Insurans Sdn Bhd.  
Union Insurance Malaysia Sdn Bhd.

#### *Insurer with Non-Malay Chief Executive Officer*

American International Assurance Company Ltd.\*  
The Asia Insurance Co. Ltd.  
Arab-Malaysian Eagle Assurance Bhd.\*  
British American Life & General Insurance Bhd.\*  
Commercial Union Assurance (M) Sdn Bhd.  
East West-UMI Insurance Bhd.  
General Accident Insurance (M) Sdn Bhd.  
Guardian Royal Exchange Assurance (M) Sdn Bhd.  
The Great Eastern Life Assurance Company Ltd.\*  
Hong Leong Assurance Sdn. Bhd.\*  
Industrial & Commercial Insurance (M) Bhd.  
Insurance Company of North America  
Jerneh Insurance Corporation Sdn Bhd.

KSM Insurance Bhd.  
London & Pacific Insurance Company Bhd.  
Malayan Insurance (M) Sdn. Bhd.  
Malaysia & Nippon Insurans Bhd.  
MBF Insurans Sdn Bhd.  
Nanyang Insurance Company (M) Bhd.  
N.E.M. Insurance (M) Sdn Bhd.  
Netherlands Insurance (M) Sdn Bhd.  
Norwich Winterthur Insurance (M) Sdn Bhd.  
Overseas Union Insurance (M) Sdn Bhd  
Pacific & Orient Insurance Company Sdn Bhd.  
Panglobal Insurance Sdn Bhd.  
The People's Insurance Co. (M) Sdn Bhd.  
Provincial Insurance (M) Sdn Bhd.  
QBE Insurance (M) Sdn Bhd.  
Royal Insurance (M) Sdn Bhd.  
Safety Life & General Insurance Sdn Bhd.\*  
Straits & Island Insurance Sdn. Bhd.  
Sun Alliance Insurance (M) Sdn Bhd.  
Taisho Marine and Fire Insurance (M) Sdn Bhd.  
United Continental Insurance Sdn Bhd.  
United Prime Insurance (M) Sdn Bhd.  
The Wing On Fire & Marine Insurance Co. Ltd.  
United Oriental Assurance Sdn Bhd.\*  
Universal Life & General Insurance Sdn Bhd.\*

*Note:* Asterix (\*) denote composite insurer.

## REFERENCES

- Bank Negara Malaysia. 1989. *27th Annual Report of the Director General of Insurance*. Kuala Lumpur, Malaysia.
- Bass, B. M. 1981. *Stogdill's Handbook of Leadership (rev & exp. ed.)*. New York: Free Press.
- Chakravarthy, B. S. 1986. Measuring strategic performance. *Strategic Management Journal* 7: 437-458.
- Daily, C. M., & Dalton, D. R. 1992 (April). Financial performance of founder-managed versus professionally managed small corporations. *Journal of Small Business Management*, 25-34.
- Eisenhardt, K. M. 1989. Agency theory: An assessment and review. *Academy of Management Review* 14: 57-74.
- Fama, Eugene F. 1980. Agency problems and the theory of the firm. *Journal of Political Economy* 88: 288-307
- Hair, J. F., Anderson, R. E., & Tatham, R. L. 1987. *Multivariate Data Analysis with Reading*. New York, New York: Macmillan Publishing Company.
- Hill, C. W. L., & Phan, P. 1991. CEO tenure as a determinant of CEO pay. *Academy of Management Journal* 34: 707-717
- Jensen, M. C., & Meckling, W. H. 1976. Theory of the firm: Managerial behavior, agency costs and capital structure. *Journal of Financial Economics* 3: 305-360.
- \_\_\_\_\_. & Smith, C. W. 1986. *The Modern Theory of Corporate Finance*. McGraw-Hill International Editions.
- \_\_\_\_\_. & Murphy, K. J. 1990. Performance pay and top management incentives. *Journal of Political Economy* 98: 225-264.
- Kerr, J., & Bettis, R. A. 1987. Board of directors, top management compensation, and shareholder return. *Academy of Management Journal* 30: 645-644.
- Liebersohn, S., & O'Connor, J. 1972. Leadership and organizational performance: a study of corporation. *American Sociological Review* 37: 117-130.
- Malaysian National Reinsurance Berhad. 1988. *The Malaysian Insurance Directory 1988/89*. Kuala Lumpur, Malaysia.
- Meindl, J. F. & Ehrlich, S. B. 1987. The romance of leadership and the evaluation of organizational performance. *Academy of Management Journal* 1. 91-109.
- Mintzberg, H. 1973. *The Nature of Management Work*. Harper & Row, New York.
- Randall, E. D. 1987. *Issues in Insurance, vol. 2*. Malvern, Pennsylvania: American Institute for Property and Liability Underwriters.
- Smith, M. & White, M. C., 1987. Strategy, CEO specialization, and succession. *Administrative Science Quarterly* 32: 263-280.
- Steven, J. 1986. *Applied Multivariate Statistics for the Social Sciences*. Hillsdale, New Jersey: Lawrence Erlbaum Associates, Inc.,
- Schriesheim, C.A. & Neider, L.L. 1989. Leadership theory and development: the coming "new phase". *Leadership and Organization Development Journal* 6: 17-26.
- Stogdill, R. M. 1974. *Handbook of leadership*. New York: Free Press.
- Thomas, A. B. 1988. Does leadership make a difference to organizational performance. *Administrative Science Quarterly* 33: 388-400.
- Troxell, T. E., & Breslin, C. L. 1983. *Property-Liability Insurance Accounting and Finance*. Malvern, Pennsylvania: American Institute for Property and Liability Underwriters.

Webb, B. L., Launie, J. J., Rokes, W P., and Baglini, N. A. 1984. *Insurance Company Operations vol. 1* Malvern, Pennsylvania: American Institute for Property and Liability Underwriters.

Weiner, N. 1978. Situational and leadership influences on organizational performance. *Proceedings of the Academy of Management*, 230-234.

Khairudin Damhoeri, Fuat Mashori and Kamaruddin Sharif (Jabatan Kewangan)  
Jaafar Mohamad (Jabatan Pengurusan)

Fakulti Pengurusan Perniagaan

Universiti Kebangsaan Malaysia

43600 UKM Bangi

Selangor D. E