THE EFFECTS OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE: EVIDENCE FROM THE CONSTRUCTION SECTOR

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DECLARATION

I hereby declare that:

(1) This Research Project is the end result of my own work and that due acknowledgement has been given in the references to all sources of information be they printed, electronic, or personal.

(2) No portion of this research project has been submitted in support of any application for any other degree or qualification of this or any other university, or other institutes of learning.

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Date: 3rd December 2021___________________

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MAY THE SUCCESS BE ALL OF US!!!

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LIST OF ABBREVIATIONS

UTAR Universiti Tunku Abdul Rahman

CG Corporate Governance

MCCG Malaysian Code of Corporate Governance

SSM Securities Commission Malaysia

ROA Return of Assets

ROE Return of Equity

GNC Governance and Nomination Committee

HKEX The Stock Exchange of Hong Kong Limited

NED Non-Executive Directors

Abstract

Public listed companies play an important roles to stimulate and stabilized the economy of a country. Therefore, BURSA is playing an important role in monitoring the compliant of listed companies in Malaysia.

History has proven the failure of corporate compliant, fraudulent and the like which has damaged multiply huge corporate, the economy and the society. Therefore, this research study will examines the effectives of corporate governance mechanism on seven independent variables namely CEO Duality, Board Structure (Board Size), Numbers of Independent Directors (Audit Committee), Numbers of Independent Directors (Remuneration Committee), Numbers of Independent Directors (Nomination Committee), Independent Directors on Board, Gender Diversity (Female Directors on Board) with Firm Size as the control variables on 44 public listed construction companies in Malaysia in terms of ROA, ROE and Tobin's Q as dependent variables on Firm Performance.

The data collected on 44-companies annual reports and Bloomberg in spreadsheet format will go through Eviews version 11 panel data regression analysis to determine the significant of each independent variables towards each dependent variables. Each hypotheses will be answered accordingly.

Based on the study, there are not all independent variables are significant to firm performance. As such, it would be strongly suggests that more factors to be included in the research study which might possible have influence on the firm performance.

Chapter 1

Introduction

1.1 Introduction

An overview and basic fundamental on the effects of corporate governance, on firm performance with evidence from the construction sector within the context of Malaysia. This research will be based on the secondary data extracted from the company's annual reports for the period of 2012 to 2019 according to BURSA listing requirements. There are in total of 51 companies found on BURSA official websites. However, only 44 companies are found with valid data and fit the periodic criteria during these 8 years' time frame.

Along the way, there are changes made to MCCG particularly in the year of 2012, 2016 and 2018. These changes will be evaluated to study the effects on firm performance, apart from the selected range of independents and control variables.

The sequence of this chapter will be fragmented into six sections as follow:

- 1.1 Introduction
- 1.2 Research Background
- 1.3 Problem Statement
- 1.4 Research Objective
- 1.5 Research Questions
- 1.6 Significance of the study
- 1.7 Summary

The combination of the six sections will sum up to a complete overview of this study and the subsequent chapters will lead towards the end goal and wrapping up with implication, recommendation, limitations and conclusion for the purpose of future study.

1.2 Research Background

1.21 History of MCCG

After several scandals and financial crises in 1997 Asian Financial Crisis, 2008 Global Financial Crisis, Malaysia introduce the very first corporate governance code known as MCCG 2000 via adopting the then available best practices for the purpose of reinforcing the corporate practice locally with similar global code. Subsequently there are new edition of MCCG code after seven years of educating the corporate world, a more appropriate is then launch in 2007. Every new edition will provide a new improvement with the basis of the previous version. Business continue as usual, as the time past new requirements are required to overcome the corporate best practise on the current trend. Hence, the monitoring authority which is the Securities Commission Malaysia has further strengthen the requirements and encourage more company to adopt to the best practise. In the year of 2012, the rise of 2012 version with basis on the eight principals. Unfortunately, this does not put a full stop to the needs to further strengthening the best practices with interim improvement. In 2017, another new version of MCCG was developed with the basis of three new principals namely, Comply or Explain method by “CARE”, in short known as Comprehend then Apply and Report.

According to Azeem, Kouser, Hassan, and Saba (2015), the development of corporate governance has greatly impacted by the complex organization structure and economic landscape. While the Cadbury code describes corporate governance as “the way a corporation is directed and controlled to maximize shareholders' value.” (Cadbury, 1992)

1.22 Corporate Governance in the construction industry

Therefore, this research will focus on the effects of corporate governance on firm performance, with evidence from the construction sector within the context of Malaysia.

1.3 Problem Statement

There is limited study in the concentrated area of construction sector in Malaysia. The on-going corporate scandal on IMDB has direct impact over mega project like 'Tun Razak Exchange' with costing of USD10Bil and the East Coast Rail Link which estimated causing USD15Bil is very much affected. Stakeholders of these contracts are in the dilemma. A lot of uncertainty with construction schedule delaying and never ending negotiation on cost cutting. This has portrayed the weaknesses in the governance and foreign investors are tending to be a little bit sceptical about choosing Malaysia as the priority destination for investment. This would in turn have an impact on the entire construction supply chain in Malaysia. Hence, it would be an interesting topic for the researcher to examine the effects of corporate governance on firm performance in the construction sector in Malaysia. This research to be carries out after the implementation of the MCCG 2012 in year 2012 to 2019 wherever possible.

1.4 Research Objectives

The primary objective of this study is to examine the effects of corporate governance in accordance to MCCG 2O12 and firm performance in Malaysia. A series of independence variables will be used to conduct the effects of corporate governance practice which is not limited to:

1. CEO Duality
2. Board Structure – (Board Size)
3. Independent Directors – (Audit Committee)
4. Independent Directors – (Remuneration Committee)
5. Independent Directors - (Nomination Committee)
6. Independent Directors on Board
7. Gender Diversity – (Female Directors on Board)

All other variables

The Construction Sector firm size has been designed as the control variable to examine the correlation between the 7 independence variables (IVs) and the firm performance, which is the dependent variable (DVs), namely the (ROA, ROE & Tobin's Q).

A list of objectives has been established as follow:

1. To examine the relationship between CEO Duality and firm's performance
2. To study the relationship between Board Structure (Board Size) and firm's performance.
3. To study the relationship between Independent Director (Audit Committee) and firm's performance.
4. To study the relationship between Independent Director (Remuneration Committee) and firm's performance.
5. To access the relationship between Independent Director (Nomination Committee) and firm's performance
6. To examine the relationship between Independent Director on board and firm's performance.
7. To study the relationship Female Directors on board) and firm's performance.

1.5 Research Questions

- What effect does corporate governance mechanisms have on firm performance in the constructor sector?
- How did the development of MCCG have affected the firm performance from year 2012 to 2019?
- What impacts have corporate governance practices had on firm performance and its relationship outcome via EViews version 11 as analysis tool, which determined the end results, can be either statistically significant or otherwise?

1.6 Significance of the study

The development of MCCG is heading towards a positive direction towards better framework to help organization in achieving longevity growth. This study will provide an insight into construction sector whether these range of corporate governance variables are persuasive to explain in achieving its firm performance. The construction industry has a great impact in transforming the nation and significantly contributing to the national GDP. The success of this industry will improve the well-being of the nation.

In the past, majority of the research study are focussing on the Bursa Listed Companies in general and measuring firm performance with only ROA and ROE, without considering Tobin's Q in the process. Apart, MCCG is continuing developing its best practice from time to time. Therefore, this study will be beneficial to the corporate management in implementing effective corporate governance in their organization to strengthen their corporate framework and for subsequent research study.

1.7 Summary

To recapitulate the aforementioned, Chapter 1 has outlined the context of construction sector within Malaysia. The active role of construction in building the nation remained one of the key focal areas in moulding the country's prosperity. As such, it is critical to zoom into the effects of corporate governance on firm performance.

Chapter 2

Literature Review

2.1 Introduction

Chapter 2, there are a series of literatures has been reviewed for this study to better engage the range of relevant variables. The range of resources is not limited to journal articles, reference books, online materials and local authority publications. The presentation of this chapter will be segregated into two divisions, begin with relevant theoretical model and followed by respective range of variables. These variables encompass the seven independent variables, three dependent variables and a control variable.

2.1 Relevant Theoretical Model

Sanda, Mikailu and Garba (2005) proposed four primarily theories in governing the relationship between corporate governance and firm performance, namely agency theory, stewardship theory, resource dependency theory and stakeholder theory, emphasizing on the role of board of directors in improving the performance of a firm. Besides, in the study of social responsibility, social contract theory by Gray, Owen & Adams (1996) and legitimacy theory by Suchman (1995) were important for firm sustainability.

2.1.1 Agency Theory

Under agency theory, agency relationships form when the owner or shareholders pass down the ownership of work to their appointed agent to carry out the work assigned by the owner or shareholder, Jensen and Meckling (1976). This commonly occurs between the shareholders and the management of the company when the principal (shareholders) hires the agent (company management) to represent his/her interests. According to the perspective of Yusoff and Alhaji (2012), the appointed agent role and the directors can be known as the governance function to the board of all directors to take care the interest of the serving shareholders. Therefore, the primary responsibility of the board of directors which is the agents are rightfully to produce performance results towards the shareholders which is also known as the principal by ensuring profits maximization to all shareholders.

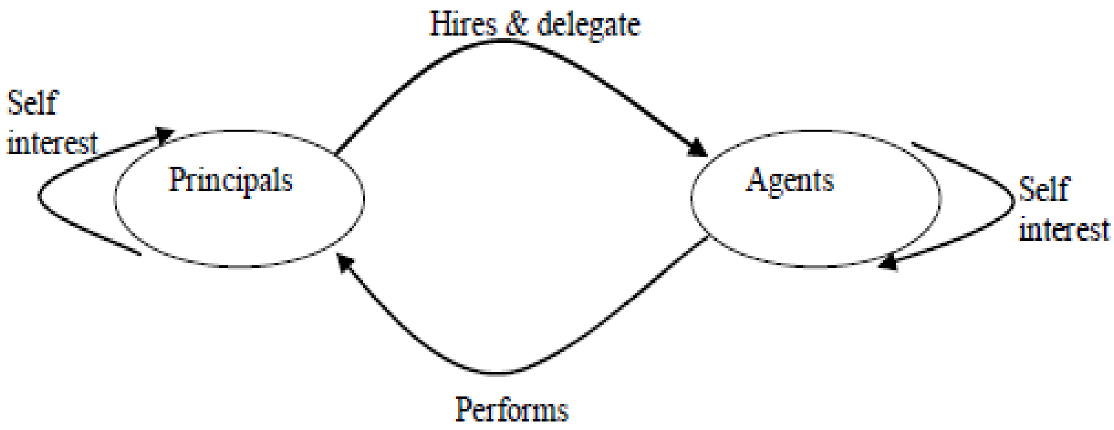

Figure 2.1 The Agency Model

Adapted from Abdoullah & Valentine (2009)

However, agency problems occur as agency relationships create the possibility of conflict of interest between the shareholders and managers (Boshkoska, 2015). The owners of the company aim to maximize the company value and thus shareholders value which is often not compatible with the interest of managers tend to maximize their own personal interest, even at the expense of owners. By rewarding, monitoring and motivating, priorities of agents can be corrected, (Besley & Ghatak, 2014). Haron, Othman, Norman and Husin (2020) concluded agency theory as the dominant theory influencing the corporate structure in the case of Malaysia's companies

2.1.2 Stewardship Theory

Under the steward theory, stewards are company executives and managers act on the benefit of shareholders. In the study of Yusoff and Alhaji (2012) stated stewardship theory is an alternative to agency theory in terms of managerial motivation. The agents have the characteristic of self-actualizing and focused on higher order needs such as a sense of achievement, usually placing the firm ahead of their personal interest.

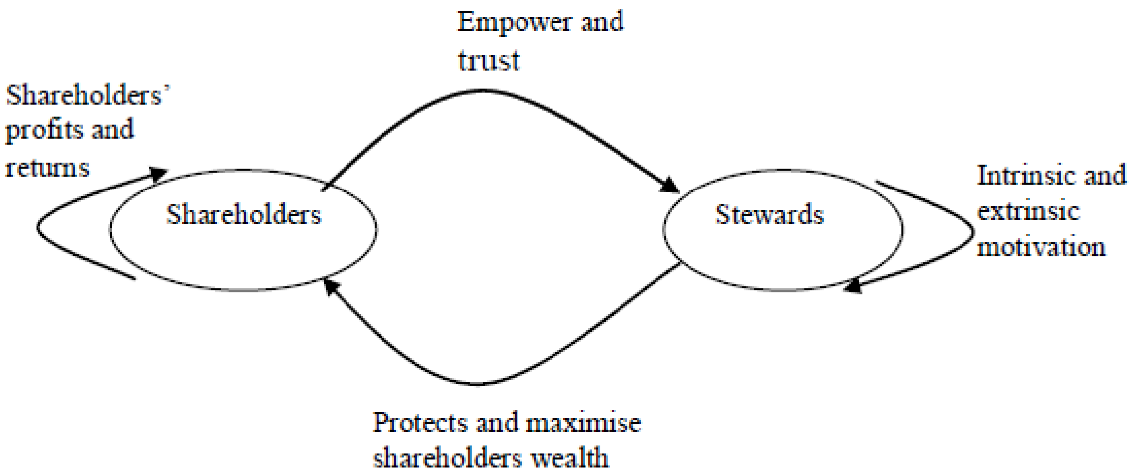

Figure 2.2 The Steward Model

Adapted from Mamun et. al. (2013)

Stewardship theory focuses on the strong relationship between managers and the company's success as the stewards are satisfied and motivated when the company goals are achieved, (Abid, Rafiq, Khan & Ahmed, 2014). The steward seeks to do a good job by treating themselves as important members of the firm, (Yusoff and Alhaji, 2012)

2.1.3 Resource Dependency Theory

Resource dependency theory focuses on the firm's assessment of resources provided by the role of board directors. Abid et al. (2014) mention in their studies that every company depends on the resources, the ability to acquire external resources is vital for strategic management to every company. The availability of resources has a significant effect on the company's productivity. Therefore, the resources directors bring to the firm, such as information, skills, and connection with the key constituents (suppliers, buyers and public policy makers) of the company is highly connected to the performance of the company.

2.1.4 Stakeholder Theory

Stakeholder theory centres the issue to balance the interests of stakeholders while creating value to shareholders as the model addresses that when fulfilling the needs of various stakeholders such as investors, employers, suppliers and customers, it will then return back to its shareholders, maximizing the shareholders' wealth at the same time. This theory focussing on the decision of managers towards prioritise on the interests of all stakeholders (Yusoff and Alhaji, 2012).

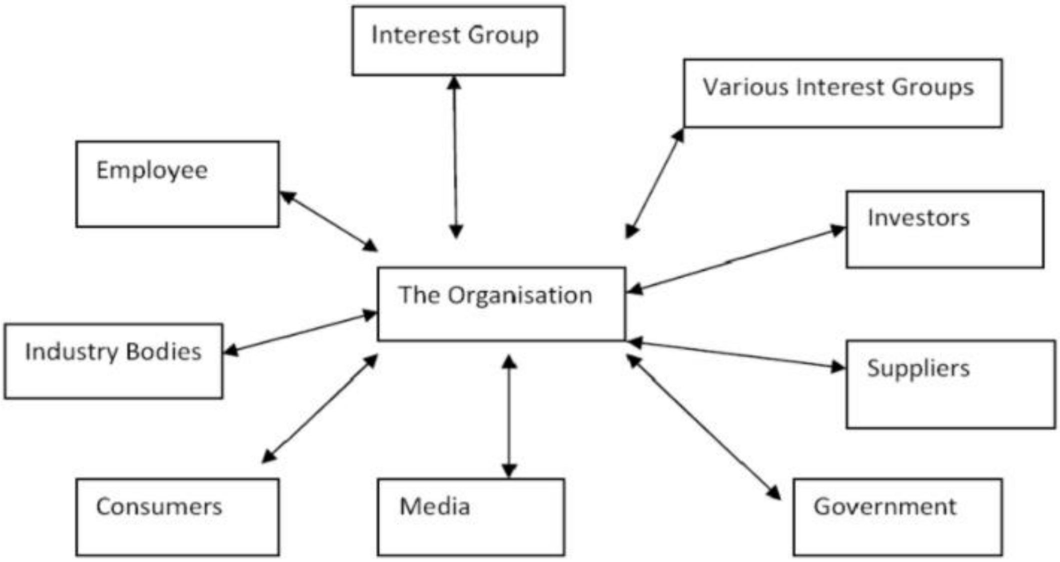

Figure 2.3 The Stakeholders Model
Adapted from Mamun et. al. (2013)

2.1.5 Social Contract Theory

Social Contract Theory refer to every individuals who lives in the society has a series of contract and agreement among society members and society itself (Gray, Owen & Adams, 1996). The study by Donaldson (2001) was about looking at the firm as an individual, who owns social responsibility as well as obligation to the society. It expects the firm who lived and gain benefit from the society could compensate with ethical decision making from managers which refer to support the local community or latter refers to specific form of involvement. Normally, this method from business perspective was through corporate social responsibility (CSR).

2.1.6 Legitimacy Theory

Legitimacy theory assumed that the entity has their own role in the organizations which tied up with voluntary social activity such as fulfil their social contract to enables the recognition of their objectives (Suchman, 1995). Similar to social contract theory, both theories explained the social relationship between the society and business entity. In contrast with profit maximization theory, the legitimacy theory emphasis on the right of the public, not just the goal of investor. If fail to comply with the society expectation, restriction on firm operation as well as boycotting the product could be imposed as punishment

2.2 Rise of Corporate Governance

Background

Most of the organizations in the world experience workplace deviance including Malaysia, especially the Asian financial crisis happened in 1997 warning about the importance of reforming corporate governance in Asian Pacific. Due to the financial crisis, Malaysia Code of Corporate Governance (MCCG) has been introduced as one of the listing requirement on Bursa Malaysia. Although there are no official statistic report show the impact of corporate governance in business but the report on failure management always found in the local newspaper as well as other media sources (Alnasser, 2012). Several of deviance such as poor working attitude, bribery, power abuse, absenteeism and industrial accidents occurred frequently among the Malaysia workplace. Cases and report received by Malaysia Industrial Law Reports from Social Security Organization (SOCSO), the Malaysia Labour Department and the National Institute of Occupational Safety and Health (NIOSH) admitted the existence of deviance (Saidon & Said, 2020).

2.2.1 Implementation of MCCG

After a few more financial failures in corporate governance such as Perwaja Steel Company at mid-1990s causing the reformation and review into the problem of corporate governance in Malaysia which brought the first ever world class committee corporate governance landscape in 1998 (Eng & Mak, 2003). Twelve members of committee represent by various business sector and regulatory communities including securities commission as well as professional bodies were partnered to suggest the new governance practices. Followed by the new code, Malaysian Code of Corporate Governance (MCCG) introduced in 2000, the standard of governance practices assure the relevant information record into the annual report as well as the preventive deviance actions from board and management (Alnasser, 2012).

2.2.2 Moderation of MCCG

Yet, the modify code adopted from Hampel Report in the UK still remain flaw when dealing with multinational countries or global marketplace. Later in 2007, the code had been revised to strengthening the authority for boards of director, audit committee and internal audit function (Haji & Mubaraq, 2015) and further adopt to a new approach of corporate governance with greater internalization culture in 2017 (MCCG, 2017). Currently, the corporate governance provide a framework to allow the company not only achieve own specific goals but also preventing unwanted conflicts.

2.3 Corporate Governance in the construction sector in Malaysia

The beginning of construction sector in Malaysia was connected back to the British Organization who supplied mostly engineers from Britain to build a railway track back in year 1882. The issue arise when a Bumiputera engineering company exposed the conspiracy of Britain's construction company who not willing to transfer technology as they just wanted to sustain a good relationship with government (Lavender, 2014). In addition, with rapid changes in non-resident development such as resort, hotels and malls, required a lot of human capital was not benefit to local contractors. Conflict of interest in the company occurs between all related parties.

Thus, the establishment of corporate governance was found. Governance regulates the relationship between capital owner, company leaders, employees, creditor as well as stakeholder obligation to increase the added value towards society. Even with the improvised version of MCCG, the effectiveness of corporate governance is still conclusive in overall.

2.4 Independent Variables – CG Mechanisms

2.4.1 Variable 1 – CEO Duality

MCCG Blueprint recommended on the separation of individuals as Chief Executive Officer (CEO) role and Chairman for board. This ensure the balance of power and authority in making important decision which benefits towards shareholders as well as firm performance. The argument of whether the separation on power was supported by agency theory which CEO duality easily cause self-interest with those authority given.

From the studied Jermias & Gani (2014), argued that it was important to separate the CEO and chairman roles as the negatively outcome was obtained. The company CEO legally has the right to make decision for business growth but not having control over the shareholders' capital. Further supported by Bhuiyan (2015), significant and negative evidence from CEO duality toward the ROE and ROA as performance measure due to the lack of managerial integrity in director.

For Malaysia case study, Shamsudin, Abdullah & Osman (2018) said that the model with ROE as performance measure has negatively associated with the duality role but the outcome was opposite when the measurement tool changed to Tobin's Q. Nevertheless, the relationship between Tobin's Q and CEO duality was insignificant positive which unsupported by agency theory. The similar outcome was consistent with the study for developing countries by Wijethilake, Ekanayake and Perera (2015).

2.4.2 Variable 2 - Board Structure (Board Size)

Wijethilake, Ekanayake & Perera (2015) said, by maintaining an optimal number of board size could enhance the firm performance. The number of board represent the characteristics of board functionality which combining different ideas in order to pursue with better strategy decision making. But others found that, larger board size has positively impact toward the performance which refer to positively associated between board size and firm performance (Nguyen, Locke & Reddy, 2014). In Jackling & Johl (2009) report, the outcome studied there was a positive and significant relationship between board size and firm performance for Indian listed companies.

In contrast, Dalton, Daily, Johnson, & Ellstrand (1999) disagree with the studies on positive relationship, mentioned that the larger board size are likely to have bureaucratic issue which resulting lack of efficiency in making timely decisions.

Further supported by Sheikh, Wang & Khan (2013), lesser board member encouraged boards actively participated in meeting and mitigate free-rider problem. From Shamsudin, Abdullah & Osman (2018), the result on the model using ROE as dependent variable, showing an insignificant and negative outcome while insignificant and positive outcome for Tobin's Q as dependent. Another outcome from Kumar & Singh (2013) studies, the two models with ROE and ROA results was insignificant but positively impact by board size.

In Malaysia context, the researcher found irrelevant between board size and performance for Malaysian public listed companies after implementation of MCCG 2000. It indicates the changes in corporate governance to improvise the internal system were doubt (Ponnu, 2008). However, from Zabri, Ahmad & Wah (2016), using top 100 public listed companies in Bursa Malaysia as sample, the outcome was weak but significantly and negatively relationship towards ROA aligned with study in 124 construction firm Malaysia by Hussain & Hadi (2017).

2.4.3 Variable 3 - Number of Independent Directors (Audit Committee)

The practice of audit committee was to oversee the financial reporting process, system of internal control as well as audit process to ensure the effectiveness in financial statements before submission to (Governance Model Document of Bursa Malaysia Berhad, 2019).

Klein (2002) suggested that the higher audit board independence enhance the effectiveness in monitoring the financial reporting process which similar result from Adewuyi and Olowookere (2013) who studied on non-financial Nigerian firm. This was due to the existence of independent director able to reduce the influence from inside directors.

Furthermore, the number of independent audit committee reported negatively effect on large firm performance which means the lower the better (Detthamrong, Chancharat & Vithessonthi, 2017). The reason behind was the committee with financial expertise enhance the reporting quality but preferable work in minority.

In Malaysia context, Kallamu & Saat (2015) stated that the firm performance had no relationship with the number of independent director but the factor such as independence, expertise and experiences did which align with Sayyar, Basiruddin, Rasid & Elhabib (2015) studied.

2.4.4 Variable 4 - Number of Independent Directors (Remuneration Committee)

The practice of remuneration committee was to review the annual remuneration policy for board's member including salary increment, performance bonus and total incentive pool for distribution (Governance Model Document of Bursa Malaysia Berhad, 2019).

In case of Australia by Cybinski & Windsor (2013), large firm was more likely to have positive relationship with firm performance with proportion of majority independent in board. Positive relationship supported by Leung, Richardson & Jaggi (2014) with 74% of remuneration committee is independence in Hong Kong firms. This ensures the remuneration process has distinctive monitoring from inside directors.

In Malaysia, the study on firm performance found to be better when the number of independent directors and remuneration increase at the same time (Chua, & Razak, 2018). This was due to the board remuneration and board independence act effectively on governance mechanisms to mitigate agency cost.

2.4.5 Variable 5 - Number of Independent Directors (Nomination Committee)

The nomination committee held the responsible for conducting the nomination process including selection, recommendation and evaluation policies for all board's member (Governance Model Document of Bursa Malaysia Berhad, 2019). Usually, the nomination committee known as governance and nomination committee (GNC) in Malaysia and majority of them was independent directors.

From Leung, Richardson & Jaggi (2014) study, 72% of nomination board are independent directors positively associated with firm performance. But the result was based on 117 out of 487 (24%) listed firm at HKEX since the nomination committee was not a compulsory to establish. Aside from independence, Darmadi (2013) emphasized on the educational qualification of committee was far more important than other variables when explaining the firm performance either in ROA or Tobin's Q.

In Malaysia context, along with the majority number of independence nomination committee may appropriate to enhance firm performance as suggested by Central Bank implied with expertise nomination committee was presence. As Kallamu (2016) reported the number of membership in committee was irrelevant towards the firm performance. And, again the numbers does not matter at all.

2.4.6 Variable 6 - Independent Directors on the Board

From Malaysian enforcement regulator said that the presence of independence director must at least one-third of the board with additional disclosure in the annual report. Since independent director represent the minor shareholder interest, they required to supervise the action of executive directors.

Kim & Lim (2010) emphasis on the significant positive relationship in between independence and firm performance was found supported by Ararat, Aksu & Tansel (2015). Basically, those independent directors serve as the monitoring role rather than "perceived monitoring role" which allows the firm decision was double check and fruitful resulting.

However, the opposite outcome was found from Thailand studied, showing that having independent directors not necessarily improve firm value (Yammeesri & Herath, 2010). The role of independence can possible refer to insufficient knowledge about firm operations and allowing the inside directors to have control on main decision. Furthermore, Naciti (2019) said higher number of independence directors in board resulting lower sustainability performance in her studied consist of 362 firms and 46 different countries.

In Malaysia context, the study from Mohd Ghazali (2010) followed by Fuzi, Halim & Julizaerma (2016) and further supported by Zabri, Ahmad & Wah (2016), reported no relationship between the board independence and firm performance. Either the performance was measure by internal or market based value, the outcome still remain constant. The existences of independent directors are suggested to be monitored to avoid negative impact.

2.4.7 Variable 7 - Gender Diversity (Female Directors on the Board)

In respect with the stakeholder theory, the presence of women director expected to be positively associated with the firm performance. A diverse board is likely to represent a more diverse stakeholder, which lead to better performance. Report from Terjesen, Sealy & Singh (2009) shows the important of women directors in order to improve corporate governance since female consider as high ethical values compared to male. In Malaysia, by appoint women at top management or directors enhance the gender diversity in boardroom.

From Bennouri, Chtioui, Nagati & Nekhili (2018), the studied show a positive relationship between female directorship and firm's accounting performance (ROA and ROE) but negatively impact towards market based performance (Tobin's Q). In 11 European countries, the study from Green & Homroy (2015), found a positive relationship in number of female directors in board was parallel with the firm performance supported by Campbell & Vera (2010) who studied in Spain.

However, the researcher from US, Adam and Ferreira (2009) found that the female board was negatively impact towards the firm performance due to the low director attendance problems.

In Malaysia environment, the presence of female directors was not a concerned for the firm performance by Alazzani, Hassanein & Aljanadi (2017). The diversity culture in Malaysia led the female directors' attention paid on social aspect issues rather than performance dimensions. Although, the association between women and performance so far inconclusive, the presence of gender diversity was proven positively impact to firm's value (Erhardt, Werbel, & Shrader, 2003).

2.5 The control variable

2.5.1 The Control Variable - Firm Size

Haji (2014) said the firm size as control variable show a significant relationship towards firm performance for Malaysia companies with for both before and after the revised of MCCG. With studied from Shamsudin, Abdullah & Osman (2018), firm size was recorded as significant negatively impact towards the firm performance using 218 local firms as sample. The studied outcome parallel with Conheady, Mcllkenny, Opong and Pignatel (2014), evidence that smaller firm size have greater opportunities to grow compared to large size firm.
Notwithstanding, another researcher found that the firm size positively associated with earnings in the cases of Malaysia. In addition, Leng & Mansor (2005) stated also even though the size matter for earnings, there was a limit which too large firm could suffer reduced earnings.

2.6 The Dependent variables – Firm Performance

2.6.1 Dependent Variables - Return on Assets (ROA), Return on Equity (ROE) & Tobin's Q

Most of the studied in previous using return on asset (ROA), return on equity (ROE) and Tobin's Q as proxies to firm performance. Those three indicator often looked as performance measurement with other studies Dalton, Daily, Johnson, & Ellstrand (1999) followed by Adewuyi and Olowookere (2013), and frequently used by market analysts in screening the company overall performance. The study used return on equity to measure financial performance, return on asset to measure operational performance Danoshana & Ravivathani (2019) and Tobin's Q to measure market performance Kiel & Nicholson (2003).

After the implement of new ethic code of conduct, it gave impact towards the limitation in family ownership, board structure, CEO duality, board size, independent board of directors, qualifications, board meetings, remunerations as well as company disclosure as mentioned by Alnasser (2012).

2.7 Conceptual Framework

From the findings from literature, we found that there were conflicting and inconsistent

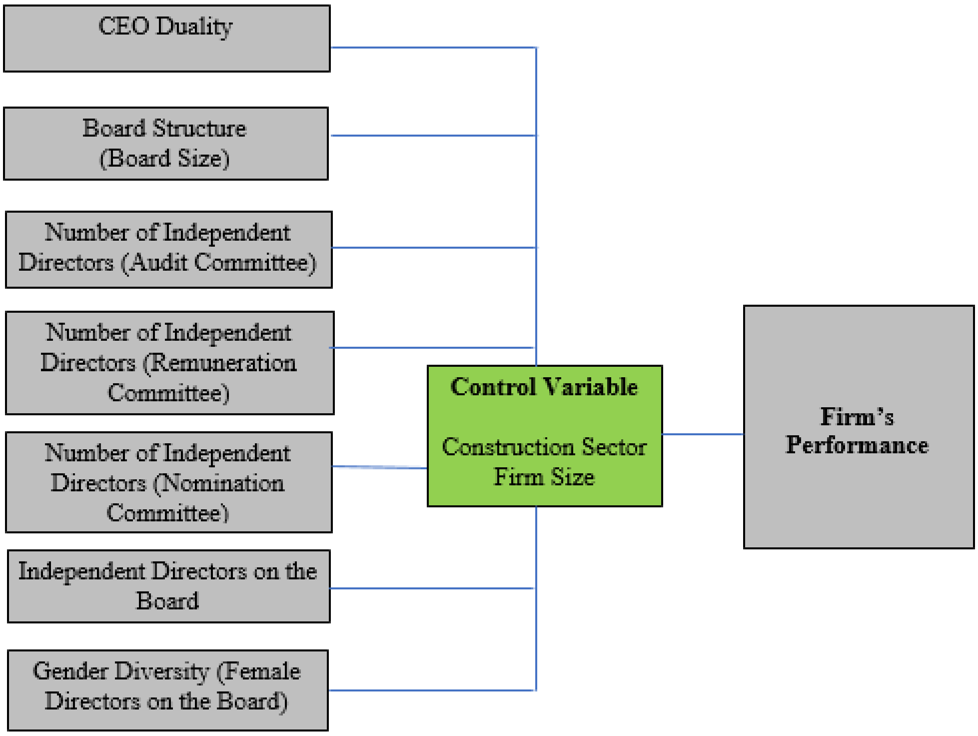

Figure 2.1: Framework Developed for Research

2.8 Development of Hypothesis

The following hypothesis are generated to conduct findings at later chapter.

	Hypothesis 1

H0	There is significant relationship between CEO Duality and firm performance.
H1	There is no significant relationship between CEO Duality and firm performance.
	Hypothesis 2
H0	There is significant relationship between Board Structure (Board Size) and firm performance.
H1	There is no significant relationship between Board Structure (Board Size and firm performance.
	Hypothesis 3
H0	There is significant relationship between numbers of Independent Directors (Audit Committee) and firm performance.
H1	There is no significant relationship between numbers of Independent Directors (Audit Committee) and firm performance.
	Hypothesis 4
H0	There is significant relationship between numbers of Independent Directors (Remuneration Committee) and firm performance.
H1	There is no significant relationship between numbers of Independent Directors (Remuneration Committee) and firm performance.
	Hypothesis 5
H0	There is significant relationship between numbers of Independent Directors (Nomination Committee) and firm performance.
H1	There is no significant relationship between numbers of Independent Directors (Nomination Committee) and firm performance.
	Hypothesis 6

H0	There is significant relationship between numbers of Independent Directors on Board and firm performance.
H1	There is no significant relationship between numbers of Independent Directors on Board and firm performance.
	Hypothesis 7
H0	There is significant relationship between Gender Diversity (Female Directors on Board) and firm performance.
H1	There is no significant relationship between Gender Diversity (Female Directors on Board) and firm performance.
	Hypothesis 8
H0	There is significant relationship between Firm Size and firm performance.
H1	There is no significant relationship between Firm Size and firm performance.

Table 2.1: Development of Hypothesis

2.9 Summary

From the literature findings, there were conflicting results from different researcher hence the relationship between various corporate governance mechanism and firm performance results inconsistency cannot be eliminated. Although among majority of the literature comes with certain consistency on the theory support. The literature of corporate governance to firm performance is not leading to a firm conclusion, hence more study are required in future especially after the revision of each MCCG codes.

`CHAPTER 3

DATA METHODOLOGY

3.1 Introduction

This chapter carry out the analysis aims to analyse the effects of corporate governance on firm performance of Malaysian construction public companies from 2012 to 2019. In particular, to examine the independent variables of CEO Duality, Board Structure, (Board Size), Audit Committee, Remuneration Committee, Nomination Committee, Independent Directors of Board and Gender Diversity (Female Directors). Therefore, this section is intended to provide a description of the data used in this study. Data sources are clarified first and secondly the sample determination method is described. In addition, it is specified which measures have been taken to develop the data. The factors used in this analysis are isolated into three classifications (firm performance, corporate governance mechanisms, and firm size). The data source and the development of variables are clarified. The sequence begin with Research Design, Sampled Used, Data Collection Method, Definition of Variables, Data Analysis and summary.

3.2 Research Design

Punch (1998) recognized the importance of developing the right approach to study on research issues. Researchers around the world have used two types of research methods, specifically quantitative and qualitative. The qualitative represents an informative, non-numerical treatment of the data collection to understand the miracle (Berg, 2004). On the other hand, Hussey and Hussey (2009), Bryman (2012) and Berg (2004) suggest that quantitative methods use different types of factual research and provide more informed estimates, unshakable quality and recoverability. In addition, Berg (2004) focuses on the fact that quantitative techniques can handle longer maturities with an abundance of evidence encouraging pushing the speculative limit.

Some analysts are consolidating the two techniques for better results and clarification. However, the qualitative method has several problems. Use first and choose a small sample that does not appeal to the entire population (Hakim, 1987). To achieve this impartiality, panel regressions were used as the main research tool in this analysis. Haar et al. (2009) state that "when the research topic involves a single scale variable, the appropriate technique for research should be identified with at least two independent variables. In this way, the different regression analyses were chosen as the basic research instrument in this study. Numerous regression models are perhaps the most widely used analytical techniques used by previous researchers like (Anderson and Reeb, 2003; Claessens et al., 2006). In this study, data collected from Annual Report and Bloomberg being used to determine the Corporate Governance variables to firm performance for the period of 2012 to 2019.

3.3 Sample Used

This research concerns Malaysian public construction organizations listed on BURSA Malaysia, where the complete data was collected for the period 2012 to 2019. The summary of the construction organizations listed on BURSA Malaysia has been downloaded directly from the official BURSA Malaysia website. However, the data for constructing the company structure has been physically collected from companies' annual reports. According to Fraser et al. (2006) commented that the organization's annual reports are more precise than other optional source of data.

On top, the report showing the data based on annual reports manifest an undeniable degree of reliability and quality. To eliminate mistakes when duplicating data in the annual reports, the researcher looks at two paragraphs. The two databases provided an overview of the financial reporting, key figures, and number of board members and committees' members of the assessing organizations. The entire population of construction organizations listed on BURSA Malaysia consists of 51 organizations, however only 44 companies are left with valid data and taken for this study.

S/N	BURSA CODE	Date	Year	Period	Company
1	7078	28-May	2012	Presence	AHMAD ZAKI RESOURCES BERHAD
2	**7070**	6-Jun	2012	2015	ASTRAL SUPREME BERHAD
2	**7070**	30-Sep	2016	Presence	VIZIONE HOLDINGS BERHAD
3	5190	27-Nov	2012	Presence	BENALEC HOLDINGS BERHAD
4	5932	23-May	2012	Presence	BINA PURI HOLDINGS BHD
5	8761	5-Sep	2012	Presence	BREM HOLDING BERHAD
6	8951	28-May	2012	Presence	CREST BUILDER HOLDINGS BERHAD
7	7528	27-Apr	2012	Presence	DKLS INDUSTRIES BHD
8	8877	30-Nov	2012	Presence	EKOVEST BERHAD
9	5205	25-May	2012	Presence	EVERSENDAI CORPORATION BERHAD
10	7047	19-Oct	2012	Presence	FAJARBARU BUILDER GROUP BHD
11	**7161**	21-May	2012	2015	FUTUTECH BERHAD
11	**7161**	28-Apr	2016	Presence	KERJAYA PROSPEK GROUP BERHAD
12	5226	6-Jun	2013	Presence	GABUNGAN AQRS BERHAD
13	9261	30-Oct	2012	Presence	GADANG HOLDINGS BHD
14	5398	8-Nov	2012	Presence	GAMUDA BERHAD
15	3204	26-Jun	2012	Presence	GEORGE KENT (MALAYSIA) BERHAD
16	5169	18-May	2012	Presence	HO HUP CONSTRUCTION COMPANY BHD
17	6238	26-Apr	2012	Presence	HOCK SENG LEE BERHAD
18	3336	30-Jul	2012	Presence	IJM CORPORATION BERHAD

19	8834	4-Sep	2012	Presence	IREKA CORPORATION BERHAD
20	4723	26-Mar	2012	Presence	JAKS RESOURCES BERHAD
21	5171	25-May	2012	Presence	KIMLUN CORPORATION BERHAD
22	**3565**	25-Jun	2012	2016	KUMPULAN EUROPLUS BERHAD
22	**3565**	28-Jul	2017	Presence	WCE HOLDINGS BERHAD
23	9628	30-May	2012	Presence	LEBTECH BERHAD
24	5129	3-Feb	2012	Presence	MELATI EHSAN HOLDINGS BERHAD
25	8192	28-May	2012	Presence	MERCURY INDUSTRIES BERHAD
26	**5006**	6-Jun	2012	2018	MERGE ENERGY BHD
26	**5006**	26-Aug	2019	Presence	STELLA HOLDINGS BERHAD
27	9571	16-May	2012	Presence	MITRAJAYA HOLDINGS BERHAD
28	5924	5-Sep	2012	Presence	MTD ACPI ENGINEERING BERHAD
29	5085	25-May	2012	Presence	MUDAJAYA GROUP BERHAD
30	5703	6-Jun	2012	Presence	MUHIBBAH ENGINEERING (M) BHD
31	8311	23-May	2013	Presence	PESONA METRO HOLDINGS BERHAD
32	9598	21-Sep	2012	Presence	PINTARAS JAYA BHD
33	**7145**	2-May	2012	2019	PRINSIPTEK CORPORATION BERHAD
33	**7145**	27-Oct	2020	Presence	Ageson Berhad
34	5070	28-May	2012	Presence	PROTASCO BERHAD
35	6807	4-Jun	2012	Presence	PUNCAK NIAGA HOLDINGS BERHAD
36	9717	7-Jun	2012	Presence	SYCAL VENTURES BERHAD
37	**7071**	27-Nov	2012	2014	TAKASO RESOURCES BERHAD
37	**7071**	25-Nov	2015	2017	O&C RESOURCES BERHAD
37	**7071**	30-Apr	2019	Presence	OCR GROUP BERHAD
38	5054	5-Jun	2012	Presence	TRC SYNERGY BERHAD
39	**5622**	5-Nov	2012	2017	TRIPLC BERHAD
39	**5622**	30-Apr	2019	Presence	PIMPINAN EHSAN BERHAD
40	5042	7-Jun	2012	Presence	TSR CAPITAL BERHAD
41	**7595**	30-May	2012	2014	VTI VINTAGE BERHAD
41	**7595**	5-May	2015	2017	ML GLOBAL BERHAD
41	**7595**	27-Apr	2018	Presence	MGB BERHAD

42	9679	23-Apr	2012	Presence	WCT HOLDINGS BERHAD
43	7028	30-May	2012	Presence	ZECON BERHAD
44	2283	30-Aug	2012	Presence	ZELAN BERHAD

Table 3.1: List of valid companies

44 of the 51 organizations were used in the analysis. These were selected based on the firm criteria that no organizations was sold knowingly or through compromise, and no organizations won or merged with another organization.

3.4 Data Collection Method

Data collection is crucial in the research process to achieve credible results. Untrustworthy data could lead to invalid results as stated by Graziano and Rawlin (as cited in Lancaster, 2009). The data collected is known as secondary data which is collected previously by first researcher in the similar topic.

Various sources of data collected from electronics platform like BURSA, Malaysia, Bloomberg, Google Scholar and e-databases. Apart, companies' annual reports are fully utilised. In addition, journal articles were used.

There are various reasons to select data secondary for this research due to time constraint, geographical constraint and having reliable data which can be extract and downloaded from credible source like Bursa Malaysia, Bloomberg, UTAR e-database, Google Scholar etc.

Upon completion of data will then transfer to a single spreadsheet pending for all variables to be analyse via Eviews version 11 where panel data regression will then be conducted.

3.5 Definition of selected Variables

The following tables sort out all the selected variables which consists of independent, control and dependent accordingly.

Table 3.2: List of Independent Variables

Independent Variables (IVs)	Representation	Citation
CEO Duality	Binary where; 0 means CEO Duality presence; 1 means CEO Duality absence	Jermias & Gani (2014)
Board Structure (Board Size)	Number of board members	Wijethilake, Ekanayake & Perera (2015)
Independent Directors (Audit Committee)	Number of Independent Audit Committee	Adewuyi and Olowookere (2013)
Independent Directors (Remuneration Committee)	Number of Independent Remuneration Committee	Cybinski & Windsor (2013)
Independent Directors (Nomination Committee)	Number of Independent Nomination Committee	Leung, Richardson & Jaggi (2014)
Independent Directors on Board	Number of Independent Directors in the board	Ararat, Aksu & Tansel (2015)
Gender Diversity	Number of Female Directors in the board	Bennouri, Chtioui, Nagati & Nekhili (2018)

Table 3.3: List of Dependent Variables

ROA – Return of Total Assets	‘= Net Income / Total Assets	Adewuyi and Olowookere (2013)
ROE – Return of Equity	‘= Net Income / Total Equity	Danoshana & Ravivathani (2019)

TOBIN’S Q	‘= Market Capitalization /Year end book value of total assets	Kiel & Nicholson (2003).

Table 3.4: List of Control Variables

Firm Size	Measured by total assets, total sales and market value of equity	Haji (2014)

3.5.1 Performance Variables

In general, different estimates have been used to monitor business results through different analyses (Ittner and Larcker, 2003). Most of the researcher analyse towards firm performance in majority are using a range of economic measures, such as Tobins Q (Kiel and Nicholson, 2003), on ROA (Yermack, 1996; Zajac and Westphal, 1996). ; Schrader et al., 1997; Kiel and Nicholson, 2003), on ROE (Bhagat et al., 1999; Adjaoud et al., 2007), ROI (Boyd, 1995; Adjaoud et al., 2007) and total net income (Bauer et al., 2004). From the measurements above, it could be divided to two sessions, namely accounting and market-oriented goals. According to Daily and Dalton (2003) suggested on the accounting measures which are taken into account the latest financial data on performance from the organization. Apart from that, market-based measures take into account shareholder impressions of the expected results of the organization. Each meeting was analysed with different researchers. According to Haniffa and Hudaib (2006) argue that there is never a proven agreement found across the literature to be the best economic performance indicator. On top, as reported for each action come with its own qualities and also shortcomings. As such, there aren’t any givng benchmarks towards being the best broker for financial performance. In terms of accounting profit, ROA has been delegated by Demsetz and Lehn (1985) more from the base commercial boundaries in terms of annual fluctuations than from the return on the exchange of securities, stating that the latter is smarter than expected future improvements as opposed to real terms.

This idea became widespread through corporate governance plans (Haniffa and Hudaib, 2006; Klapper and Love, 2004). Authentic reports, such as accounting procedures are the most comprehensive markers of the current state of business results. Market-based business metrics are particularly risky when it comes to developing companies, where majority of the companies are represented by debt financing rather than equity financing. Therefore, market-based measures in this unique situation are not representative of the true shareholder benefit (Kumar, 2004). The companies' share of the total costs in the sector reflects their fair value, provided that the capital market is competent as characterized by the efficient market. As Malaysia is one of the emerging economies, the stock market has yet to be established yet. For example, after a period of inactivity, the effects of freely published of company data have an impact on the market, which is reflected in the storage costs. Financial performance depends on credible internal control nonetheless, market outlay is dependent on fluctuations in management's external control capacity, changes in market values and declining inventories (Hambrick and Finkelstein, 1995; Grossman and Hoskisson, 1998).

According to Dunkel et al. (2006a) commented on the value of corporate governance is conclude distinctively by insiders and marginalized people. For instance, accounting-based key performance indicators of ROA and ROE relating to managing the abundance of corporate governance factors from the internal perspective of the organization and the board. However, market initiatives, such as Tobins Q, relate to shareholders' marginalized financial assessment of corporate governance. Further to Wulf (2007) points out that the estimate is directly related to the company's strategies and results. 80% of studies that distinguished between significant factors influencing business performance used ROE and ROA as primary factors. In addition, several tests conducted by Carter et al. (2003) and Erhardt et al. (2003) utilising ROA and ROE to measure the impact of corporate governance on business accomplishment.

3.5.2 Control Variables

Along with the foregoing factors, the control factors have become familiar with clarifying the company's performance. Several analyses by researcher used characteristic control factors (Shin and Stulz, 2000; Daines, 2001 and Gompers et al., 2003). As shown in Table 2.1 Framework Developed for Research, an overview is given of the control factors used in this study for firm size. The researcher acknowledges that, this can be challenged that there could be some other relevant factors. Referring to the available literature, there isn't any specific recipe on the control factors. For instant, after various analyses, it is customary to include the above as control factor.

3.5.3 Firm size (Dependent Variable)

Several researcher report a questionable association between firm size and firm performance (Nenova, 2003; Durnev and Kim, 2005). Further finding from Short and Keasey (1999) and Joh (2003) disagree that the largest firms preferred independence to the more modest ones in order to build and create internal reserves and acquire external assets. Similarly, larger companies can take advantage of economies of scale by implementing section barriers with a constructive outcome for the company's performance. Notwithstanding that, Jensen (1986) suggests that company size can then be utilise as an intermediary in the agency issue. He reports that directors are inspired to expand the size of the company beyond the target that will show greater strength when the measurement of assets under their influence is greater. As agreed by Fama and Jensen (1983) and Boone et al. (2007), comment that in the event that the firm grows, it appears that the firm gets better. This is also means that more is able to clarify the extent of complexity of the organization. In addition, it means that companies in bigger scale would need more advice on the board.

In addition, larger companies engage in complex activities to more productively search for organizational methods. Further to research done by Serrasqueiro and Nunes (2008), prescribe larger companies for profitability. This is because large companies have greater independence to achieve more enhanced assets and strategies. In addition, it has a large number of domain directors. According to Donker et al. (2006b), show that the size of the company has a decisive influence on the results of the company. On the other hand, several researchers reported that large companies rely on more assessments and research (Nenova, 2003; Agrawal and Knoeber, 1996). Therefore, it may be exaggerated to control families to obtain personal benefits (Nenova, 2003). According to Agrawal and Knoeber (1996) details, a rejected correlation between firm size and firm performance. They proclaim on those larger scale companies are unlikely to be as proficient compared to the smaller companies because of the reduced control of the board of directors over key and operational years as the size of the company increases. In accordance to Garen (1994) commented on the costs of practising corporate governance code principals would be much lower for larger organizations. Either way, these costs increase when organizations rely on public media scrutiny. This is based on the fact that they will undeniably be subject to median analysis than the more modest organizations (Yarn, 1994).

3.5.4 Board Size (Independent Variable)

The results of observations from previous analyses have been mixed when it comes to the relationship between board size and company performance. According to Hermalin and Weisbach, (1998) and Yermack, (1996), research discover strong proof from an organizational cost perspective, that small sheets are associated with better business outcomes. The above analyses claim that as board size increases, there are more coordination and correspondence issues that reduce board members' ability to assess board behaviour, increasing agency inquiries and decreasing business performance. With that in mind, large sheets of paper reduce screen capacity and board control by giving drivers the space to seek their own advantages over those of drivers. Long vacation days are ought to be withheld by the CEO instead of the board of directors who oversee management, negatively impacting the company's performance. However, according to Hillman and Dalziel, (2003) and Lehn et al., (2009), show in which wide spreads are in line with the resource dependency theory perspective, reducing performance of the firm because of improving links to external assets (Hillman and Dalziel, 2003).

3.5.5 CEO Duality (Independent Variable)

According to researchers from such agencies as Jensen and Meckling (1976), and Eisenhardt (1989) fought towards the sharing of proprietorship and dominance to minimise organizational challenges and enhance business performance. Agency theory weigh in the idea of separating CEO and Chairman by extending on board independence, which theoretically should improve the achievement and better corporate performance through better verification and regulation (Jensen, 1993). Nevertheless, management theory stands in the way of division because it is based on duality. According to the stewardship theory, successful governance depends on the principle of solidarity, because when obligations and decisions are confined to one person, a more sustainable performance is achieved, which in turn has a decisive influence on the company's results Dalton and Kesner, (1987); Donaldson and Daives, (1991); Arosa et al., 2013). In addition, Brickley et al. (1997) established that the variable CEO duality will eliminated the chain of command and reduce inappropriate correspondence between the manager and CEO and further reducing irregularities and dynamic shocks.

3.5.6 All Non-executive directors (Independent Variables)

As Fama and Jensen (1983), show the board are usually overwhelmed by internal leaders, whose performance improves when they can make decisions and exert the most control, but under aggressive conditions, such internal leaders are likely due to the lack of separation decisions. Control and decision-making. This argues in favor of the presence of Non-Executive Directors (NED) to guarantee the independence of the Board of Directors by apparently isolating the control and tasks of the Board of Directors. In addition, NEDs can intervene in internal administrative disputes and improve the relationship between internal governance and various partners. On this line, the NEDs are better able to complete the observation capacity than the CEOs.

3.6 Data Analysis

This study applying the panel data regression analysis method to examine the list of variables to firm performance with firm size as the controlling variable. According to Gujarati (2003), there are huge benefits in using panel data with combination on time management and cross-sectional data that provide greater variation, flexibility and more effective.

To ensure the best suitable model between fixed and random, Hausman test was conducted to identify the most appropriate models between fixed-effects model and random-effects model. The research findings to answer all the ready hypotheses will be in accordance to the corporate governance variables overcome using Panel Least Square method.

3.7 Summary

This chapter describes the procedure, sequence and process to carry out this research. This study will be applying panel least square method and Hausman Test to determine whether the independent variables is significant or not significant to the three dependent variables namely ROA, ROE and TOBIN'S Q. The results will be display in the subsequent chapter. The sequence of this chapter consists of

Research Design, Sample Used, Data Collection Method, Definition of Variables and Data Analysis.

CHAPTER 4

RESEARCH RESULTS

4.1 Introduction

In this chapter, the characteristic measurements of the data are used to analyse the outcome of the results by applying Eviews Version 11 regression analysis software. At the same time resolving all research questions illustrated in the earlier chapter.

The secondary data collected from this study will be branching out into three sections. Begin with descriptive statistic on the variables selected namely Return on Asset (ROA), Return on Equity (ROE), Tobin's Q, CEO Duality, Board Structure (Board Size), Independent Directors (Audit Committee), Independent Directors (Remuneration Committee), Independent Directors (Nomination Committee), Independent Directors on Board, Gender Diversity (Female Directors on Board) and Firm Size (Total Asset).

The panel regression analysis produced by Eviews will interpret the results findings.

4.2 Eviews Panel Regression Results

Panel Data Regression formed by the combination of cross section data together with time series, where the same unit cross section is measured at different times. In this study, the total panel observations unit was 312 make-up of 8 periods multiply by 39 cross-sections. Unlike others regression, panel data regression require to identify the right models to apply either fixed effect model or random effect model. To obtain the right model, Hausman test was applied. Hausman test is a statistical test to select the most appropriate model to use depending on the Prob (F-statistic) results. Select random effect model if $p>0.05$. On the other hand, if the results generated where $p<0.05$, then random effect should be selected. The results generated on ROA with fixed effect model achieved $p<0.05$. Therefore, fixed effect model is the right model.

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Figure 4.1: Test results on ROA (Fixed Effect Model)

Dependent Variable: ROA RETURN OF ASSET
Method: Panel Least Squares
Date: 05/19/21 Time: 20:02
Sample: 2012 2019
Periods included: 8
Cross-sections included: 39
Total panel (balanced) observations: 312

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOARD STRUCTURE BOARD SIZE	0.591094	0.282153	2.094944	0.0371
FIRM SIZE TOTAL ASSET RM MIL	-9.45E-05	0.000221	-0.427311	0.6695
GENDER DIVERSITY FEMALE DIR...	-9.244633	4.924720	-1.877190	0.0616
INDEPENDENT DIRECTORS AUDIT...	4.475533	4.121249	1.085965	0.2785
INDEPENDENT DIRECTORS NOMI...	-2.781424	3.038189	-0.915488	0.3608
INDEPENDENT DIRECTORS ON B...	5.205866	4.081939	1.275342	0.2033
INDEPENDENT DIRECTORS REMU...	-6.581075	2.641289	-2.491615	0.0133
C	0.402300	4.419765	0.091023	0.9275

Effects Specification

Cross-section fixed (dummy variables)

Root MSE	4.112256	R-squared	0.465551
Mean dependent var	2.852917	Adjusted R-squared	0.375136
S.D. dependent var	5.634092	S.E. of regression	4.453656
Akaike info criterion	5.960693	Sum squared resid	5276.124
Schwarz criterion	6.512546	Log likelihood	-883.8680
Hannan-Quinn criter.	6.181251	F-statistic	5.149076
Durbin-Watson stat	1.687592	Prob(F-statistic)	0.000000

Variables with P-value < 0.05, which is significant to ROA (Firm Performance).

1 Board Structure (Board Size)

2 Independent Directors (Remuneration Committee

Figure 4.2: Test results on ROA (Random Effect Model)

Dependent Variable: ROA RETURN OF ASSET
Method: Panel EGLS (Cross-section random effects)
Date: 05/19/21 Time: 20:05
Sample: 2012 2019
Periods included: 8
Cross-sections included: 39
Total panel (balanced) observations: 312
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOARD STRUCTURE BOARD SIZE	0.382387	0.235916	1.620860	0.1061
FIRM SIZE TOTAL ASSET RM MIL	-0.000105	0.000135	-0.777697	0.4374
GENDER DIVERSITY FEMALE DIR...	-3.314581	4.015013	-0.825547	0.4097
INDEPENDENT DIRECTORS AUDIT...	5.183893	3.730268	1.389684	0.1656
INDEPENDENT DIRECTORS NOMI...	-3.051985	2.833234	-1.077209	0.2822
INDEPENDENT DIRECTORS ON B...	2.211864	3.094955	0.714668	0.4754
INDEPENDENT DIRECTORS REMU...	-2.001144	2.259235	-0.885762	0.3764
C	-1.095460	3.791912	-0.288894	0.7729

Effects Specification

	S.D.	Rho
Cross-section random	3.211351	0.3421
Idiosyncratic random	4.453656	0.6579

Weighted Statistics

Root MSE	4.492805	R-squared	0.021008
Mean dependent var	1.255998	Adjusted R-squared	-0.001535
S.D. dependent var	4.548048	S.E. of regression	4.551537
Sum squared resid	6297.812	F-statistic	0.931913
Durbin-Watson stat	1.429492	Prob(F-statistic)	0.481919

Unweighted Statistics

R-squared	-0.023122	Mean dependent var	2.852917
Sum squared resid	10100.34	Durbin-Watson stat	0.891324

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	20.509243	7	0.0046

The results generated on ROA with random effect model achieved p<0.05. Therefore, fixed effect model is the right model.

Figure 4.3: Test results on ROE (Fixed Effect Model)

Method: Panel Least Squares
Date: 05/19/21 Time: 20:07
Sample: 2012 2019
Periods included: 8
Cross-sections included: 39
Total panel (balanced) observations: 312

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOARD_STRUCTURE__BOARD_SIZE	0.364231	0.857242	0.424887	0.6713
FIRM_SIZE__TOTAL_ASSET__RM__MIL	0.001563	0.000672	2.327151	0.0207
GENDER_DIVERSITY__FEMALE_DIR...	-19.11357	14.96240	-1.277440	0.2026
INDEPENDENT_DIRECTORS__AUDIT...	9.633137	12.52128	0.769341	0.4424
INDEPENDENT_DIRECTORS__NOMI...	-1.482271	9.230696	-0.160581	0.8725
INDEPENDENT_DIRECTORS_ON_B...	-3.696143	12.40184	-0.298032	0.7659
INDEPENDENT_DIRECTORS__REMU...	-12.40572	8.024826	-1.545918	0.1233
C	5.709753	13.42823	0.425205	0.6710

Effects Specification

Cross-section fixed (dummy variables)

Root MSE	12.49395	R-squared	0.334346
Mean dependent var	5.614253	Adjusted R-squared	0.221736
S.D. dependent var	15.33815	S.E. of regression	13.53120
Akaike info criterion	8.183239	Sum squared resid	48702.86
Schwarz criterion	8.735092	Log likelihood	-1230.585
Hannan-Quinn criter.	8.403798	F-statistic	2.969050
Durbin-Watson stat	1.791118	Prob(F-statistic)	0.000000

The results generated on ROE with fixed effect model achieved p<0.05. Therefore, fixed effect model is the right model.

<u>Variables with P-value < 0.05, which is significant to ROE (Firm Performance).</u>

1 Firm Size

Figure 4.4: Test results on ROE (Random Effect Model)

Method: Panel EGLS (Cross-section random effects)
Date: 05/19/21 Time: 20:08
Sample: 2012 2019
Periods included: 8
Cross-sections included: 39
Total panel (balanced) observations: 312
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOARD_STRUCTURE__BOARD_SIZE_	0.072493	0.663004	0.109340	0.9130
FIRM_SIZE__TOTAL_ASSET__RM__MIL	0.000482	0.000353	1.366127	0.1729
GENDER_DIVERSITY__FEMALE_DIR...	-2.053778	11.13669	-0.184415	0.8538
INDEPENDENT_DIRECTORS__AUDIT...	15.64273	10.79673	1.448840	0.1484
INDEPENDENT_DIRECTORS__NOMI...	-2.433740	8.312326	-0.292787	0.7699
INDEPENDENT_DIRECTORS_ON_B...	-2.714576	8.368345	-0.324386	0.7459
INDEPENDENT_DIRECTORS__REMU...	-2.946109	6.369685	-0.462520	0.6440
C	-4.525497	10.65570	-0.424702	0.6714

Effects Specification		S.D.	Rho
Cross-section random		6.993456	0.2108
Idiosyncratic random		13.53120	0.7892

Weighted Statistics			
Root MSE	13.50993	R-squared	0.016314
Mean dependent var	3.169830	Adjusted R-squared	-0.006337
S.D. dependent var	13.64338	S.E. of regression	13.68653
Sum squared resid	56945.64	F-statistic	0.720249
Durbin-Watson stat	1.550319	Prob(F-statistic)	0.654916

Unweighted Statistics			
R-squared	0.012957	Mean dependent var	5.614253
Sum squared resid	72217.44	Durbin-Watson stat	1.222474

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	14.019553	7	0.0508

The results generated on ROE with random effect model achieved $p<0.05$. Therefore, fixed effect model is the right model.

Figure 4.5: Test results on Tobin’s Q (Fixed Effect Model)

Dependent Variable: TOBIN S Q Q RATIO
Method: Panel Least Squares
Date: 05/19/21 Time: 20:09
Sample: 2012 2019
Periods included: 8
Cross-sections included: 39
Total panel (balanced) observations: 312

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOARD STRUCTURE BOARD SIZE	-0.039303	0.024931	-1.576465	0.1161
FIRM SIZE TOTAL ASSET RM MIL	-2.53E-05	1.95E-05	-1.294200	0.1967
GENDER DIVERSITY FEMALE DIR...	-0.889696	0.435147	-2.044590	0.0419
INDEPENDENT DIRECTORS AUDIT...	0.412716	0.364152	1.133361	0.2581
INDEPENDENT DIRECTORS NOMI...	0.290715	0.268453	1.082926	0.2798
INDEPENDENT DIRECTORS ON B...	0.134750	0.360679	0.373601	0.7090
INDEPENDENT DIRECTORS REMU...	-0.139097	0.233383	-0.596004	0.5517
C	0.790375	0.390529	2.023857	0.0440

Effects Specification

Cross-section fixed (dummy variables)

Root MSE	0.363358	R-squared	0.376061
Mean dependent var	0.992500	Adjusted R-squared	0.270508
S.D. dependent var	0.460745	S.E. of regression	0.393523
Akaike info criterion	1.108013	Sum squared resid	41.19296
Schwarz criterion	1.659866	Log likelihood	-126.8500
Hannan-Quinn criter.	1.328572	F-statistic	3.562755
Durbin-Watson stat	1.232530	Prob(F-statistic)	0.000000

The results generated on Tobin’s Q with fixed effect model achieved $p<0.05$. Therefore, fixed effect model is the right model.

Variables with P-value < 0.05, which is significant to TOBIN’S Q (Firm Performance).

1. Gender Diversity (Female Directors on Board)

Figure 4.6: Test results on Tobin's Q (Random Effect Model)

Dependent Variable: TOBIN S Q Q RATIO
Method: Panel EGLS (Cross-section random effects)
Date: 05/19/21 Time: 20:09
Sample: 2012 2019
Periods included: 8
Cross-sections included: 39
Total panel (balanced) observations: 312
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOARD STRUCTURE BOARD SIZE	-0.012320	0.019892	-0.619351	0.5361
FIRM SIZE TOTAL ASSET RM MIL	3.19E-07	1.09E-05	0.029407	0.9766
GENDER DIVERSITY FEMALE DIR...	-0.757711	0.335834	-2.256208	0.0248
INDEPENDENT DIRECTORS AUDIT...	0.190845	0.320229	0.595965	0.5516
INDEPENDENT DIRECTORS NOMI...	0.124231	0.245209	0.506631	0.6128
INDEPENDENT DIRECTORS ON B...	-0.015237	0.254771	-0.059808	0.9523
INDEPENDENT DIRECTORS REMU...	0.139704	0.190892	0.731847	0.4648
C	0.749986	0.319624	2.346464	0.0196

Effects Specification			S.D.	Rho
Cross-section random			0.231209	0.2566
Idiosyncratic random			0.393523	0.7434

Weighted Statistics			
Root MSE	0.393432	R-squared	0.029305
Mean dependent var	0.511736	Adjusted R-squared	0.006954
S.D. dependent var	0.399969	S.E. of regression	0.398575
Sum squared resid	48.29417	F-statistic	1.311106
Durbin-Watson stat	1.042935	Prob(F-statistic)	0.244440

Unweighted Statistics			
R-squared	0.009135	Mean dependent var	0.992500
Sum squared resid	65.41774	Durbin-Watson stat	0.769939

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	14.855477	7	0.0379

The results generated on Tobin’s Q with random effect model achieved $p<0.05$. Therefore, fixed effect model is the right model.

Based on the above results, to apply alternative Hausman test to determine fixed effect model is the most appropriate.

Table 4.1: ROA, ROE, TOBIN’S Q on Hausman Test

Test Summary (Hausmann test)	ROA	ROE	TOBIN’S Q
Chi-Sq Statistic	20.50	14.01	14.85
Chi-Sq.d.f	7	7	7
Prob.	0.004	0.05	0.03

The above Prob. Results shown does not goes greater than $p>0.05$. Therefore, fixed effect model is more appropriate.

Upon assigned fixed effect model, the results of each individual variable p-value was produced. Below is the table to illustrate both significant and not significant independent to all three dependent variables which is ROA, ROE and TOBIN’S Q.

Table 4.2: List of Hypotheses Results (ROA, ROE, TOBIN’S Q)

Hypotheses	Significant ($p<0.05$)	Not Significant ($p>0.05$)
ROA		
H0: CEO Duality is significant to Firm Performance		yes

H0: Board Structure (Board Size) is significant to Firm Performance	yes	
H0: Numbers of Independent Directors (Audit Committee) is significant to Firm Performance		yes
H0: Numbers of Independent Directors (Remuneration Committee) is significant to Firm Performance	yes	
H0: Numbers of Independent Directors (Nomination Committee) is significant to Firm Performance		yes
H0: Numbers of Independent Directors on Board is significant to Firm Performance		yes
H0: Gender Diversity (Female Directors on Board) is significant to Firm Performance		yes
H0: Firm Size is significant to Firm Performance		yes
ROE		
H0: CEO Duality is significant to Firm Performance		yes
H0: Board Structure (Board Size) is significant to Firm Performance		yes
H0: Numbers of Independent Directors (Audit Committee) is significant to Firm Performance		yes

H0: Numbers of Independent Directors (Remuneration Committee) is significant to Firm Performance		yes
H0: Numbers of Independent Directors (Nomination Committee) is significant to Firm Performance		yes
H0: Numbers of Independent Directors on Board is significant to Firm Performance		yes
H0: Gender Diversity (Female Directors on Board) is significant to Firm Performance		yes
H0: Firm Size is significant to Firm Performance	yes	
TOBIN'S Q		
H0: CEO Duality is significant to Firm Performance		yes
H0: Board Structure (Board Size) is significant to Firm Performance		yes
H0: Numbers of Independent Directors (Audit Committee) is significant to Firm Performance		yes
H0: Numbers of Independent Directors (Remuneration Committee) is significant to Firm Performance		yes
H0: Numbers of Independent Directors (Nomination Committee) is significant to Firm Performance		yes

H0: Numbers of Independent Directors on Board is significant to Firm Performance		yes
H0: Gender Diversity (Female Directors on Board) is significant to Firm Performance	yes	
H0: Firm Size is significant to Firm Performance		yes

4.2.1 CEO Duality to Firm Performance

The findings of this research denotes not significant to ROA, ROE and TOBIN'S Q. As such, it was not possible to reject null hypotheses.

4.2.2 Board Structure (Board Size) to Firm Performance

The research findings denotes significant to ROA but not to ROE and TOBIN'S Q. The negative value of t-statistic on TOBIN'S Q may refers to higher impact on the presence of Board Structure compared to ROE. Aside, the significant relationship on ROA means there is a positive relationship on ROA to firm performance.

4.2.3 Independent Directors (Audit Committee) to Firm Performance

The research findings denotes not significant to ROA, ROE and TOBIN'S Q. As such, it was not possible to reject null hypotheses. The findings from the annual reports are usually the same group of directors holding the position every year.

4.2.4 Independent Directors (Remuneration Committee) to Firm Performance

The research findings denotes significant to ROE but not to ROA and TOBIN'S Q. The negative value of coefficient and t-statistic on ROA and TOBIN'S Q may refers to higher remuneration could impact the firm performance. The findings from the annual reports are usually the same group of directors holding the position every year.

4.2.5 Independent Directors (Nomination Committee) to Firm Performance

The research findings denotes not significant to ROA, ROE and TOBIN'S Q. As such, it was not possible to reject null hypotheses. The findings from the annual reports are usually the same group of directors holding the position every year.

4.2.6 Independent Directors on Boards to Firm Performance

The research findings denotes not significant to ROA, ROE and TOBIN'S Q. As such, it was not possible to reject null hypotheses. The findings from the annual reports are usually the same group of directors holding the position every year.

4.2.7 Gender Diversity (Female Directors on Board) to Firm Performance

The research findings denotes significant to ROA and TOBIN'S Q but not to ROE. According to MCCG 2017, at least one third of the board members are encourage to be female. This practice has been rather new initiative in the Malaysian context.

4.3 Summary

The end of Chapter 4 has illustrated the selection of model using Hausmann test. All the hypotheses were answered according the Panel Data Regression Fixed Effects results obtained from Eviews version 11. Aside, table format were used to present Hausmann test results, significant and not significant are marked accordingly.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section sums up the findings on the research, about the limits on this analysis, features its commitments, and presents proposals for future analyses.

5.2 Research Findings

The line-up of this research meant to examine the effects of corporate governance on the performance of the Malaysian construction organizations for the period 2012 to 2019 in public-listed construction organizations in Bursa Malaysia. The research examined the effect of corporate governance instruments through the board of directors namely CEO duality, Board Structure, Independent Directors (Audit, Remuneration, and Nomination Committee), Independent Directors on Board and Gender Diversity. The data collection used in this research to analyse these internal factors was retrieved from Malaysia annual reports and the Bloomberg. The analysis ended with a sample of 44 construction companies listed on BURSA Malaysia in the period 2012 to 2019. Eviews version 11 panel date regression table have been selected as the main analysis tool in this study. The actual technique used to test these effects were panel least squares fixed effects models.

The facts on the internal factors of corporate governance on directors and accounting measures concerning the performance of the company revealed a mixed performance arrangement in the point of view on the organization. The consequences of this analysis are organized to focus on firm performance. The main area presents the main findings identified with the board of directors and their effects on business performance. The duality of the director showed a positive attitude towards the performance, a finding that is more than the agency's point of view. The agency's theory claims that CEO duality addresses an issue in light of the fact that the CEO responsible for the organization's performance is a similar person responsible for evaluating competition. In addition, duality generates CEO tasks, subsequently, the current circumstance will reduce the ability to evaluate the company in a viable way. This is because power accumulates in a single leader, leading to lower business results (Fama and Jensen, 1983a).

On the other hand, the management theory which states that having a similar person acting as CEO and CEO will improve company performance, as verification of the organization is widely accepted. It is possible that it will be very useful for Malaysian organizations to have the CEO duality as it provides strong governance, oversight, more comprehensibility and a strong initiative course. Also in Malaysia, the director is usually the mastermind of the organization and naturally he is bound to be CEO who possess more skilled and more knowledgeable about the organization and the industry. Malaysian companies operate in a generally less complex business climate even for the larger companies in the local business. Therefore, CEO duality can be useful and beneficial for several purposes; to accelerate the business cycle; and to improve the correspondence between the members of the board of directors and will direct the organization within the objectives of the company. Our findings show a negative relationship on the company performance, so our results conflict with the agency's theory.

The conceivable clarification for this result may be that NEDs are typically low maintenance directors. As such, this could erode their ability to screen and instruct the board in light of the fact that the absence of the data they would reduce the ability of NEDs' to exercise their capacity effectively. As they are low maintenance directors, they are also less motivated to perform their tasks. In addition, they may have different responsibilities that may affect their obligation to attempt a viable observation. In addition, they can be new to each of the organization's tasks and businesses. Lastly, there could be occasionally some private firms between the CEO and the NEDs, which may subsequently reduce the obligations in the later part. This is apply especially on the situation if they are selected for long run in the organization.

In respect to the agency's theory, agents are more reluctant to move company assets away from increasing value when there are managerial ownership with their contractual interest increase. Further to Jensen and Meckling (1976) stated that one depends on the driving force for manager to persuade specialists to remove all the excess in light of the fact that when managerial ownership is built, the interests of shareholders and managers adapt more along these lines the motivating force of ground breaking behaviour diminishes. At the end of the day, the more prominent a company's equity directors are, the more prominent costs they will incur in order not to amplify the shareholders' abundance. Our result is reliable with the results of Weir et al. (2002), Krivogorsky (2006), Mangena and Tauringana (2007), Kapopoulos and Lazaretou (2007), and Bhagat and Bolton (2008), which was revealed with a positive effect of managerial ownership on company performance.

In the course of fixation of ownership, the study presented evidence on there is a negative relationship between major shareholders and company performance. The study results are reliable with the results of Edwards and Weichenrieder (1999), Weir et al. (2002) and Dyck and Zingales (2004). This result indicates that a higher level of ownership fixation can lead to large shareholders prioritizing personal liability and the subsequent confiscation of the company's assets, which leads to a decrease in the company's dividend. At the end of the day, with concentrated ownership, there is greater motivation for a large proportion of current shareholder to stay away from passing on data, and these companies are likely to have weak verification controls, which reduces management ability to maximize the value of risk decisions that result in lower business achivement. Malaysia is described by a high degree of centralization of ownership, often as family-controlled organizations. In smaller scale companies, the preference of most shareholders is to transfer control and most of the responsibility of the company to later ages (Bhaumik and Gregoriou, 2010). Another justification for this relationship could be the behaviour of each major shareholder, affecting the effects of different types of different major shareholders (Barclay and Holderness, 1989). With regard to individual ownership, this analysis traces a negative relationship with a minor impact on the company's performance. This may be due to poor administrative capacity; the lower ability of family members can create challenges in entering new business sectors and accepting new business opportunities. The incorrect decision by relatives will straight right affected the company's performance (Gulbrandsen, 2005, 2009; Bloom and Van Reenen, 2007).

5.3 Limitations and future Study

This study was limited to 44 construction companies listed on BURSA Malaysia. Among the sample which was 51 initially was eliminated due to unable to retrieve complete set of info. This would cause the ready samples unable to represent the whole population. There are three dependent variables namely ROA, ROE and TOBIN’S Q for each of the seven independent variables.

This study covering a period of 8-years from 2012 – 2019 whereby in future a longer period might be able to improve the accuracy of the results. Also more indicators can be includes to examine on firm performance.

Finally, this study only examined the effect of corporate governance on business performance based on accounting objectives. Company performance market shares are particularly risky in developing business sectors, where most companies are portrayed by commitment to value financing. Further, market-based measures are not representative of the real benefits for shareholders in this particular situation (Kumar, 2004). The firms' share of the price reflects their fair value with the condition that the capital market is competent according to Efficient Market Theory (Gompers et al., 2003). As Malaysia is one of the developing countries in the business sector, no economic exchange has been established yet as compared to established ones. For example, the effects of freely accessible company data will impact the market after a downtime reflected in the cost of actions. Although the company's results can be analyzed from alternative points of view, for the test, Tobins Q. However, we have the issues involved in calculating Tobins Q for the test, addressing the replacement costs that the organizations fail to report.

5.4 Conclusion

This study was conducted to examine the effects of Corporate Governance to Firm Performance. Three dependent variables was established namely ROA, ROE and TOBIN'S Q as indicators. Seven independent variables and one control variable on firm size. The results was generated using Eviews version 11 on panel data regression to produce the results and resolved the hypotheses accordingly. Corporate governance has become a great place to explore; for the motives behind the expansion of the circle of potential shareholders or owners, it is far from focusing on the different modes of action used in governance to control companies. A literature review demonstrates this importance and poses problems with incompatible relationships between shareholder and government (Jensen and Meckling, 1976). Therefore, effective corporate governance must safeguard shareholder value at a very basic level by ensuring the proper use of company assets, improving capital injection and increasing shareholder security (Denis and McConnell, 2003). As a result, a good corporate governance structure guarantees better dynamic and competent governance that creates the opportunity for better business performance. Most studies on corporate governance and its impact on business performance have been conducted in developed but little attention is paid to corporate governance in Malaysia, where different social and economic considerations predominate. This study quickly examines the effects of internal corporate governance tools on the performance of the construction companies listed on BURSA Malaysia for the period 2012-2019.

In this regard, the results of this analysis will improve our understanding of corporate governance to firm performance in countries where Malaysia has been specifically developed through the use of corporate governance data extracted directly from the Bloomberg and the annual reports from Bursa Malaysia. This analysis defines some new obligations. The emphasis on Malaysia is important because it allows us to examine the relationship between the board of directors and company performance using the corporate governance mechanism in Malaysia context. Moreover, the growing number of publicly traded organizations of BURSA Malaysia has required extensive efforts to improve the viability of the board of directors of Malaysian organizations in order to improve the company's performance. This analysis quickly tests the effects of board size, CEO duality, Gender Diversity and NEDs on the performance of Malaysian organizations.

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