

CORPORATE GOVERNANCE STRUCTURE AND  
FIRM PERFORMANCE OF MALAYSIAN PUBLIC  
LISTED COMPANIES

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## ABSTRACT

This research examines the impact of the corporate governance structure (CEO duality, board composition, board size, ownership concentration and gender diversity) on the performance of the Malaysian public listed companies in terms of return on assets and return on equity. In this research, secondary data from the annual reports were used to study the effect of each corporate governance variables on the performance of the Malaysian public listed companies. The data had undergone descriptive analysis, reliability analysis and multiple regression analysis to determine their relationships. The research found that the corporate governance variables overall have no significant impact to explain the performance of the listed companies. It suggests future researchers to explore into other factors that could possibly affect the company performance.

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# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

The chapter will provide general description on how the performance of companies listed in Bursa Malaysia are affected by the corporate governance practices. This chapter can be segmented into six sections. First, research background will be discussed to give a view on the current landscape in corporate governance. Then, problem statement will be discussed in the second section. The following section will lay out the research objectives and followed by the research questions in the fourth section. Fifth section will lay down the hypotheses of the study and the final section will explain how significant the study to the researcher is.

### 1.2 Research Background

Corporate governance has become widely discussed issue due to the push for corporate reformation. The topic of corporate governance is becoming more popular due to the frequent scandals that arise due to the misdeed of the management in the company. One of the most popular scandals that happened recently in 2017 is the bribery scandal in Samsung. The scale of the bribery has shook the world as it involved the former president of South Korea, Park Geun-hye. In an attempt to win the government support from the president, the heir of Samsung group had paid over \$48 million to the president to strengthen his control over the Samsung group. This has become the landmark case in South Korea which see the president being impeached and sentenced to 24 years in jail while the heir was sentenced to 5 years in jail.

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Consequently, the lack of stringent corporate governance practices has hit the investors' confidence and inevitably the government has demanded for more corporate governance measures to tackle the mismanagement of the company.

After the Asian financial crisis, Malaysia has taken initiatives to incorporate the global standard of corporate governance by developing the Malaysian Code on Corporate Governance (MCCG) as a measure to reinforce the corporate landscape in the country. The introduction of the first MCCG was in 2000 where four forms of recommendations are set out. The recommendations set out in Paragraph 3 of the MCCG 2000 include the principles of excellent corporate governance, advices to other participants and explanatory notes and mere best practices amongst others. Due to voluntary basis on the adaptation of the MCCG, Bursa Malaysia has revised its listing requirements under Paragraph 15.26 to require the companies on the stock exchange to make known certain corporate governance practices through the annual reports for investors and public information.

Moving on from the MCCG 2000, the MCCG was later revised in 2007 to enhance the roles of the directors and audit committee. In contrast with the MCCG 2000, MCCG 2007 set out three recommendations to the public listed companies to achieve the optimal governance framework. Subsequently, the Securities Commission Malaysia has released the Corporate Governance Blueprint in year 2011 with the aim to strengthen the self and market discipline. The 35 recommendations set out in the blueprint were to capture the essence of good corporate governance.

Due to the revolving corporate landscape that demands higher corporate governance framework, the Securities Commission Malaysia had in year 2012 released the new MCCG which set out 8 principles that govern the Malaysian public listed companies. Apart from adding additional recommendations in the MCCG 2012, the MCCG 2012 was developed based on the Corporate Governance Blueprint 2011. The MCCG 2012 highlights the importance of the board composition and structure to ensure the directors steer the company towards good corporate governance and upholding the ethical values

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and laws. The departure from MCCG 2007 has seen the new roles of the board of directors in ensuring the company sustainability and publishing of the company's board charter under Principle 1 of the MCCG 2012. Besides, Principle 3 strengthens the board composition by mandating a periodical review on the independency of the directors and to obtain the shareholders' approval for any independent director who has served for a cumulative term of more than nine years. Apart from the updated recommendations, MCCG 2012 set out new recommendations under Principle 4 and 6 to improve the quality of the board and also the disclosure policies of the company.

Five years later, the MCCG was again revised in 2017 with three principles to stay relevant and aligned with the global standard of corporate governance. Under the MCCG 2017, the obsolete "comply or explain" approach was replaced by the "CARE" approach. CARE, acronym for Comprehend, Apply and Report requires the Malaysian public listed companies to understand and apply the principles behind the company policies on governance and provide meaningful disclosures to the stakeholders through annual reports. This is a countermeasure of the practice of "tick-box" approach where Bursa Malaysia found 30% of the companies are guilty of in 2014. While the Securities Commission Malaysia understands that there is no "one size fits all" practices for all the sectors, Paragraph 6.3 of MCCG 2017 mandates the companies to apply or explain an alternative on how the companies achieve their intended outcome through the application of corporate governance practices. In comparison with the MCCG 2012, MCCG 2017 provides enhancement to the board composition by increasing the requirement for board independence, tenure of independent directors and gender diversity. Despite the new changes are largely for large companies, other listed companies are encouraged to adopt the practices to achieve corporate governance excellence.

Comparisons between the MCCG 2007, MCCG 2012 and MCCG 2017 are shown below.

Table 1. 1: Comparisons between MCCG 2007, MCCG 2012 and MCCG 2017

Principle No.	MCCG 2017	MCCG 2012	MCCG 2007
1	Board leadership and effectiveness	Establish clear roles and responsibilities	Relationship of the board to management
2	Effective audit and risk management	Strengthen composition	Appointments to the Board
3	Integrity in corporate reporting and meaningful relationship with stakeholders	Reinforce independence	Chairman and Chief Executive Officer
4	Nil	Foster commitment	Nil
5	Nil	Uphold integrity in financial reporting	Duties of audit committee
6	Nil	Recognise and manage risk	Internal control
7	Nil	Ensure timely and high quality disclosure	Nil
8	Nil	Strengthen relationship between company and shareholders	Shareholder voting

Source: Developed for the research.

### **1.3 Problem Statement**

In Malaysia, many legislations and guidelines had been formulated to ensure the public listed companies uphold the integrity and efficiency of the capital market. The Securities Commission Malaysia had achieved the milestone by releasing the

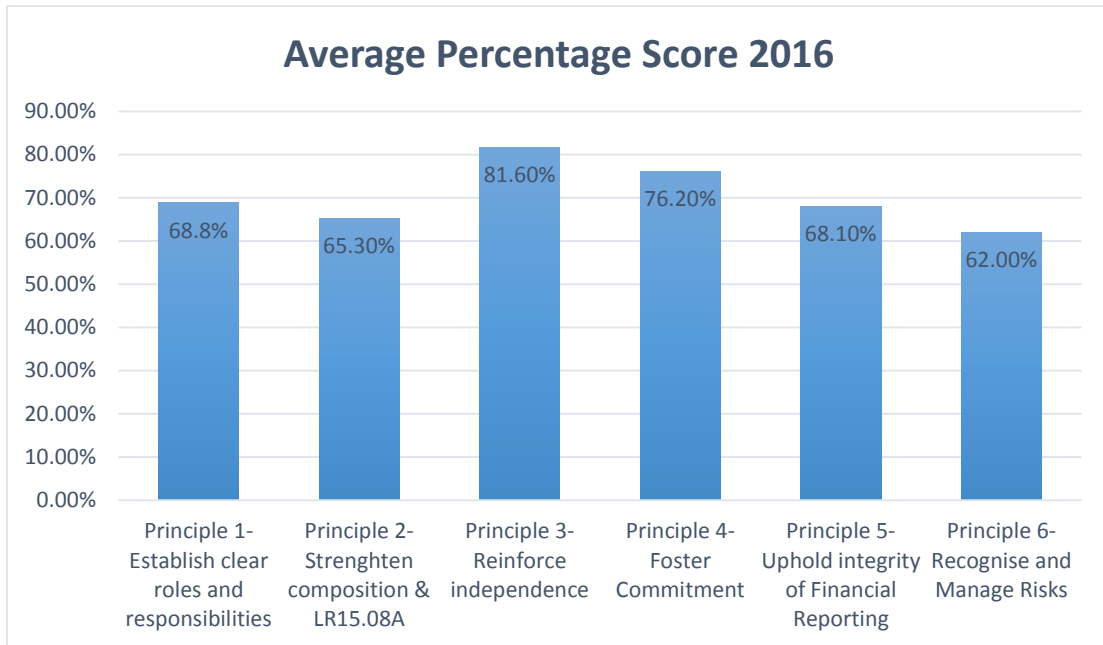


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Malaysian Code on Corporate Governance as a comprehensive guide to reform the governance framework in Malaysia.. According to Ow-Yong and Guan (as cited in Wahab, How & Verhoeven, 2007), the MCCG was developed based on the recommendations in Cadbury Report and Hampel Report. Subsequently, Bursa Malaysia had revised its listing requirements under Chapter 15 to mandate the public listed companies to incorporate the principles and recommendations set out in the MCCG. Bursa Malaysia had also issued the Corporate Governance Guide to illustrate the practical example that the public listed companies can undertake to comply with the recommendations in MCCG. Having said that, Bursa Malaysia noted that the practices vary in different industries and as such the Corporate Governance Guide encourages the companies to exercise their judgement on corporate governance practices that apply to their companies (“Corporate Governance Guide”, 2013). This is in line with the “comply or explain” method set out in the MCCG.

Despite the corporate governance reform, the corporate governance scorecard in Malaysia has been hampered by the voluntary adoption of the MCCG. The Asian Development Bank (2013) had assessed the corporate governance practices in Malaysia and found that the Malaysian public listed companies have weak board structure, independence and diversity. In a similar study by Bursa Malaysia (2014), 90 out of 300 Malaysian public listed companies adopted “tick-box” approach without disclosing informative and meaningful statements in their annual reports. As illustrated in Figure 1.1, Bursa Malaysia recognised better improvement is needed for principle 1, 2, 5 and 6 to achieve boardroom excellence.

Figure 1. 1: Average Percentage Score 2016



Note. Adapted from Bursa Malaysia (2016). *Analysis of corporate governance disclosures in annual reports*.

According to the report by the Asian Development Bank (2017), Malaysia is ranked third behind Thailand and Singapore in the overall corporate governance scorecard. Although both are developing countries, Thailand has set a higher governance requirement as compared to Malaysia. According to Sitthipongpanich and Polsiri (2013), the board of Thailand companies requires a minimum of five members. This is a relatively larger board size as compared to Malaysia of minimum two members (Companies Act 2016, 2016). Further, the board independency in Thailand is higher by having minimum one third of the board and no less than three directors assigned as independent directors (Listing Guide, n.d.). In Malaysia, the board independency minimally has to be two or one third of the board under Paragraph 15.02 (Listing Requirement, n.d.).

Similar to the MCCG, Thailand had released the Principles of Good Corporate Governance for Listed Companies in 2012. However, after issuance of the Principles

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of Good Corporate Governance for Listed Companies, Thailand has shown improvement in their scorecard by 19.87 units over the period of 4 years. In contrast, Malaysia has only improved their score by 14.62 units over the same period (Asian Development Bank, 2017).

Given the above, the study conducted will inspect the profitability of the Malaysian companies on stock exchange in relation to the corporate governance variables. The effects of the board characteristics on the profitability are analysed and to determine whether they have substantial impact on the profitability of Malaysian public listed companies in terms of Return on Assets (ROA) and Return on Equity (ROE).

## **1.4 Research Objectives**

### **1.4.1 General Objective**

General objective of this study is to understand the influence of the corporate governance variables in relation to the company performance of Malaysian companies listed in stock exchange within the period of 2008 to 2016.

### **1.4.2 Specific Objectives**

The following detailed objectives are derived from the general objective as stated above:

- 1) To determine whether the CEO duality has an impact on the performance of Malaysian public listed companies;
- 2) To examine the impact of number of independent directors has on the performance of Malaysian public listed companies;
- 3) To study the impact of board size on the performance of Malaysian public listed companies;

- 
- 4) To investigate the impact of ownership concentration on the performance of Malaysian public listed companies;
  - 5) To determine whether the gender diversity has an impact on the performance of Malaysian public listed companies.

## **1.5 Research Questions**

Based on the research objectives, the following research questions are raised:

- 1) Does the CEO duality has significant relationship with the performance of Malaysian public listed companies?
- 2) Is board composition significant to explain the performance of Malaysian public listed companies?
- 3) Does board size significantly influence the performance of Malaysian public listed companies?
- 4) Does ownership concentration has significant relationship with the performance of Malaysian public listed companies?
- 5) Is number of women on board significant to explain the performance of Malaysian public listed companies?

## **1.6 Significance of the Study**

In view of the revision of the MCCG in the year 2007 and 2012, this study will provide an insightful review to the regulators or researchers on whether the independent variables are persuasive to explain the profitability of Malaysian companies listed in stock exchange. In previous researches, majority studies conducted had primarily focused on the post implementation of MCCG 2007. Many researchers studied the influence of the governance framework to the Malaysian listed company profitability

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during the period from 2008 to 2012 (Latif, Kamardin, Mohd and Adam, 2013; Amran, Ismail, Aripin, Hassan, Manaf and Abdullah, 2014; Mustapa, Ghazali and Mohamad, 2015; Zabri, Ahmad and Khaw, 2016). In this regard, the effects of the implementation of MCCG 2012 are not extensively studied. The findings will allow the regulators to recognize how each of these independent variables will influence the profitability of companies post MCCG 2012 and eventually allow them to fine-tune the legislations framework which enhance the corporate governance landscape in Malaysia capital market and boost the investors' confidence.

Further, this study aims to improve perspective of the board towards good governance practices as a necessary measures to improve the company performance. As per the study conducted by Bursa Malaysia in 2014, 30% of the companies view these corporate governance practices as part of the mandatory requirement under the listing requirements and hence adopted the "tick-box" approach just for the purpose of complying with the listing requirements. This unhealthy approach should be eradicated and the board should be educated on the rationale behind these corporate governance practices and how these practices are able to enhance the company performance. The improved company performance will thus boost the investors' confidence and also spur Malaysia to a higher ranked nation in the corporate governance leaderboard.

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## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

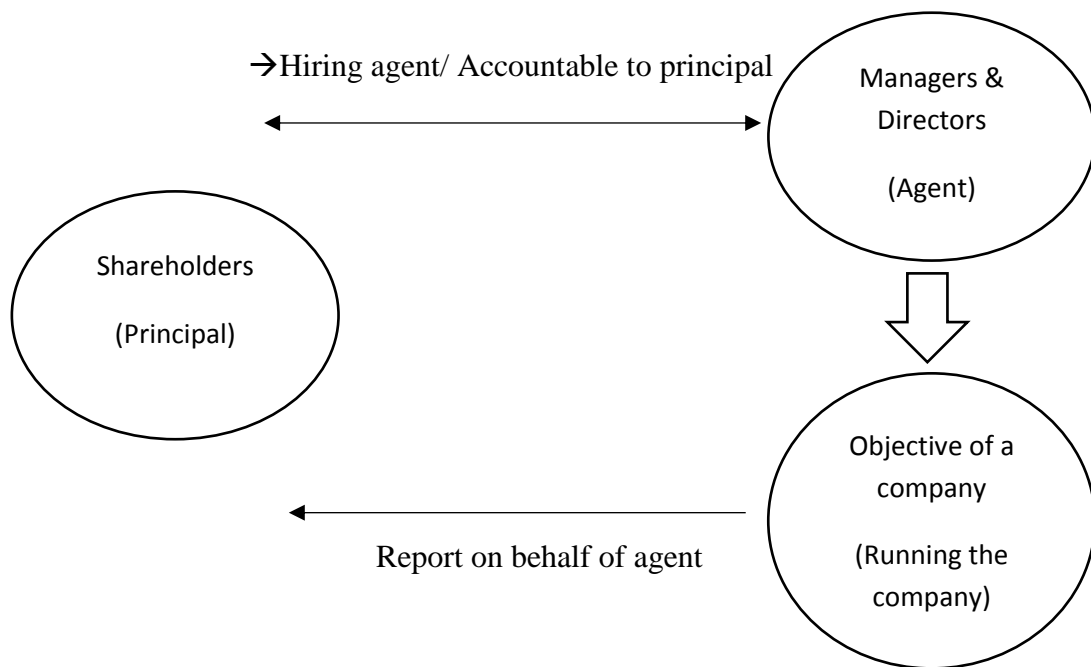
Chapter 2 will provide a detailed breakdown on literatures of this study. First part presents the relevant theoretical models and subsequently a review of relevant literatures. Following next is the review of relevant theoretical models and followed by the development of conceptual framework. The last part will end with a conclusion of this chapter.

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## 2.2 Relevant Theoretical Model

### 2.2.1 Agency Theory

Figure 2. 1: Agency Model



Source: Saltaji, I. M. (2013). Corporate governance and agency theory how to control agency costs. *Internal Audit & Risk Management*, 4(32), 47-60.

Under the agency theory, the principals and agents are seen to use the firm as a connection through delegation of functions (Shankman, 1999). The agency relationship arises when one individual or group (principal) delegates decision making authority to another individual or group (agent) to implement certain functions (Jensen & Meckling, 1976).

The agency idea explains the two critical issues that revolve around an agency relationship (Eisenhardt, 1989). The first issue is the mismatch of goals or desires between the principal and agent and the second issue is the difficulty to obtain the mutual interest due to different risk preferences (Eisenhardt, 1989). The agency theory

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assumes the principal and agent are self-interested utility maximizers which drive the agent to sway away from the goals of the principal (Bosse & Phillips, 2016; Eisenhardt, 1989). In circumstances when the agent has better information than the principal, it creates information asymmetry which induce the agent engaging self-beneficial acts that jeopardise the principal (Bendickson, Muldoon, Liguori & Davis, 2016; Bosse & Phillips, 2016; Eisenhardt, 1989; Jensen & Meckling, 1976).

The theory suggests that for the attainment of mutual interests, additional costs known as agency costs which include monitoring cost, bonding cost and residual loss will be incurred (Jensen & Meckling, 1976; Saltaji, 2013).

Under the agency theory, the monitoring cost is the cost to control, reward and measure the managers' behaviours (Saltaji, 2013). The monitoring effort of the managers can be performed internally and externally via internal and external control mechanisms (Walsh & Seward, 1990). Under the internal control mechanism, the manager is accessed by the adjusting incentive contracts where the manager is paid accordingly to the pay-for-performance program. In the event the manager has failed to perform according to the desirable target, management turnover is necessary to dismiss the manager as the manager has failed to live up to the expectations desired by the board (Walsh & Seward, 1990). Besides giving higher salary to the performing manager, the board can reward the manager through stock option scheme which give a sense of ownerships that entails the manager to act bona fide (Walsh & Seward, 1990). On the other hand, institutional shareholders is an external force to be reckoned with by the management as they need to ensure shareholders wealth maximisation (Ahmed, 2009). Institutional shareholders, especially those who hold large stake, are more likely to prevent any managerial activities that are detrimental to the company value (Demiralp, D'Mello, Schlingemann & Subramaniam, 2011).

Bonding cost, from the agent's viewpoint, is the cost of foregoing the employment opportunities outside the firm in which they are contractually bound (Chakravarty & Grewal, 2016). Bonding cost is significant to the agency theory as it explains that the



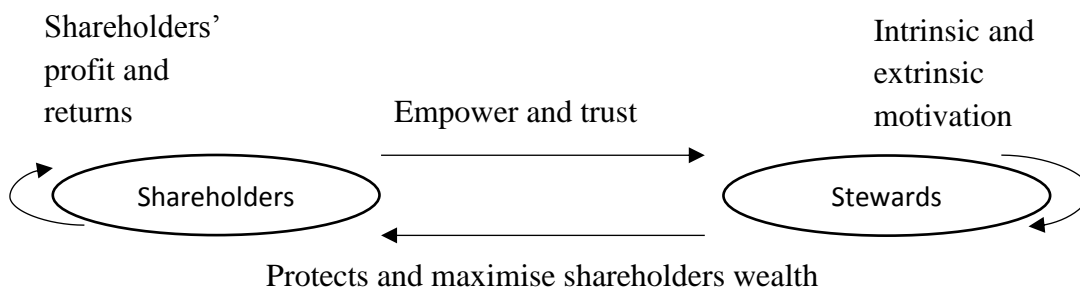
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agent will refrain from any acts that are detrimental to the value of the company. These detrimental acts will decrease the value of the company and will then reflect the incompetency of the agent which eventually lower the bonding cost (Chakravarty & Grewal, 2016).

The disagreement of the agent and principal to maximize shareholders' wealth lead to additional cost known as residual loss (Saltaji, 2013). For instance, the purchase of expensive motor vehicles, which are not included in the employment contract, by the directors is considered a residual loss to the shareholders. The motor vehicle does not benefit the company but to the self-interest of the directors.

### 2.2.2 Stewardship Theory

Figure 2. 2: Stewardship Model



Source: Abdullah, H., & Valentine, B. (2009). Fundamental and ethics theories of corporate governance. *Middle Eastern Finance and Economics*, 4.

Another theory in corporate governance that explains the affiliation between the principal and agent is the stewardship theory. Davis, Schoorman and Donaldson (1997) suggested that stewardship theory portrays agent, who is the steward of the company, is not motivated by his self-interest but rather strive to achieve the common goals shared with the principal. Under stewardship theory, the agent will protect the interest of the principal and ensure the principal's wealth is maximized.

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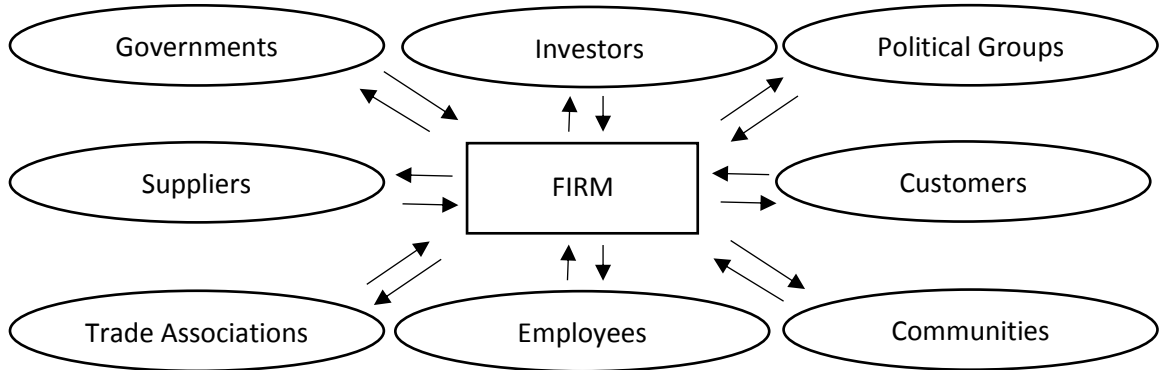
The formation of the stewardship relationship arises through the principal's psychological and sociological characteristics (Davis et al., 1997). The agent in a stewardship relationship seeks for growth, achievement and self-actualisation and is inclined to achieve organizational goals rather than personal interest (Glinkowska & Kaczmarek, 2015). Further, Davis et al. (1997) explained that the agent can choose to act as a steward or agent in the stewardship theory. The choice of being a steward or agent depends on the psychological motivations and the surrounding environment of the individual. For instance, in the event the individual perceives the surrounding environment to be unfavourable, he will act in an agency manner and will optimise his personal gain rather than the organisational success.

Besides, the stewardship relationship is a relationship that mutually benefits the principal and agent. The nature of altruism in a stewardship relationship encourages the participation of principal and agent together and ultimately eliminates the conflict of interest (Eddleston & Kellermanns, 2007). The cultivation of this participative strategy process increases the sustainability of the company and eventually become a competitive advantage for the company (Eddleston & Kellermanns, 2007).

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### 2.2.3 Stakeholder Theory

Figure 2. 3: Stakeholder Model



Source: Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: concepts evidence, and implications. *Academy of Management Review*, 20(1), 65-91.

Another important theory that explains the shareholders' wealth maximization in the corporate governance literature is the stakeholder theory. The theory explained that for company to create value ethically and sustainably, it is essential to balance the interests of various stakeholders (Gooyert, Rouwette, Kranenburg & Freeman, 2017).

Freeman and Reed (1983) defined stakeholder under two different spectrums, namely wide and narrow view. The wider view of stakeholder refers to any distinguishable cluster of people or single person who has the power to influence the attainment of organisation's goals or who is influenced by the attainment of organisation's goals. In contrast, the narrower view of stakeholder refers to any identifiable group or person of which the organisation relies on for sustainability. According to Mitchell, Agle and Wood (1997), stakeholders are classified into three categories according to their attributed possession. The three categories are latent stakeholders, expectant stakeholders and definitive stakeholders. These stakeholders include the shareholders, customers, suppliers, employees and society (Freeman & Reed, 1983).

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Harrison and Wicks (2013) argued that stakeholders do not entirely rely on the economic value of the company to satisfy their utility. Instead, the stakeholders will look into four economic and non-economic factors such as stakeholder utility associated with actual goods and services, organisational justice, perceived opportunity costs, and stakeholder utility from affiliation (Harrison & Wicks, 2013). The ability of the managers to satisfy the stakeholders of the said factors will enhance the stakeholders' perceived utility towards the company. According to the past studies, the company performance is positively affected when the management is stakeholder-oriented (Berman, Wicks, Kotha & Jones, 1999; Harrison & Wicks, 2013; Saeidi, Sofian, Saeidi, Saeidi & Saaeidi, 2015).

#### **2.2.4 Resource Dependency Theory**

In the past researches, many studies had been conducted using the resource dependency perspective to understand the relevance of board characteristics to the company performance (Bhatt and Bhattacharya, 2015; Pugliese, Minichilli and Zattoni, 2014; Zona, Gomez-Mejia and Withers, 2018). According to Hillman, Canella and Paetzold (as cited in Abdullah and Valentine, 2009), resource dependency theory explains the role of the board of directors in acquiring and transferring necessary resources to the company through their connection with the external environment. According to Pfeffer and Salancik (as cited in Hillman and Dalziel, 2003), the resource that the directors are expected to bring into the company include advice and counsel, legitimacy, channels for communicating information, and preferential access to supports outside the company. For instance in an information technology company, the appointment of a director with marketing background will improve the marketing strategies of the information technology company which core business is in technology.

According to Hillman and Dalziel (2003), board's provision of resource is essential to the performance of the company. Instead of relying on the external environment to provide the necessary supports, Rivas (as cited in Nam, Liu, Lioliou and Jeong, 2018)

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argued that the appointed directors are able to bring their expertise, experience, reputation to the company which reduce uncertainty and eventually improve the company performance. Under the resource dependency theory, the directors are categorized into insiders, business experts, support specialists and community influentials (Hillman and Dalziel, 2003). The roles of these directors are different in such the insiders will provide expertise on finance and general direction; business experts will provide expertise on business strategy and problem solving; support specialists including bankers, marketers, solicitors who each provide their individual expertise; community influentials including politicians and leaders of community utilise their social network to improve the performance of the company.

Concur with the studies by Hillman and Dalziel (2003), Zahra and Pearce (1989) linked board size to the company performance by suggesting that the larger board size will provide better access to multiple resources and eventually enhance the company performance. Further, it is essential for the company to adapt to the environment changes by tweaking the board composition that are likely to bring more resources to the company (Hillman, Withers and Collins, 2009). Peng (2004) concluded that a resourceful independent director is more likely to positively influence the company performance as compared to a less resourceful independent director when the environmental needs change.

## **2.3 Review of Literature**

### **2.3.1 Dependent Variable- ROA**

Previously, many researchers had relied on the Return on Assets (ROA) as an indicator to determine the company financial performance based on the companies' corporate governance structure (Bhatt & Bhatt, 2017; Erhardt, Werbel & Shrader, 2003; Mak & Kusnadi 2005; Zabri et al., 2016). According to Hussin & Othman (2012), ROA is an indicator of the ability of the firm in deriving profits by utilising its assets. The formula

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is the net income before interest expense divided by total assets. (Zabri et al., 2016). According to Ponnu (2008), ROA can reflect the real performance of a company because the profit before tax and interest will be used as the denominator.

The preceding studies have shown a mixed results when analysing the corporate governance variables with the company profitability. The study of top 100 public listed corporations in Bursa Malaysia by Zabri et al. (2016) found that there was mixed relationship between governance framework and the corporations' profitability. Their study concluded that board size has weak inverse relationship with ROA while the board independence has no impact on ROA. Rahman and Haniffa (2005) concluded that the ROA is negatively related to the CEO duality through the sample of companies listed on Kuala Lumpur Stock Exchange, except for finance firms. On the contrary, Erhardt et al. (2003) found board diversity to be positively correlated to the ROA in a study of 112 large public listed companies.

Given the above, this study will show the extent of how the independent variables can explain the company profitability in terms of ROA.

### **2.3.2 Dependent Variable- ROE**

Besides ROA, many researchers used Return on Equity (ROE) as a measurement of the companies' financial results (Hussin & Othman, 2012; Ponnu, 2008; Zabri et al., 2016). According to Zabri et al. (2016), ROE is derived by using income before interest expense divided by total shareholders' equity. According to Hussin and Othman (2012), ROE measures degree of profitability a firm can generate using the capital raised from the stock holders. According to Johnson and Greening (as cited in Zabri et al., 2016), ROE is a recognised and reliable measurement of the company performance from the perspective of corporate stakeholders.

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Mixed relationship was found between the corporate governance elements and ROE in the past studies. According to Ponnu (2008), his study of 100 Malaysian public listed companies found that CEO duality and board composition are not substantial to explain their influence on ROE. Shukeri, Ong and Shaari (2012) found that board composition is negatively related to ROE after studying 300 Malaysian public listed companies. Besides, Shukeri et al. (2012) found that the gender diversity is not substantial to explain the profitability in ROE. The study of Hong Kong companies by Chen, Cheung, Stouraitis and Wong (2005) found that the ownership concentration is not positively related to the ROE.

Given the above, this study will show the extent of how the independent variables can explain the company profitability in terms of ROE.

### **2.3.3 CEO Duality and Company Performance**

The blending of roles of chairman and CEO into one and subsequently being entrusted to an individual will result in significance control of the board by that individual. Thus, the element of CEO duality exists in the company (Bliss, Muniandy & Majid, 2007).

Aside from daily operation matters, the responsibility of the CEO includes formulating and executing strategic plans. On the other hand, the chairman is tasked to monitor and evaluate the executive directors, including the CEO (Weir & Laing, 2001).

Based on The Cadbury Report (1992), one of its central components that was highlighted under Paragraph 4.9 was the dissection of responsibilities in the upper management, primarily highlighting that one individual shall not hold the same position as chairman and CEO. Echoing The Cadbury Report, the MCCG 2017 Paragraph 1.3 strongly encouraged the listed companies to avoid from mixing the roles of chairman and CEO to promote answerability and facilitate the splitting up of accountabilities

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between them. Board charter can be used as an avenue to list down the distinct roles and functions between the two positions.

Perspective on CEO duality is based on two theories namely agency theory and stewardship theory (Rahman & Haniffa, 2005). Agency theory suggested that the dissection of roles of the top two positions is essential in monitoring the effectiveness of the board over the management by delivering checks and balances against any detrimental acts by the CEO (Hashim & Devi, 2008). Under the agency theory, principal is the person who delegates and agent is the person who executes (Braun & Sharma, 2007). By having the same individual acting as principal and agent, it eliminates the board independency to limit managerial entrenchment and opportunism (Duru, Iyengar & Zampelli, 2016). The agency costs arise consist of the monitoring costs by the principal, the bonding costs by the agent, and the residual loss (Jensen & Meckling, 1976).

In contrast, stewardship model argued that CEO's ability to manage well the company's assets and the empowerment and fusion of incumbency of roles of chairman and CEO facilitate decision making which resulted in better performance (Donaldson & Davis, 1991).

Previous researches have largely supported the view that the CEO duality has positively affected the company performance. Primarily, the benefits of having CEO duality in a company are enabling more efficient decision making and reduction in information costs (Yang & Zhao, 2014). The CEO, being a steward of the company, often has the best specific knowledge of the strategic challenges and opportunities facing the company (Jensen & Meckling, 1992). With the specific knowledge, the CEO is able to assign the decision rights to each agents at each level which ultimately increase the efficiency of decision making and reducing the information cost (Jensen & Meckling, 1992). Besides, having CEO duality in a company eases the monitoring of the CEO by the directors and eventually cut down the monitoring costs (Lam & Lee, 2008).



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In contrast, some researchers have found that the dissection of the top two roles is beneficial towards the company performance. In their study of 100 companies in Financial Times Stock Exchange (FTSE) Bursa Malaysia index, Hussin and Othman (2012) have found that the companies with independent chairman have a more positive impact towards the companies' performance. In similar study on the companies listed in Kuala Lumpur Stock Exchange (KLSE), companies with CEO duality underperformed against their counterparts in terms of ROA and ROE (Rahman & Haniffa, 2005). Duru et al. (2016) found that when the board independency is small, the negative impact of CEO duality on company's performance is significant.

Despite the above findings, Abdullah, Ismail and Jamaluddin (2008) reported that the CEO duality is not able to explain its relationships towards the audit quality. Besides, Ghazali (2010) analysed 87 companies in the composite index and concluded that the CEO duality has no substantial effect on a company profitability. Mustapa et al. (2015) concluded that the dissection of the dual roles of 800 Malaysian listed companies is not significant to explain the company's performance. The findings were also supported by Abidin, Kamal and Jusoff (2009) and Yusoff and Alhaji (2012).

Based on the above findings, the hypothesis is formulated as follows:

*Hypothesis 1<sub>1A</sub> (H1<sub>1A</sub>): CEO duality is positively related to ROA.*

*Hypothesis 1<sub>1B</sub> (H1<sub>1B</sub>): CEO duality is positively related to ROE.*

### **2.3.4 Board Composition and Company Performance**

The MCCG 2017 has emphasized the importance of board composition by having a sub-division under Principle A. The Securities Commission Malaysia has highlighted that the intended outcomes to be achieved through the MCCG 2017 are to have impartial corporate decisions which serve the mission and goals of the company and to allow stakeholders to assess the quality of the board and each director.

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In order to allow an effective oversight of management, the board should have more than 50% independent directors as suggested in MCCG 2017 under guidance 4.1. For large companies, the number of independent directors should not be less than 50% plus one. This is consistent with the practice in Australia and United Kingdom. Further, the directors are allowed to be independent for the cumulative term not exceeding 9 years. Under the MCCG 2012, individual who holds the directorship for a cumulative term more than 9 years shall not be considered as independent except reasoning is provided and obtain annual shareholders' approval. Due to the increased concerns of the stakeholders on the long tenure of an independent director, the MCCG 2017 allows the shareholders to vote under the two-tier voting process to retain an independent director beyond 12 years.

In order to evaluate the independency of the board, a nominating committee should be established as per Bursa Malaysia Listing Requirements paragraph 15.08A to perform assessment of the board, committees and directors periodically. The nominating committee undertakes the responsibility to disclose report pertaining to the notable steps taken within the committee members in Annual Report to allow the shareholders to make informed decision.

In a study on the first 100 largest companies listed on the London Stock Exchange, Muller (2014) reported that board independence is significantly related to the company profitability. In a similar study on listed companies in China, Liu, Miletkov, Wei and Yang (2015) concluded higher number of independent directors are associated with better company profitability. The positive impact on the company performance is more evident in government-controlled companies and companies with lower information acquisition and monitoring costs. Ameer, Ramli and Zakaria (2010) studied a sample of 277 non-financial Malaysia listed companies during 2002 to 2007 and concluded that board with larger percentage of outside directors has significant positive influence on the company performance. These findings were consistent with Abidin et al. (2009), Choi, Park and Yoo (2007) and Gaur, Bathula and Singh (2015).

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On the contrary, Amran and Manaf (2014) concluded board independence has inverse association with the accounting conservatism, which is an effective method to lessen agency problem eliminating managers' opportunistic behavior.

Zabri et al. (2016) found no significant affiliations between the board independence and company profitability in ROA and ROE. Besides, Mustapa et al. (2015) in their study of 800 Malaysian listed companies concluded independent directors do not significantly influence the company profitability. In a similar study on 100 Malaysian listed companies, Ponnu (2008) explained that the number of independent directors has no significant influence on the ROA and ROE. In consistent with the other researchers, Ghazali (2010) found board composition insignificant to explain the profitability in 87 non-financial companies during the year 2001. These findings were consistent with other studies (Abdullah, 2004; Ararat, Orbay and Yurtoglu, 2010; Rahim, Yaacob, Alias and Nor, 2010).

Based on the above findings, the hypothesis is formulated as follows:

*Hypothesis 1<sub>2A</sub> (H1<sub>2A</sub>): Board composition is positively related to ROA.*

*Hypothesis 1<sub>2B</sub> (H1<sub>2B</sub>): Board composition is positively related to ROE.*

### **2.3.5 Board Size and Company Performance**

Past researches have reported a mixed affiliation between the relevance of board size and the company profitability. Echoing the research by Lipton and Lorsch (as cited in Guest, 2009), Jensen (1993) suggested that an effective board should only consist a maximum of eight directors. An oversized board will tend to have difficulty in communication and less likely to have a candid discussion; ultimately resulting in an ineffective board (Hermalin and Weisbach, 2003; Jensen, 1993; Lipton and Lorsch, 1992). Further, Hermalin and Weishbach (2003) suggested that having a large board will result in an increased of agency problems particularly due to the free-riding

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directors. The board eventually is merely to serve as a compliance goals instead of planned objectives of management process (Hermalin and Weishbach, 2003). Finding by Hermalin and Weisbach (2003) supports the finding by Jensen (1993) which suggested an oversized board allows the CEO to have a greater control of the board.

The inverse affiliation between board size and profitability was further reported by Yermack (1996). Yermack (1996) found higher board size results in declining profitability in a sample of 452 large U.S. industrial corporations between 1984 and 1991. Yermack (1996) found that the value of the company drops as the board size grows, specifically when the board size grows from small to medium size. Supporting the study by Yermack (1996), Bennedsen, Kongsted and Nielsen (2008) reported that the negative effect of board size was more evident when the board size increased to six or more members. In a firm with less than six members, the board size effect was absent. Besides, Eisenberg, Sundgren and Wells (1998) also reported that higher board size will result in declining profits from a sample of small and midsize Finnish companies. They found board size is not affected by the agency problem and the perfect board size differs with firm size. Hussin and Othman (2012), in their study of 100 Malaysian listed companies, concluded the higher the board size the worse the company will perform. Larger board size may raise potential conflicts of interest among the directors which eventually inhibit the monitoring function to be effectively carried out.

Mak and Kusnadi (2005) in their study of 460 companies in Singapore and Malaysia found that the higher the board size the more decline in the company performance. They found the ineffectiveness in decision-making, costlier directors' remuneration and redundancy in directors' role as the shortfalls of a large board. Vafeas (2000) found that the companies with the smaller board of up to five members are more valuable to the investors regarding the earnings information. The earnings information is reported to be more accurate as smaller board size can assure of a higher quality monitoring.

In contrast to the above findings, Abidin et al. (2009) reported that a large board could also perform effectively as compared to the smaller board. They have cited that the

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reasons were probably due to the differences in culture and nature of the companies. According to the past studies, a larger board size has better performance as compared to small one (Zahra & Pearce, 1989). This is due to the better network, additional information and resources which smaller board does not possess. Abdullah (2004) and Pricewaterhouse Coopers (as cited in Amran and Ahmad, 2011) stated the Malaysia companies generally have 8 directors, which can be break down into 2 independent directors, 3 external directors and 3 executive directors.

Based on the above findings, the hypothesis is formulated as follows:

*Hypothesis 1<sub>3A</sub> (H1<sub>3A</sub>): Board size is negatively related to ROA.*

*Hypothesis 1<sub>3B</sub> (H1<sub>3B</sub>): Board size is negatively related to ROE.*

### **2.3.6 Ownership Concentration and Company Performance**

Another governance mechanism that is widely studied in the past is the ownership concentration. Ownership concentration is defined as the percentage of ordinary shares owned by stock holders who has minimum 5% of total number of the company's ordinary shares (Nguyen, Locke & Reddy, 2015). According to Paniagua, Rivelles and Sapena (2018), ownership concentration is one of the ownership-related features that is able to affect the financial profitability. One of the more evident ownership concentrated company is the family-owned company. The definition of family-owned company according to the report by the Credit Suisse Research Institute (2017) is a company that has direct shareholding and voting rights held by founders or descendants of at least 20%. According to Carney and Child (2013), family-owned companies is the most dominant ownership in East Asia.

According to the report published by the Credit Suisse Research Institute on 27 September 2017, *The CS Family 1000* concluded that the family-owned companies performed far more superior than the non-family-owned companies. In a report

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dominated by Asian family-owned companies, Malaysia is ranked at seventh globally with a market capitalisation of RM16.11 billion. Despite having a slightly weaker corporate governance structure instilled in family-owned companies, family-owned companies scored relatively higher in financial performance in all the sectors especially in energy, financials and technology. *The CS Family 1000* highlighted the key strengths of a family-owned company as compared to their non-family-owned peers are emphasis on research and development and their conservative growth financed mainly from organic cash flows.

In a similar findings by Ting, Kweh and Somosundaram (2017), their examination of 580 Malaysian public listed companies concluded that highly concentrated companies tend to declare less dividend to the shareholders as they tend to preserve the cash flows for investment opportunities. Further, their study found that the companies performed better in a higher degree of ownership as the large shareholder is able to exercise effective monitoring mechanism to prevent the management and other controlling shareholders from acting in their own interest. Nguyen et al. (2015) and Wang and Shailer (2017) concurred with their findings and considered ownership concentration as an effective mechanism to enhance the company performance.

In contrast to the above findings, Chen et al. (2005) found that the higher degree of ownership concentration has no positive relationship with the company performance. Through the study of 412 Hong Kong public listed companies, they found significant negative relationship in companies with low or moderate levels of family ownership. Their study was similar in other findings which suggested ownership concentration as an effective corporate governance mechanism to reduce agency problems. In Turkey, Ersoy and Koy (2015) found that the ownership concentration in Borsa Istanbul Stock Exchange 30 Firms were negatively affecting the companies' performance for the period from 2008 to 2013. Similarly, Khamis, Hamdan and Elali (2015) concluded the higher ownership concentration will result in declining company performance based on a study of 42 Bahrain companies during the period of 2007 to 2011.

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Despite the above, Demsetz and Lehn (1985) concluded that there was no affiliation in the ownership concentration and company performance for 511 US companies. In a study of 1,079 companies across 8 countries, Weiss and Hilger (2012) had a similar findings that the ownership concentration is not sufficient to explain the company profitability.

Based on the above findings, the hypothesis is formulated as follows:

*Hypothesis 1<sub>4A</sub> (H1<sub>4A</sub>): Ownership concentration is positively related to ROA.*

*Hypothesis 1<sub>4B</sub> (H1<sub>4B</sub>): Ownership concentration is positively related to ROE.*

### **2.3.7 Gender Diversity and Company Performance**

The Malaysian regulators have constantly been encouraging the board gender diversity through the implementation of various policies for the public and private sectors. The policy to have greater women representation at the top management level was first introduced in the civil service in 2004. In 2017, Malaysia has exceeded the quota of 30% of women representation at the top management level by achieving a remarkable 35.6% of women representation (Malay Mail Online, 2 March 2017).

Subsequently in the private sector, the Securities Commission Malaysia has recommended that the large companies must have minimum 30% women directors upon commencement of the MCCG 2017 effective April 2017. This signifies the importance of the role of women in top management level and also the government's determination to empower more women in decision making role.

The significance of the role of women as director of the board has been widely researched and debated by the past researchers. According to Adams and Ferreira (2009), the female directors perform better in monitoring effort as they are actively participating in the monitoring committee. Further, female directors do not only have

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better attendance record than their male counterparts but also help to reduce the absenteeism of their male counterparts. The better performance of having female directors on board is also further explained by Conyon and He (2017). Their research reported that female directors can have better quantitative impact on the firm profitability, especially high-performance firms. In addition, Erhardt et al. (2003) found that higher number of female directors supports the financial growth of the firm.

Some distinguished qualities of the women directors such as cooperative, polite, sympathy, concern and open-minded in the board meetings have help to solve difficult problems (Konrad, Kramer & Erkut, 2008). The importance of women perspective has been notably seen in market segmentation practices (Daily, Certo & Dalton, 1999). Companies with high concentrations of female consumers do perform better when there are female directors on the board who can provide a different perspective to best suit the products to their female consumers. Also, with the inclusion of female directors in the companies, the companies tend to maintain or recruit female talent in contrast with companies which only have male directors on the board. Besides that, having women directors on the board, who act as the linkage, will connect better with the stakeholders and ultimately enhance the reputation of the companies (Luckeath-Rovers, 2013). Singh, Terjesen and Vinnicombe (2008) find that the female directors have considerably increased the international diversity and they are more likely to have an MBA degree compared to their male counterparts.

However, some researchers found that women directors bring negative or no effect to the performance of the companies. Adams and Ferreira (2009) found that female directors do not corresponds well with the financial growth of the firm. Their research showed that the excessive monitoring in a gender diverse board could lead to the fall in shareholder value. The effect is more visible in well governed companies as compared to poorly governed companies. Shukeri et al. (2012) and Mohamad, Abdullah, Mokhtar and Kamil (2010) concurred that women directors do not drive the companies' growth due to the differences in national and corporate cultures.



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Based on the above findings, the hypothesis is formulated as follows:

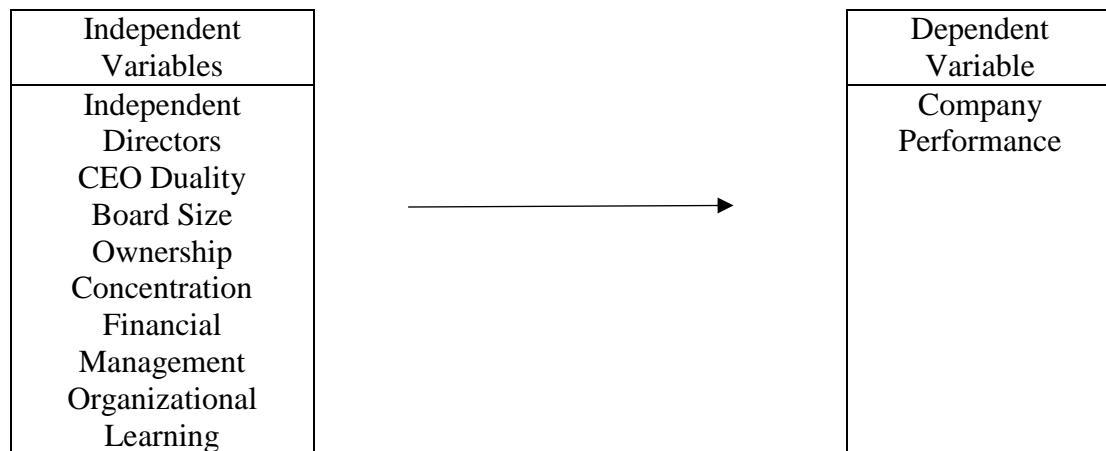
*Hypothesis 1<sub>5A</sub> (H1<sub>5A</sub>): Gender diversity is positively related to ROA.*

*Hypothesis 1<sub>5B</sub> (H1<sub>5B</sub>): Gender diversity is positively related to ROE.*

## 2.4 Relevant Theoretical Models

### 2.4.1 Model 1

Figure 2. 4: Model of Corporate Governance and Organizational Capacity and the Influence on Corporate Performance



Source: Mustapa, I. R., Ghazali, N. A. M., & Mohamad, M. H. S. (2015). The influence of corporate governance and organizational capacity on the performance of Malaysian listed companies. *Mediterranean Journal of Social Sciences*, 6(3), 27-33.

Mustapa et al. (2015) had developed the above model to determine the influence of governance framework and organizational capability to company profitability. The sample of study comprises of Chief Financial Officer, Company Secretary or accountant of 800 Malaysian firms during 2009 to 2010.

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Independent variables used are independent directors, CEO duality, board size, ownership concentration, financial management and organizational learning. The company performance was accessed by the respondents via mail questionnaire. First, the questionnaire was formulated based on the surveys titled “Corporate Governance Survey Report 2004” and “Corporate Governance Scorecard 2005”, which were jointly developed by the education institutions and Minority Shareholders Watchdog Group. Then, the questionnaire were mailed to the Chief Financial Officer, Company Secretary or accountant of the respective companies. By applying seven-point interval scale, the participants were requested to provide opinion of their company profitability in comparison with their rivals.

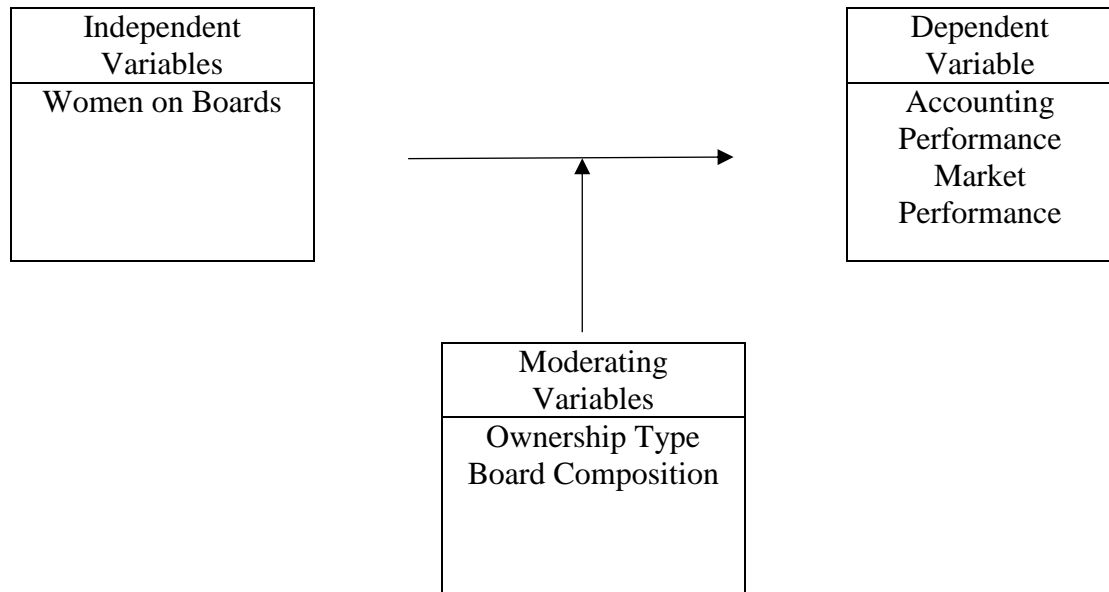
The findings of the study show that only the organizational learning is positively significant to the company performance. This implies that higher learning is crucial to enable the empowerment of the company’s employees to make decisions and ultimately improve the company performance.

In summary, the findings show that other independent variables are insignificant to the company performance save and except for organizational learning.

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## 2.4.2 Model 2

Figure 2. 5: Model of Women Directors of Malaysian firms: Impact on Market and Accounting Performance



Source: Abdullah, S. N., Ismail, K. N. I. K., & Nachum, L. (2012). *Women on boards of Malaysian firms: impact on market and accounting performance*. Retrieved October 10, 2017, from <https://ssrn.com/abstract=2145007>.

Abdullah, Ismail and Nachum (2012) had developed the above model with the aim to quantify the influence of women directors on the market and accounting performance of the company. The sample consists of 841 Malaysian listed companies in the year 2008.

Women directors are used as the independent variable, moderated by the variables of ownership type and board composition. For the performance of the company, ROA and Tobin's q are used for the accounting and market performance respectively.

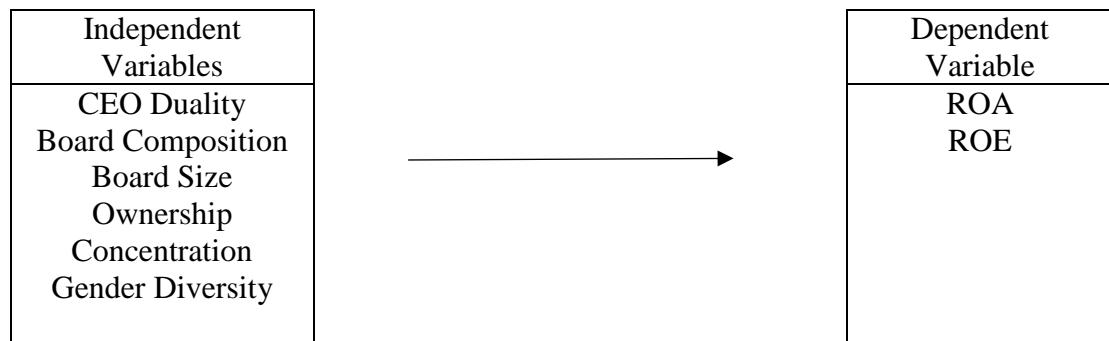
Findings from the research show that the existence of women directors positively affects the ROA of the company. In the study, a board who has a woman director has

significant better ROA than a board with all male directors. However, the study found the existence of female directors negatively affects the market indicator in Tobin's q. Despite the negative relationship, the result however is not significant as the moderating variables have captured the effect.

In conclusion, the findings show the presence of women directors is surely leads to better accounting profitability.

## 2.5 Conceptual Framework

Figure 2. 6: Model of Conceptual Framework



Source: Developed for the research.

The conceptual framework is developed based on the review of the theoretical models by Mustapa et al. (2015) and Abdullah et al. (2012).

The conceptual framework is developed to examine to what extent the CEO duality, board composition, number of directors, ownership concentration and gender diversity has on the ROA and ROE.

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## **CHAPTER 3**

### **METHODOLOGY**

#### **3.1 Introduction**

Chapter 3 will discuss about the methodology that was applied during the research process. This chapter consists of seven sections. The sections are arranged to begin with research design and followed by data collection method, sampling design, research instrument, construct instrument and data analysis. The last section is ended with a conclusion of this chapter.

#### **3.2 Research Design**

According to Saunders, Lewis and Thornhill (2009), a research design is the general plan of how the researchers are going to answer the research questions. On top of being a work plan, a research design shows the direction of the work plan on how the research questions are answered (Vaus, 2001). Vaus (2001) explained that the purpose of a research design is to ensure the evidence obtained allows the researchers to answer the research questions as unambiguously as possible.

The purpose of this study is to determine the influence of corporate governance variables on the profitability of Malaysian listed companies in terms of ROA during the period of 2008 to 2016. Since the MCCG was revamped in the year 2007 and 2012, the selected period of study is able to illustrate the best practices recommended in the MCCG and how these best practices affect the company performance. The corporate

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governance variables are CEO duality, board composition, board size, ownership concentration and gender diversity.

During a research, the data collection techniques and data analysis procedure are often differentiated by either the quantitative or qualitative data (Saunders et al., 2009). A quantitative research method is used when the data collection technique and data analysis procedure generates or uses numerical data. Unlike quantitative research method, qualitative research method generates or uses non-numerical data such as words and pictures. In this research, quantitative research method is applied to determine the relationship between the corporate governance variables and the performance of Malaysian Public Listed Companies as the data obtained from the annual reports are numerical. The data in the annual report of respective companies are downloaded from Bursa Malaysia as these data are true and fair due the regulation by Bursa Malaysia, Securities Commission Malaysia and Companies Commission of Malaysia.

In addition, descripto-explanatory research and multiple regression research are adopted in this research to answer the research questions. Salaria (2012) explained that the descriptive research is able to portray the characteristics of the whole sample and eventually able to provide factual and practical information to the researchers. With the descriptive research, the results obtained will be the forerunner to explanation which can explain the causal effect among the variables (Saunders et al., 2009). Further, multiple regression research is applied in this research to determine the degree of influence between multiple independent variables and a dependent variable (Saunders et al., 2009). The application of multiple regression research could explain the extent of influence of the independent variable has on the dependent variable.

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### **3.3 Data Collection Method**

According to Graziano and Rawlin (as cited in Lancaster, 2009), data collection is a very important aspect in the research process as inaccurate data can lead to unreliable or invalid results. Basically, primary and secondary data are available for researchers to access (Saunders et al., 2009). According to Lancaster (2009), primary data does not exist until and unless it is generated through the research process. On the other hand, secondary data is information that is already existed but has not been primarily collected. In this research, secondary data specifically annual reports is used in the research process.

According to Syed Ab Rahman (as cited in Ya'acob, 2016), annual reports of the public listed companies are easiest to source, either in hardcopies or softcopies. In order to obtain the data from the annual reports, the annual reports are downloaded from Bursa Malaysia and the website of the respective companies. These data from the annual reports are able to give a true and accurate information to the researchers as they are audited and regulated by the relevant authorities in Malaysia. In addition, documentaries from journals are accessed via Internet, Google Scholar and Universiti Tunku Abdul Rahman's e-databases such ProQuest Ebook Central, Elsevier and Emerald Management eJournals Collection.

### **3.4 Sampling Design**

This section presents the target population, sampling frame, sampling element, sampling technique and sampling size.

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### 3.4.1 Target Population and Sampling Frame

Importance of sampling is undeniable during the research process. According to Williamson (2002), a population refers to a complete set of all those elements which have at least one common characteristic and which a researcher wishes to study. As this study aims to examine the relationships between the corporate governance variables and the performance of Malaysian Public Listed Companies, the population of this study were drawn from the corporations that are listed in Bursa Malaysia in 2017. There are a total of 920 companies listed in Bursa Malaysia in 2017, comprising listed companies in Main market and Ace market. Thus, the population of this study is 920 companies. The list of companies listed in Bursa Malaysia is accessible via Bursa Malaysia website at <http://www.bursamalaysia.com/market/listed-companies/list-of-companies>.

Saunders et al. (2009) explained that the sampling frame is a complete list of all the cases in the population from which a sample will be drawn. With the list of 920 listed companies in Bursa Malaysia, the sampling frame will consist of all of these companies of which a sample will be drawn.

Table 3. 1: The Nature and Sector of Malaysian Public Listed Companies for the Year 2017

<b>Sector</b>	<b>Number of companies</b>	<b>Percentage (%)</b>
Construction	50	5.43
Consumer Products	129	14.02
Closed-Fund	1	0.11
Finance	32	3.48
Hotel	4	0.43
Industrial Products	230	25.00
Infrastructure (IPC)	4	0.43
Mining	1	0.11



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Plantation	43	4.67
Properties	99	10.76
REIT	18	1.96
SPAC	3	0.33
Technology	87	9.46
Trading Services	219	23.80
Total	920	100

Source: Developed for the research.

### **3.4.2 Sampling Element**

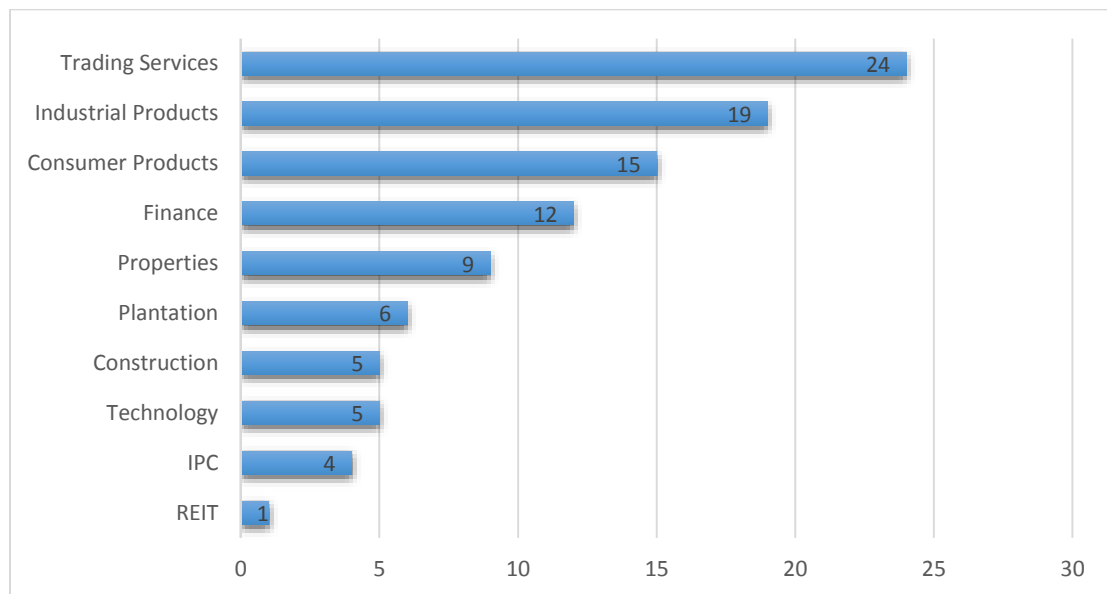
The individual member or unit of a population is known as element (Williamson, 2002). Given the time and budget constraints, it is impracticable to study the entire population of 920 listed companies (Saunders et al., 2009). In this respect, 100 listed companies were chosen for this study. The companies selected for this study comprises of companies from FTSE Bursa Malaysia KLCI and FTSE Bursa Malaysia MidS index. The selection of companies was based on the market capitalization and also the accessibility of annual reports. The 100 corporations from FTSE Bursa Malaysia KLCI were first taken into the sample. However, due to the unavailability of annual reports, certain companies were dropped from the sample. Subsequently, replacement companies from the FTSE Bursa Malaysia MidS were selected according to their positions in the amount of market capitalization. The total market capitalization of the 100 selected companies is RM1,149.46 billion or 60.28% of the total market capitalization of the securities listed in Bursa Malaysia. According to Securities Commission Malaysia, the total market capitalization as at December 2017 is at RM1,906.84 billion. Further discussion of the sample size is provided below under item *3.3.4 Sampling Size*.

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### 3.4.3 Sampling Technique

Probability sampling is applied to obtain the sample for this study. The probability of each case being chosen in a population is equal in probability sampling (Saunders et al., 2009). This technique allows the results to be generalize and to be used as a representation of the population. From the population of 920 public listed companies, a sample of 100 public listed companies is drawn. Generally, the companies selected from the population have more than 10 companies in each sector except for IPC. IPC companies were selected as they have high representation in the FTSE Bursa Malaysia KLCI index. In fact, all the 4 companies are in the top 70 companies in Malaysia by market capitalization.

Figure 3. 1: Types of companies selected as sample



Source: Developed for the research.

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### 3.4.4 Sampling Size

The rule of thumb suggested by Roscoe (as cited in Hill, 1998) stated that a sample size of a research should not be less than 30 and not larger than 500. The recommended sample size is 10% of the population. The rules of thumb proposed by Roscoe (as cited in Hill, 1998) are as follows:

- Sample sizes larger than 30 and less than 500 are appropriate for most research.
- Where sample sizes are broken into subsamples (males/females, juniors/seniors etc.), a minimum sample size of 30 for each category is necessary.
- In multivariate research (including multiple regression analysis), the sample size should be several times (preferably ten times or more) as large as the number of variables in the study.
- For simple experimental research with tight experimental controls (matched pair, etc.), successful research is possible with samples as small as 10 to 20 in size.

Further, Gay and Diehl (as cited in Hill, 1998) explained that a sample size derived depends on the type of research involved. The suggested sample size for a descriptive research is 10% of the population.

However, Alreck and Settle (as cited in Hill, 1998) had a different opinion and stated that it is rarely necessary to have a sample size of 10% of the population. Alreck and Settle (as cited in Miller & Dunn, 2011) stated that the reliability of the data depends on the obtained sample and suggested no more than 10% of the population is required to obtain accurate results. Alreck and Settle (as cited in Hill, 1998, p. 4 & 5) provided the following analogy:

*“Suppose you were warming a bowl of soup and wished to know if it was hot enough to serve. You would probably taste a spoonful. A sample size of one spoonful. Now suppose you increased the population of soup, and you were heating a large urn of*

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*soup for a large crowd. The supposed population of soup has increased, but you still only require a sample size of one spoonful to determine whether the soup is hot enough to serve.”*

Thus, with a population of 920 public listed companies, a sample size of 100 public listed companies or 10.87% of the population is adequate for this study.

### **3.5 Research Instrument**

The data is obtained from the annual reports of the respective public listed companies. The annual reports are downloaded from the Bursa Malaysia or the respective companies' website. The calculation of ROA is performed using Microsoft Excel. The variables are then inserted into Statistical Package for Social Science (SPSS) which conduct running of descriptive analysis, reliability test and Multiple Linear Regression. Since the research aims to determine the causal effect, regression analysis is used instead of correlation analysis. Similar methods are also applied in the past studies (Cheng, 2008; Hashim & Devi, 2008; Shakir, 2008; Yang & Zhao, 2014).

### **3.6 Construct Instrument**

#### **3.6.1 Origin of Construct**

The origin of construct of this study is derived from the past studies. The tables below present the dependent variable and independent variables.

Table 3. 2: Dependent Variable Table

Dependent Variable	Formula	Sources
Return of Total Assets (ROA)	$\frac{\text{Net Income}}{\text{Total Assets}}$	(Abdullah, 2004; Bhatt & Bhatt, 2017; Zabri, Ahmad & Khaw, 2016)
Return of Equity (ROE)	$\frac{\text{Net Income}}{\text{Total Equity}}$	(Hussin & Othman, 2012; Ponnu, 2008; Zabri, Ahmad & Khaw, 2016)

Source: Developed for the research.

Table 3. 3: Independent Variables Table

Independent Variable	Formula	Sources
CEO Duality	0= CEO Duality 1= No CEO Duality	(Abdullah, 2004; Weir & Laing, 2001; Ya'acob, 2016)
Board Composition	Number of Independent Director	(Haat, Rahman & Mahenthiran, 2008; Liu, Miletkov, Wei & Yang, 2015)
Board Size	Number of Directors	(Latif, Kamardin, Mohd & Adam, 2013; Rahim, Yaacob, Alias & Nor, 2010; Shakir, 2008)
Ownership Concentration	Highest percentage of shareholdings	(Ting, Kweh & Somosundaram, 2017)
Women on board	Number of Women Directors	(Amran, Ismail, Aripin, Hassan, Manaf &

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		Abdullah, 2014; Luckerath-Rovers, 2013; Shukeri, Ong & Shaari, 2012)
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Source: Developed for the research.

### **3.7 Data Analysis**

#### **3.7.1 Descriptive Analysis**

Descriptive analysis was applied in this study to obtain the minimum, maximum, mean and standard deviation for the dependent and independent variables. Descriptive analysis allows the researchers to generalize the results and use it as a representation of the population.

#### **3.7.2 Reliability Analysis**

According to Hair, Bush and Ortinau (2002), reliability of a study means the researchers are able to perform the same analysis repeatedly and a similar outcome will be obtained throughout the process. In this study, Analysis of Variance (ANOVA) was applied to test the degree of influence between dependent and independent variables. The ANOVA test will be used to test the significance of the results and to determine whether to reject the hypothesis. If the p-value of is less than 0.05, the result is significant to explain the relationship that the independent variables have on the dependent variable.

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### 3.7.3 Multiple Regression Analysis

Multiple regression analysis is able to test the degree of affiliation between one dependent and two or more independent variables (Saunders et al., 2009). In a multiple regression analysis, the relationship between the dependent variable and independent variable is linear. The linearity will show how the dependent variable change to a certain degree when the independent variable changes (Saunders et al., 2009). In this study, multiple regression analysis is used to examine the strength of a cause-and-effect relationship. The determination of the relationship is represented by the following regression equation:

$$ROA_i = \alpha + \beta_1 CEO_i + \beta_2 BC_i + \beta_3 BS_i + \beta_4 OC_i + \beta_5 WD_i$$

$$ROE_i = \alpha + \beta_1 CEO_i + \beta_2 BC_i + \beta_3 BS_i + \beta_4 OC_i + \beta_5 WD_i$$

where:

ROA is the return on assets

ROE is the return on equity

CEO is the existence of CEO duality

BC is the board composition

BS is the board size

OC is the ownership concentration

WD is the number of women directors on Board

$\alpha$  is the regression constant

$\beta_1, \beta_2, \beta_3, \beta_4$  and  $\beta_5$  are the beta coefficients

This equation can be translated as stating:

Return on Assets<sub>*i*</sub> =  $\alpha$  + ( $\beta_1$  x CEO Duality<sub>*i*</sub>) + ( $\beta_2$  x Board Composition<sub>*i*</sub>) + ( $\beta_3$  x Board Size<sub>*i*</sub>) + ( $\beta_4$  x Ownership Concentration<sub>*i*</sub>) + ( $\beta_5$  x Women Director<sub>*i*</sub>)

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$$\text{Return on Equity}_i = \alpha + (\beta_1 \times \text{CEO Duality}_i) + (\beta_2 \times \text{Board Composition}_i) + (\beta_3 \times \text{Board Size}_i) + (\beta_4 \times \text{Ownership Concentration}_i) + (\beta_5 \times \text{Women Director}_i)$$



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## **CHAPTER 4**

### **RESEARCH RESULT**

#### **4.1 Introduction**

Chapter 4 will present outcomes of the investigation performed using SPSS. First, it starts with the descriptive analysis of the data gathered. The second section will present the reliability analysis and followed by multiple regression analysis in the third section. The last section will end with a conclusion of this chapter.

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## 4.2 Descriptive Analysis

Table 4. 1: ROA

Year	Sample	Mean	Standard Deviation
2008	100	0.0686	0.0973
2009	100	0.0701	0.0823
2010	100	0.0793	0.0832
2011	100	0.0787	0.0750
2012	100	0.0791	0.0811
2013	100	0.0789	0.0937
2014	100	0.0817	0.1091
2015	100	0.0873	0.1015
2016	100	0.0849	0.0995

Source: Developed for the research.

Generally, the mean ROA of Malaysian listed companies is higher compared to other developed countries like Hong Kong (Chen et al., 2005). The mean ROA has seen steady increase over the study period and has increased by 1.63% over the years. The findings corresponds with Zabri et al. (2016) who found the mean ROA to be around 8%. Further, it can also be seen that the investors' confidence is being boosted after the financial crisis in 2007 with the corporate governance initiatives taken by the government (Rahman & Haniffa, 2005).

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Table 4. 2: ROE

Year	Sample	Mean	Standard Deviation
2008	100	0.1395	0.2691
2009	100	0.1639	0.2475
2010	100	0.1824	0.2518
2011	100	0.1902	0.2831
2012	100	0.2061	0.3749
2013	100	0.2318	0.6097
2014	100	0.1880	0.3958
2015	100	0.2029	0.3399
2016	100	0.1944	0.3581

Source: Developed for the research.

According to the study by Chen et al. (2005), the mean ROE in Hong Kong was reported to be 4.2%. In contrast, Malaysia listed companies performed better as compared to their more developed counterpart by having ROE within the range of 13% to 23%. The findings corresponds with Zabri et al. (2016) who found the mean ROE to be around 19%. The huge increased in ROE for year 2008 and 2013 can be explained with the improvisation of MCCG that enhances the performance of the Malaysian companies in general.

Table 4. 3: CEO Duality, Board Composition, Board Size, Ownership Concentration and Gender Diversity

Year	CEO Duality		Board Composition		Board Size		Ownership Concentration		Women on Board	
	Yes	No	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
2008	15	85	0.4329	0.1096	8.49	2.086	0.3482	0.1928	0.63	0.800
2009	14	86	0.4410	0.1121	8.54	2.076	0.3555	0.1923	0.63	0.774
2010	15	85	0.4572	0.1236	8.53	2.162	0.3526	0.1859	0.68	0.827
2011	14	86	0.4609	0.1245	8.46	2.047	0.3551	0.1934	0.69	0.861
2012	15	85	0.4697	0.1191	8.43	1.996	0.3601	0.1926	0.79	0.868
2013	14	86	0.4750	0.1248	8.48	1.931	0.3553	0.1947	0.87	0.906
2014	12	88	0.4735	0.1245	8.56	2.022	0.3466	0.1941	0.99	0.959
2015	13	87	0.4893	0.1277	8.49	1.957	0.3438	0.1957	1.11	0.994
2016	13	87	0.4949	0.1306	8.60	1.990	0.3391	0.1973	1.34	1.165

Source: Developed for the research.

The descriptive statistics reported that majority of the Malaysian public listed companies have adapted well to the recommendation in the MCCG by having top two roles spitted to different individuals. The number of companies that practice CEO duality has seen a slight drop and there are only 13 companies that practice CEO duality in 2016.

The descriptive statistics for board composition supports the listing requirement by Bursa Malaysia of having a minimum of two independent directors. The research results indicates that the Malaysian public listed companies have generally four

independent directors on board. The findings corresponds with the past studies by Amran and Ahmad (2011) who found Malaysian public listed companies having three or more independent directors on board.

Similar to the optimal board size as suggested by Jensen (1993), the descriptive statistics show that Malaysian public listed companies achieved the optimal board size of 8 members. The findings also consistent with Pricewaterhouse Coopers (1998) who suggested that majority Malaysian corporations has 8 directors.

From Table 4.3, we could observe that the Malaysian public listed companies are closely held. The descriptive statistics show that majority of the Malaysian corporations having a member who hold no less than 30% of the voting rights. This is consistent with the findings by Amran and Ahmad (2011) and Ting et al. (2017).

The women on board has seen an improvement over the years. Overall, the descriptive statistics show that the Malaysian public listed companies have one woman director on board. The findings are consistent with the studies by Amran et al. (2014).

### 4.3 Reliability Test

Table 4. 4: ANOVA Results for ROA

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.346	5	.069	8.557	.000 <sup>b</sup>
	Residual	7.228	893	.008		
	Total	7.574	898			
a. Dependent Variable: ROA						
b. Predictors: (Constant), WD, BC, CEO, OC, BS						

Source: Developed for the research.

The model for ROA with five predictors produced  $F(5,893) = 8.557, p < 0.05$ .

The P-value is used to describe the statistical significance of the model and the standard P-value that is considered statistical significant is  $p < 0.05$ . Based on Table 4.4, the P-value is 0.000 indicating significant ( $p < 0.05$ ). The result shows that the independent variables are able to significantly predict the ROA. The results also imply that the regression model is good to describe the relationship between the variables.

Table 4. 5: ANOVA Results for ROE

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.150	5	1.230	9.790	.000 <sup>b</sup>
	Residual	112.199	893	.126		
	Total	118.349	898			
a. Dependent Variable: ROE						
b. Predictors: (Constant), WD, BC, CEO, OC, BS						

Source: Developed for the research.

The model for ROE with five predictors produced  $F(5,893) = 9.790, p < 0.05$ .

The P-value is used to describe the statistical significance of the model and the standard P-value that is considered statistical significant is  $p < 0.05$ . Based on Table 4.5, the P-value is 0.000 indicating significant ( $p < 0.05$ ). The result shows that the independent variables are able to significantly predict the ROE. The results also imply that the regression model is good to describe the relationship between the variables.

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## 4.4 Multiple Regression Model

Table 4. 6: Model Summary for ROA

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.214 <sup>a</sup>	.046	.040	.0899668711 29406
a. Predictors: (Constant), WD, BC, CEO, OC, BS				

Source: Developed for the research.

The coefficient of determination ( $R^2$ ) explains the proportion of variance in the dependent variable that can be explained using the independent variables. Based on Table 4.6, the  $R^2$  value is 0.046 (4.6%). The results indicate that the independent variables (CEO duality, board composition, board size, ownership concentration and gender diversity) explains 4.6% of the dependent variable (ROA). The adjusted  $R^2$  value is 0.040 (4.0%). The adjusted  $R^2$  is consistent with the studies by Amran and Ahmad (2011), Chen et al. (2005) and Pham, Oh and Pech (2015).

Standard Error of the Estimate for this model is 0.08996. The Standard Error of the Estimate will decrease when  $R^2$  increases as a better fit model has lower estimation error.

Table 4. 7: Model Summary for ROE

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.228 <sup>a</sup>	.052	.047	.3544612253 84789
a. Predictors: (Constant), WD, BC, CEO, OC, BS				

Source: Developed for the research.

Based on Table 4.7, the  $R^2$  value is 0.052 (5.2%). The results indicate that the independent variables (CEO duality, board composition, board size, ownership concentration and gender diversity) explains 5.2% of the dependent variable (ROE). The adjusted  $R^2$  value is 0.047 (4.7%). The adjusted  $R^2$  is consistent with the studies by Amran and Ahmad (2011), Chen et al. (2005) and Pham, Oh and Pech (2015).

Standard Error of the Estimate for this model is 0.35446.

Table 4. 8: Coefficients for ROA

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.164	.021		7.686	.000
	CEO	.013	.009	.050	1.517	.130
	BC	-.063	.025	-.084	-2.516	.012
	BS	-.009	.002	-.197	-5.783	.000
	OC	.008	.016	.016	.479	.632
	WD	.061	.027	.073	2.208	.028
a. Dependent Variable: ROA						

Source: Developed for the research.



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Based on Table 4.8, the unstandardized coefficients are used to interpret the results as they are in the original units. The regression equation to predict the ROA from independent variables is as follows:

$$\text{ROA} = 0.164 + 0.013 \text{ CEO Duality} - 0.063 \text{ Board Composition} - 0.009 \text{ Board Size} + 0.008 \text{ Ownership Concentration} + 0.061 \text{ Women on Board}$$

Based on the regression equation, the intercept of the equation is 0.164, which mean dependent variable = 0.164 when independent variable = 0. The dependent variable is expected increase by  $x$  units when one unit is increased in independent variable. For instance, the ROA is increased by 0.013 units if one unit is increased in CEO duality, *ceteris paribus*.

From the table, three independent variables (board composition, board size and women on board) are proved to be statistically significant to explain the dependent variable (ROA) as their P-value is less than 0.05. On the other hand, two independent variables (CEO duality and ownership concentration) are found to be statistically insignificant to explain the dependent variable (ROA) as their P-value is greater than 0.05. Further, the model shows that CEO duality, ownership concentration and women on board has positive relationship with the ROA. In contrast, board composition and board size show negative relationships with the ROA.

In addition, the Beta column suggests the magnitude of the variables has on the outcome of the analysis. The results show that women on board best explain the dependent variable, followed by CEO duality and ownership concentration.

Table 4. 9: Coefficients for ROE

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.239	.084		2.847	.005
	CEO	.090	.034	.086	2.617	.009
	BC	-.100	.098	-.034	-1.015	.311
	BS	-.022	.006	-.125	-3.687	.000
	OC	.297	.063	.157	4.736	.000
	WD	.054	.108	.016	.496	.620

a. Dependent Variable: ROE

Source: Developed for the research.

Based on Table 4.9, the regression equation to predict the ROE from independent variables is as follows:

$$\text{ROE} = 0.239 + 0.090 \text{ CEO Duality} - 0.100 \text{ Board Composition} - 0.022 \text{ Board Size} + 0.297 \text{ Ownership Concentration} + 0.054 \text{ Women on Board}$$

Based on the regression equation, the intercept of the equation is 0.239, which mean dependent variable = 0.239 when independent variable = 0. The dependent variable is expected increase by  $x$  units when one unit is increased in independent variable. For instance, the ROE is increased by 0.090 units if one unit is increased in CEO duality, ceteris paribus.

From the table, three independent variables (CEO duality, board size and ownership concentration) are proved to be statistically significant to explain the dependent variable (ROE) as their P-value is less than 0.05. On the other hand, two independent variables (board composition and women on board) are found to be statistically insignificant to explain the dependent variable (ROE) as their P-value is greater than 0.05. Further, the model shows that CEO duality, ownership concentration and women

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on board has positive relationship with the ROE. In contrast, board composition and board size show negative relationships with the ROE. The research results show that the relationship of the independent variable with the ROA and ROE is consistent. CEO duality, ownership concentration and women on board are found to have positive effect on the performance of the company whereas board composition and board size are found to have negative impact on the company performance.

In addition, the Beta column suggests the magnitude of the variables has on the outcome of the analysis. The results show that ownership concentration best explain the dependent variable, followed by CEO duality and women on board.

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## CHAPTER 5

### DISCUSSION AND CONCLUSION

#### 5.1 Introduction

This chapter will discuss about the findings of the research results and will relate the findings with the various literatures in the same topic. Then, the limitations of the study will be listed and accordingly recommendations are provided for future researchers to consider with in their studies.

#### 5.2 Summary of Hypotheses Testing

Table 5. 1: Summary of the results

Hypothesis	Supported ( $p < 0.05$ )	Not Supported ( $p > 0.05$ )
H1 <sub>1A</sub> : CEO duality is positively related to ROA.		✓
H1 <sub>1B</sub> : CEO duality is positively related to ROE.	✓	
H1 <sub>2A</sub> : Board composition is positively related to ROA.	✓	
H1 <sub>2B</sub> : Board composition is positively related to ROE.		✓
H1 <sub>3A</sub> : Board size is negatively related to ROA.	✓	

H1 <sub>3B</sub> : Board size is negatively related to ROE.	✓	
H1 <sub>4A</sub> : Ownership concentration is positively related to ROA.		✓
H1 <sub>4B</sub> : Ownership concentration is positively related to ROE.	✓	
H1 <sub>5A</sub> : Gender diversity is positively related to ROA.	✓	
H1 <sub>5B</sub> : Gender diversity is positively related to ROE.		✓

Source: Developed for the research.

## 5.3 Discussion of Major Findings

### 5.3.1 Descriptive Analysis of Dependent Variables

Based on the descriptive analysis results of the dependent variables (ROA and ROE), we can summarise that generally there is an upward trend in the mean of the dependent variables after the implementation of MCCG 2007 and MCCG 2012. The mean of the ROA has seen an increment of 1.63% from 6.86% to 8.49% during the period of nine years. During the same period, the ROE has seen an increment of 5.49% from 13.95% to 19.44%. Notably, the ROE has recorded its highest increment in the year 2013 with a 2.57% increment. This huge leap can be explained with the positive effect of the Malaysia general election on the stock market in 2013 (Liew & Rowland, 2016). The improved ROA and ROE results signify that the inception of the MCCG post financial crisis has helped Malaysian public listed companies to rebound and performed better in the capital market (Bhatt & Bhatt, 2017).

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### 5.3.2 Descriptive Analysis of Independent Variables

CEO duality results show number of corporations engaging the practice of combining the top two roles has marginally reduced. The number of companies that practice CEO duality dropped from 15 to 13 companies during the study period. Despite the slight drop, the Malaysian regulators can look at the brighter side with 87% of the companies had taken up the recommendation by the MCCG of separating the role of chairman and chief executive officer. With majority of the companies practice separation of roles, the findings are consistent with the past studies (Minority Shareholders Watch Group, 2016; Pricewaterhouse Coopers, 1998; Rahman & Haniffa, 2005; Yusoff & Alhaji, 2012).

With regard to the board independence, the Malaysian public listed companies had a relatively higher number of independent directors than the requirement in MCCG by having an average of 4 independent directors on board throughout the study period. Under recommendation 3.5 of the MCCG 2012, the board should consist majority of independent directors when the chairman is non-independent. To understand further, the board size of the Malaysian public listed companies is at an average of 8 directors. This finding is in line with the study by Amran and Ahmad (2011). Despite there is no requirement in the MCCG on the board size, the recommended board size of the public listed company is 8 directors (Jensen, 1993). This indicates that Malaysian public listed companies have achieved the optimal board size for effective monitoring. In addition, the listing requirement under paragraph 15.02 states that a listed company must have minimum 2 directors or one third of the board as the independent directors. With average of 4 independent directors on a board of 8 directors, we could observe that the Malaysian public listed companies have achieved a better board independence than the recommended composition.

The ownership concentration has seen a decrease of 0.91% from 34.82% to 33.91% in 2016. Regardless of the drop, we could observe that the ownership concentration in Malaysia public listed companies are considerably high. This could be explained by the majority of the listed companies in Malaysia are held by directors and family members

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(Kamardin, Latif & Mohd, 2016). According to the Malaysian Directors Academy (MINDA) (2017), 41% of the companies listed in Bursa Malaysia are held by family members. Based on the definition given by MINDA, family owned companies comprise of individual who holds at least 10% of the total issued and paid-up shares. This research findings are consistent with the studies by Chen et al. (2005) and Ting et al. (2017).

With the constant implementation of policies and initiatives by the government to promote gender diversity in the Malaysian public listed companies, we could observe that the mean for women on board has gradually increased over the years. The number of women on board has doubled from 0.63 in 2008 to 1.34 in 2016. Although the number is considerably small compared to the average size of the board, the figure could shed light on the increasingly importance of women representation on the performance of Malaysian public listed companies (McKinsey & Company, 2016).

### **5.3.3 Hypothesis 1**

The research findings found that CEO duality has significant impact on the ROE but not on ROA. This is consistent with the previous studies that suggest that merging the roles of chairman and CEO facilitates decision making process as they are believed to have the ability to put good use of the company assets (Donaldson & Davis, 1991). As part of the management team, CEO who acts also as the chairman could skip the need the source additional technical information and this will speed up the decision making process while reducing any information cost (Yang & Zhao, 2014). This will reduce the possibility of partial transfer of information between the chairman and CEO. In most of the companies where CEO duality exists, the CEO who manages the company is also the founder of the company. Their experiences have given them an edge of having the knowledge of specific challenges and opportunities that could greatly affect the company performance (Jensen & Meckling, 1992). Besides the information cost, CEO duality could reduce monitoring cost which collectively could enhance the

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company performance (Lam & Lee, 2008). The elimination of separation of roles has effectively granted the board of the need to monitor the CEO. For the insignificant relationship with ROA, it could be explained that the multitasking duality roles of the CEO is not accepted well by the Malaysians as they do not believe the CEO will carry out his duty effectively as a chairman and CEO (Mustapa et al., 2015). Ghazali (2010) suggested that the different political and cultural background might also hinder the adoption of Hampel Report under the Malaysian context of MCCG.

### **5.3.4 Hypothesis 2**

The research findings show that board composition has significant negative impact on the ROA and no significant relationship with ROE. This indicates that higher board independence can relate to less desirable performance of the company. This corresponds with the study by Amran and Manaf (2014) which question the effectiveness of the role of independent directors in influencing the board decision. According to Amran and Manaf (2014), the higher accounting conservatism which is believed to associate with high board independence does not exist as the independent directors do not have the power of independence, advising and monitoring the board. Rashid (2018) and Vrenken (2013) suggested that the independent element in the board could be diminished due to the lack of information by the external directors which resulting them to rely on the information provided by the internal directors. Further, Rashid (2018) also pointed that the independent directors being proposed to the board might have relationships with the existing board of directors. Brennan (as cited in Rashid, 2018) viewed independent directors as part-timers who lack the competency and information of firm which inhibits their judgement. In contrast to the belief that higher board independence will enhance the company performance, Wallison (as cited in Fuzi, Halim and Julizaerma, 2016) explained that purpose of independent directors is for better governance and not financial performance. Based on the insignificant relationship with ROE, it could be explained that the independent directors are just mere compliance with the regulatory requirements and they do not perform their



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entrusted roles and functions (Hermalin & Weisbach, 2003). Further, the controlling CEO who participates in the selection process of independent directors would result in selective selection and thus reduce the board independency (Hermalin & Weisbach, 2003).

### **5.3.5 Hypothesis 3**

The research findings show that board size has significant negative impact on both the ROA and ROE. The findings are similar to the studies by Hermalin and Weisbach (2003), Jensen (1993) and Lipton and Lorsch (1992) which state larger board size would hinder effective communication between the directors and ultimately creating an ineffective board. Instead of functioning as an effective monitoring mechanism, a large board will cause agency problem due to free-riding directors and redundancy of directors' roles (Hermalin & Weisbach, 2003; Mak & Kusnadi, 2005). Besides, the findings are supported by Bennedsen et al. (2008) who found the inverse affiliation to be more evident when the board size grow to more than six members. Despite achieving the optimal board size in this research, the relatively large board could raise potential conflicts between the directors and ultimately obstruct the functions of the board (Hussin & Othman, 2012). The research findings also explain that no particular board size is applicable to all industries but rather it boils down to the firm size to determine the suitable board size (Eisenberg et al., 1998).

### **5.3.6 Hypothesis 4**

Based on the research findings, the ownership concentration is found to have significant positive relationship with the ROE but no significant relationship with ROA. This indicates that higher ownership concentration will result in better performance in ROE. The findings correspond to the studies conducted by Ting et al. (2017) which explain that the highly concentrated companies tend to issue lesser dividend to preserve cash

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flows and instead allocate the capital for investment opportunities. The positive impact of the highly concentrated ownership on the Malaysian public listed companies' performance could denote the variable as an effective monitoring mechanism by the large shareholder to deter the management and any other block shareholders from acting in their personal agenda (Nguyen et al., 2015; Ting et al., 2017; Wang & Shailer, 2017). In terms of ROA, Weiss and Hilger (2012) suggested that market forces to be the factors on the company performance rather than the ownership concentration in countries with highly concentrated companies. The ownership concentration was found to have no sustainable effect on the company performance.

### **5.3.7 Hypothesis 5**

The research findings show that the gender diversity has positive significant impact on the ROA but show no significant impact on ROE. This indicates that having more women on board will result in better performance of the company. The findings concur with the past studies that have shown greater female representation improve the company growth (Conyon & He, 2017; Erhardt et al., 2003; Luckerath-Rovers, 2013). The importance of having female representation on board is due to their active role in monitoring the activities of the board and ensuring the board functions according to the board charter (Adams & Ferreira, 2009). Compared to an all-male board, having a woman on board will also broaden the perspective and allow the companies to have better understanding of women needs especially in industries with feminine products (Daily et al., 1999). The findings of Luckerath-Rovers (2013) supports the research findings by arguing that women often act as a linkage between the company and its stakeholders. Ultimately, this will strengthen the receptiveness of the stakeholders towards the company which increase the flow of investments to the company ("Corporate Governance Blueprint", 2011; Shukeri et al., 2012). The insignificant relationship between gender diversity and ROE could be explained by the differences in corporate culture and country (Shukeri et al., 2012). Further, the anxiety of

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performing well for women when competing with men could be also a hindrance to their effectiveness in carrying their roles (Kirk, 1982).

## **5.4 Limitations of Study**

Firstly, performance of the company was measured based on the accounting based indicators. It does not include the market based indicators which will reflect the sentiment of the market participants.

Secondly, the independent variables used in the research were limited and were derived from characteristics of governance structures resulting inability to deliver evidence of any other factors that could possibly affect the company performance. Given the low adjusted R square in the research results, it could signify that corporate governance structures may not be the persuasive answers to the company performance. Rather, other external factors such as adaption to disruptive technology and fiscal policy could be the contributing factors in the company performance.

Lastly, the research only studies the influence of governance structure on Malaysia top companies. As a result, the findings cannot be generalized to explain the influence of the governance structure in small and medium enterprises.

## **5.5 Recommendations**

Future researchers could look into the possibility to include market based performance indicators such as Tobin's Q ratio, price to earnings ratio, market-to-book ratio and cash flow per share. The addition of market based performance indicators to the existing accounting based performance indicators will describe better of the company performance.

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Secondly, future researchers shall look into other external factors such as economic recession, inflation and exchange rate in determining the performance of the company. By comparing the internal and external factors, the researchers could understand better in the extent of how the variables affect the company performance. In addition, future study may consider to include number of foreign directors and demographic factors such as age and education level, which will provide a more comprehensive understanding of the influence of demographic factors on the performance of the company.

Thirdly, the researchers should take into account the perspective of the small and medium enterprises as they form the backbone of our economy. Future researchers can conduct interview with the small and medium enterprises' operators on the practical issues with adhering to the governance framework. In addition, future researchers could also gather the perspective of the company secretaries on the level of compliance in public listed companies and private companies to understand better on the qualitative element in the research.

Lastly, academics could conduct panel data analysis to investigate the effect of the corporate governance variables on the company performance in each individual year. Thereafter, they could perform a comparative analysis to assess the effects of each version of MCCG has brought to the performance of the company. The researchers could compare the period between 2008-2012 and 2013-2016 to determine whether the revision of the MCCG could significantly influence the performance of the company.

## **5.6 Conclusion**

The study attempts to study the influence of the governance variables on the performance of Malaysian listed companies. In general, most of the variables are found not to be entirely significant in explaining the performance of Malaysian public listed companies. Based on the research findings, only board size is found to be significant

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in affecting the company performance during the study period. This implies that there could be other factors that should be studied to explain their effects on the company profitability.

The facet of corporate governance is constantly revolving and continuous efforts by the regulators to keep updated with the latest corporate governance practices is never an easy task. However, given the rapid development and rising scandalous dealings, the efforts will be necessary to win back the investors' confidence towards the Malaysian capital market. In the foreseeable future, we could witness the inflow of investments to Malaysia based on the National Transformation Programme (NTP) and Transformasi Nasional (TN50). Hence, it is inevitable for corporations to engage in a new mindset by practicing the global standards of corporate governance to achieve the targeted socio-economic growth.

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