CORPORATE GOVERNANCE STRUCTURE AND PERFORMANCE OF MALAYSIAN LISTED COMPANIES

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Abstract

Corporate governance plays an important role in protecting shareholders' interest. Securities Commission Malaysia has consistently revised the Malaysian Code of Corporate Governance to improve the corporate governance in all companies. Most of the principles and recommendations in Malaysia Code of Corporate Governance were largely derived from recommendations in developed countries. It is time to explore whether the various best practices and recommendations have influence on performance of Malaysian listed companies. In order to examine the influence of corporate governance variables, the linear regression was performed by focusing on board characteristic, chief executive officer duality, shareholding structure and directors' shareholding structure of 75 companies listed in Main Market under Bursa Malaysia from 2009 to 2013. The analysis results revealed a significant relationship between corporate governance variables (board size, chief executive officer duality, composition of non-executive directors, composition of directors with multiple directorships and concentrated shareholdings) and performance of the company when using market measure (Tobin's Q ratio). However, the findings revealed that only board size and concentrated shareholding had significant relationship with performance when using accounting measure (return on assets). In a nutshell, the mixed results show Malaysian companies are more concerns on future performance and growth opportunities which reflect in share price.

Keywords: Corporate governance, corporate performance, Malaysia

Abstrak

Tadbir urus korporat memainkan peranan penting dalam melindungi kepentingan para pemegang saham. Suruhanjaya Sekuriti Malaysia telah secara konsisten semak Kod Tadbir Urus Korporat Malaysia untuk meningkatkan tadbir urus korporat dalam semua syarikat. Kebanyakan prinsip dan cadangan dalam Malaysia Kod Tadbir Urus Korporat diperolehi daripada cadangan di negara-negara maju. Adalah masa untuk meneroka sama ada amalan-amalan dan cadangan mempunyai pengaruh ke atas prestasi syarikat-syarikat tersenarai di Malaysia. Dalam usaha untuk mengaji pengaruh pembolehubah tadbir urus korporat, regresi linear dilakukan dengan memberi tumpuan kepada ciri-ciri lembaga pengarah, Ketua Pegawai Eksekutif dualiti, struktur pegangan saham dan struktur pegangan saham pengarah untuk 75 syarikat yang tersenarai di Pasaran Utama Bursa Malaysia dari tahun 2009 hingga 2013. Keputusan analisis menunjukkan hubungan yang signifikan antara pemboleh ubah tadbir urus korporat (saiz papan, ketua pegawai eksekutif dualiti, komposisi pengarah bukan eksekutif, komposisi pengarah yang memegang jawatan pengarah di lain sysrikat, struktur pegangan saham) dan prestasi syarikat apabila menggunakan pengukuran pasaran (nisbah Q Tobin) . Walau bagaimanapun, hasil kajian menunjukkan bahawa hanya saiz lembaga pengarah dan struktur pegangan saham mempunyai hubungan yang signifikan dengan prestasi apabila menggunakan pengukuran perakaunan (pulangan ke atas aset). Secara ringkas, keputusan campuran menunjukkan syarikat-syarikat Malaysia adalah memberi lebih perhatian ke atas prestasi dan pertumbuhan peluang masa depan yang mencerminkan harga saham.

Katakunci : Tadbir urus korporat, prestasi korporat, Malaysia

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List of Abbreviation

BOD, board	Board of directors
MCCG 2012	Malaysian Code of Corporate Governance 2012
CEO	Chief executive officer

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

BOD has fiduciary duties and responsibilities to the company's shareholder. A director should carry out his duty and responsibility to protect shareholder's interest. However, ownership and control of the company are separated and this may cause the directors to act for their own interest. Corporate governance should be in place to safeguard shareholder's interest.

Malaysia corporate governance landscape has transformed along the introduction of the amendments in Companies Act 1965 and Bursa Malaysia Listing Requirements. Several research papers argued that there is a link between corporate governance structure and performance of a company (Ponnu, 2008; Abidin, Kamal and Jusof, 2009). The Malaysian Code of Corporate Governance 2012 ("MCCG 2012") serves as the basis for corporate governance development in Malaysia. It has set out the principles and best practices for company to comply.

To keep up with the demand from the market, MCCG 2012 was introduced to replace Malaysian Code on Corporate Governance 2007 in providing an updated principles and best practices of corporate governance. The BOD is the main focus under corporate governance because the BOD is representing the shareholders to monitor the management's performance (Fama and Jensen, 1983; Yang，Xue and Yurtoglu, 2011). The salient features of the MCCG 2012 are the followings:

- Roles and responsibilities of BOD
    - In addition to the Board Charter, the company need to maintain its Code of Conduct.

- Board composition
    - Nominating Committee should be formed and chair by Senior Independent Director.

- Independence of independent directors
    - Independent directors can only serve up to 9 years. After 9 years act as independent directors, they will become non-independent directors.

- Role duality of chairman and chief executive officer ("CEO")
    - Chairman and CEO should be different person. If chairman is not independent, the board should consist of majority independent directors.

Creative accounting is one of causes of the monumental collapse of long standing iconic companies. Based on Bistrova and Lace (2012), the study cynically purported that the weaker the corporate governance of a company, the better its earnings due to the low quality of financial statements. Hence, the company that has weak corporate governance may window dress the financial position, for example, to adopt inappropriate revenue recognition standard. One of the methods to mitigate the risk of creative accounting is to improve the independent level of the audit committee. Dhaliwal, Naiker and Navissi (2006) opined that quality of financial reporting and the effectiveness of the audit committee are correlated. Their findings showed that the level of independence of audit committee will enhance the quality of accounting. The findings are important because stakeholders require good quality of financial statements to make correct judgements and decisions. Audit committee should commit to prepare good quality of financial statements and to keep abreast on the changes in accounting standard.

Family-owned company is a norm in Asian countries, for e.g. Taiwan, Australia, Hong Kong, Singapore and China. Findings support that family-owned companies in those countries had good performance (Filatotchev, Lien & Piesse, 2005). Based on the empirical test of Malaysian companies from 1999 to 2005, Samad, Amir and Ibrahim (2008) opined that family-owned companies had higher return on equity than non-family-owned companies. There is a positive relationship between family owned companies and performance of the company (Amran and Ahmad, 2010). More than half of the GDP in our country was made up of family-owned companies (Ngui 2002).

In order to improve corporate governance, Othman and Abdul Rahman (2010) recommend that ethic should be included in corporate governance practices and to be embedded throughout the organisation. This is consistent with the revised MCCG 2012 which requires the BOD to adopt Code of Conduct. Without ethics, corporate governance mechanism is unable to achieve its objective. No matter how good is a corporate governance structure, unethical employee or directors can exploit the loopholes and cause harm to the company. Hence, in order to improve the ethical behaviour among the board members, the BOD can perform a stringent review of background check before the appointment of director.

Substantial shareholding in a company can improve a company's corporate governance. Substantial shareholder may act as a supervisor to monitor the board's performance which will result in better corporate performance. Based on a research on 175 Greek listed companies, Kapopoulos and Lazaretou (2007) opined that concentrated shareholdings could improve the company's profitability. Thillainathan (1999) identified the concentrated shareholding situation in Malaysia. Concentrated shareholding has its pros and cons. On the positive side, the shareholder who holds majority shares will tend to monitor closely on the company's operation and performance of the board to safeguard its large stake of interest. Hence, it improves a company's performance. Moreover, some corporate shareholders who have high voting power will appoint representatives to sit in the board to represent their interest and monitor board's performance.

However, by having the shareholder with substantial control in a company may raise the issue of expropriation of minority shareholders. Large shareholder who possesses high controlling power may result in less protection for minority shareholders (La Porta, Lopez-de-Silanes and Shleifer, 1999; Umrani , Johl and Yussoff Ibrahim, 2015) The protection of minority shareholders in Malaysia is at a weak level (The Edge Malaysia, 2009). In addition, from a company's perspective, a shareholder with substantial control is a constraint that limits the board's decision. Under concentrated shareholdings, company has low risk of hostile takeovers and unable pressure the management or board to perform better. There is a finding that shows a concentrated ownership do hurts company's value (Wu and Cui, 2002). The substantial shareholder who has controlling power in the company can make a decision that beneficial to themselves, for example, to pay an unreasonable amount of dividend, to invest in high-risk projects that are not suitable for company's growth.

Good corporate governance can minimize the possibility of misconduct among employees and board. One of the serious misconduct which breaches the law is fraud. Fraud is a dishonest intention to hide someone's illegal act for e.g. embezzlement of assets. There is a possible fraud in preparation of financial statement as well. The company need to take precaution measurement to prevent fraud in financial reporting which misstate or disclose reports that deceive the financial statement user. Directors are primarily responsible to prevent and detect the fraud in management. BOD is also responsible to ensure internal control system in the company is effective to review and prepare 'clean' financial statements.

Another important aspect to consider in corporate governance is the internal audit function of the company. Internal audit function is an assurance function designed to provide independent and objective evaluation on the company's internal control environment. It covers the risk management and internal control system by evaluating their effectiveness in using company's resources.

The appointment of external auditors is equally an important agenda in improving the corporate governance of a company. The external auditor will scrutinise and make inquiries to management, internal auditors and board to identify any suspicious act or fraud in the company. After completed the audit process, the external auditors will form the opinion on the overall financial standard whether the financial statement is in true and fair view. If there is possible fraud and dishonesty come to their attention, they will communicate immediately to the audit committee of the board. The board should appoint an external auditor firm who is capable to conduct high quality and independent audit.

In relation to the misconduct, a formal policy and procedure of whistleblowing system should be established. Whistleblowing system is important to a company in order to obtain important information from employees and to protect those who blew the whistle. Without a proper whistleblowing system, the company may unable to obtain important information from employees and the employees may not be protected. It is recommended that policies and procedures of whistleblowing system to be properly documented and circulated throughout the company.

This paper will test the influence of the corporate governance variables on the performance of public-listed company in Malaysia, i.e. board size, non-executive directors, CEO duality, multiple directorships by director, shareholding by 5 largest shareholders and director’s shareholding structure.

1.2 Problem statement

Geographically, due to the difference in culture and economy between local market and the developed countries, the corporate governance guideline recommended by developed countries may not be applicable or useful as it should be. As compared to United States of America and United Kingdom, Asian countries have more family owned business or concentrated holdings companies. It is important to test whether local authorities should follow the corporate governance guideline recommended by developed countries.

Besides, there is no system of governance can fully protect a company. Every company have its own distinctive structure and characteristics with the increasingly complex business environment. It is almost impossible to confirm a standard set of guideline for a company. The company need to performance rigorous review of its corporate governance practice from time to time to minimize the risk.

A principal-agent relationship exists as the Directors are the agents appointed by shareholders (principal) (Jensen & Meckling, 1976). A good corporate governance framework will reduce the agency problem and attract investors to invest in the company (Zahirul Islam, Nazrul Islam and Bhattacharjee, 2010) . A company with good corporate governance will safeguard shareholders' interests by minimizing the agency problem and thereafter attract investors and business to manage risk and maximise shareholders' wealth.

A company's financial information is important because it will be used for decision-making by investors, shareholders, supplier, customers and the company itself. Financial information will help the company to evaluate its performance whether the company achieve any improvement. A company that is practicing a suitable set of corporate governance will perform better. However, due to the mixed empirical results and theoretical view, it is difficult to obtain a consensus to have a correct set of corporate governance guideline for reference.

1.3 Significance of the study

Good corporate governance will attract more investors to invest in a company because there is a protection to their investment. This study will provide an additional view to the current literature based on the latest corporate governance practices and revised MCCG 2012.

Many researches were conducted to test the relationship between corporate governance and corporate performance upon the well-developed countries but there is limited research for developing countries. This empirical study will assist to understand Malaysia's corporate governance structure and its influence in a company's performance.

1.4 Scope of the study

This paper examines the relationship between corporate governance structure and corporate performance in Malaysia, in particular, board size, composition of non-executive directors in board, duality role as chief executive officer and chairman, multiple directorships, top 5 shareholdings and directors' ownership of 75 Malaysian public-listed companies. The sample period covers from the year 2009 to 2013.

1.5 Research Questions

The main research question of this study is focusing at the current practice of corporate governance by Malaysian public-listed companies. This study attempts to answer the following questions:

1. Is there any significant effect of size of the board on company's performance in Malaysia?

2. Is there any significant effect of the proportion of non-executive directors on company's performance in Malaysia?

3. Is there any significant effect of CEO duality on company's performance in Malaysia?

4. Is there any significant effect of multiple directorships on company's performance in Malaysia?

5. Is there any significant effect of shareholdings by 5 largest shareholders on company's performance in Malaysia?

6. Is there any significant effect of directors' ownership on company's performance in Malaysia?

1.6 Research Objectives

The main objective of this study is to obtain the empirical evidence of board structure on the performance of public-listed companies in Malaysia. Specifically, this study provides further evidence of corporate governance structure on corporate performance. In tandem with the research questions, the following are research objectives:

1. To examine whether the size of the board has influence on the performance of company in Malaysia.

2. To examine whether the non-executive directors has influence on the performance of company in Malaysia.

3. To examine whether the CEO duality has influence on the performance of company in Malaysia.

4. To examine whether the multiple directorships by director has influence on the performance of company in Malaysia.

5. To examine whether the shareholding by 5 largest shareholders can significantly influence company's performance in Malaysia.

6. To examine whether the directors' ownership can significantly influence company's performance in Malaysia.

1.7 Organisation of the dissertation

This dissertation is organized into five chapters. Chapter one has provided an overview of corporate governance issues related to corporate performance. This chapter also provide the problem statement, significance of the study, scope and limitations of the study, research objective, and research question. The remainder of the dissertation is organised as follows.

Chapter two presents the discussion on literature review that relates to this study. The overview on development of corporate governance in Malaysia, theoretical considerations and empirical studies and hypotheses were stated in this chapter.

Then this paper explains research design, data collection procedures and techniques of data analysis, variables tested in the analysis used in this research.

Chapter four presents the empirical results of the research based on data and findings.

Chapter five provides a conclusion for this research and recommendations for future research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

After the Asian Financial Crisis 1997 incident in our country, the government had put much effort to promote good corporate governance (Abidin and Ahmad, 2007). As part of the continuing effort to foster a mature well-governed capital market for Malaysian public-listed companies, Bursa Malaysia has made constant updates to Bursa Malaysia Listing Requirements. The public-listed companies are required to disclose the corporate governance practice in their annual report with reference to the MCCG 2012 and if the companies are unable to comply with MCCG 2012, they are required to provide explanation.

According to Tan Sri Zarinah Anwar, the Chairman of Securities Commission Malaysia, the new MCCG 2012 focuses on strengthening board structure (MCCG, 2012). MCCG 2012 serves as a formal guideline for the board to adopt. MCCG 2012 acknowledges the role and responsibility of directors in protecting the shareholder's interest. A well-governed company will prevent any improper use of company resources and to promote a fair and transparent market to attract investors.

Based on Che Haat, Abdul Rahman and Mahenthiran (2008), BOD has the capability to solve principal-agent issues. The management team acts as the agent of the company that runs the day-to-day business. The board is responsible to monitor the management's performance. Pursuant to Companies Act 1965 and subject to

Memorandum and Articles of Association of the company, board is given the powers to appoint or remove CEO and chief financial officer from management team. Listing rule 9.23 of Bursa Malaysia Listing Requirements says board has ultimate and responsibility role in preparation of financial reports for the shareholders. According to listing rule 9.22 of Bursa Malaysia Listing Requirements, the board has to meet up at least quarterly to review and discuss the unaudited quarterly financial result and to release it to shareholders in a timely manner. The board is also being charged with ultimate responsibility for the adequacy and integrity of company's internal control system.

There are two views for the corporate governance, a narrow view and a wider view (Gregory and Simmsm, 1999). From the narrow view, corporate governance focuses on the management team, board and shareholders. From the wider view, corporate governance does not focus merely on a Company but the society as a whole. Corporate governance can help to preserve the society interest because the regulators and companies promote the fair and transparent economy for the country. A country known as a good governance country can build a good reputation and be able to attract more foreign direct investment.

A number of academicians have defined corporate governance. According to High-Level Finance Committee Report 1999, corporate governance is as a mechanism which enhancing business prosperity and corporate accountability by prioritizing the long-term shareholder value but not to ignore other stakeholders' interest. Whereas Magdi and Nadereh (2002) explained that corporate governance is a tool that confirms the company can be well-managed and investors can receive an acceptable return.

Therefore, based on argument from prior literature, corporate governance is useful to a company by providing a set of guidelines for BOD to discharge its duty because it is not only focusing on company's goal but stakeholders' interest as well. Disclosure of directors' interest in shares and transaction will improve the transparency of a company. A director should disclose his interest whenever there is a possible conflict of interest. In addition, he should also excuse himself from decision-making process during the meeting and refrain from obtaining sensitive information.

The advantages of practicing good corporate governance are vast. To name a few, corporate governance can improve the competitiveness level, return on capital employed and easier to attract investor domestically or international (Madhani, 2014).

This study focused on six main corporate governance variables, i.e. board size, non-executive directors, CEO duality, multiple of directorship, concentration of ownership and director's shareholding. Those variables were analysed to study their relative impact on corporate performance.

2.2 Board size and corporate performance

Based on al-Dhamari and Ku Ismail (2013), board size is one of the factors that control the board effectiveness. Coles, Daniel and Naveen (2008) opined that large conglomerate companies were benefited by large board because it can help to improve the company's financial and non-financial performance. The large size of board comprises of directors with well-diversified background allows more directors to provide invaluable input or ideas during the board meeting (Pearce and Zahra, 1992). The large size of board does not only offer more expertise advice than smaller board, it also helps corporate performance.

On the other hand, a large board may become a symbol or act as a "rubber stamp" instead of playing its role as a board (Hermalin and Weisbach, 2000). There is a possibility that large size of board not adding additional benefits to the company because of the possible free-rider problem. In addition, Shukeri, Shin and Shaari (2012) empirically found that Malaysian companies with larger size of board have negative effect on return on equity. This can be understood because when BOD is large, the communication barrier is higher and it is more difficult to achieve consensus. Subsequently, the decision making process would be slower and affect the company's performance. Hence, the size of the board cannot be too large in order to achieve efficiency. The threat of removal from board is higher with smaller board. From the study done by Yermack (1996), the findings show that there is a clear opposite relationship between the size of board and value of the company. A smaller board has its advantages because can have better discussion and easier to have consensus among the directors which allows the company to respond faster

(Mohamad, Rashid, & Shawtari, 2012). They also facilitate the exchange of ideas among the directors (Vafeas, 2000).

Since the size of the board may have positive influence the company’s performance. Hence, the following hypothesis for this paper is formulated:

H1: There is a significant positive relationship between size of the board and corporate performance.

2.3 Non-executive directors and corporate performance

The BOD can be made up of executive directors and non-executive directors. Non-executive directors are not involved in company's day-to-day operation. They are the outsider that act as a checks and balances to the executive directors. Pursuant to listing rule 1.01 of Bursa Malaysia Listing Requirement, non-executive directors can become independent directors if he can fulfill certain conditions, for example, he is not one of the majority shareholders, he is not the family member of executive director, officers or majority shareholders, and etc.

Fama and Jensen (1983), Kakabadse, Ward, Korac-Kakabadse and Bowman (2001) and Clarke (2008) concluded that the non-executive directors are able to provide fair and objective judgment since they are not restricted by conflict of interest nor holding a management position in the company. Non-executive director will not face the threat to be removed when he disagree with executive director's decision. Non-executive directors are outsiders to improve the accountability of executive directors and reducing the agency cost that detrimental to company. Even though the executive directors are competence and capable, independent non-executive directors are able to reinforce board's knowledge and contribute their knowledge which belongs from their own fields (Weir, 1997).

Fama and Jensen (1983) and Le, Walters and Kroll (2006) suggested that non-executive directors will not only reduce the agency problem but can provide fair and objective judgment for the company. A study conducted by Rong, Hou and Cheng (2012) found a positive effect of non-executive directors against corporate performance. Fama and Jensen (1983) also suggested that outsiders can monitor BOD and safeguard the shareholders interest on top of their valuable insights. For example, a non-executive director who has another full-time position in another company can share his unique and objective advice during the board meeting. Beasley (1996) opined that non-executive director can improve board effectiveness and reduce the chances of fraud in accounting. These studies indicate that non-executive directors monitor and control management which can improve company performance.

A multinational company can benefit from having non-executive director with different nationality because it can help the company to understand another country. It also helps the company to understand the culture and minimize the language barriers which open doors for more business.

Shukeri et al (2012) viewed that the more independent non-executive directors appointed, the higher than the chance for company to fail. Their findings show that most of non-executive directors in Malaysia are foreigners who are not familiar with local business environment, and thus, the executive directors can make better decision for the company. The outsider may not sufficiently familiar with the company's background and operation to make key decisions. In addition, to appoint non-executive director can be expensive to the company as well.

Based on Bhagat and Black (1999), non-executive directors may not be able to effectively deliver his task in monitoring the board. This is supported by Hermalin and Weisbach (1991). There is insignificant effect of outsiders in board on the performance of the company. The organization culture would determine whether non-executive director able to perform his monitoring task, and which the culture was largely shaped by management (Petra, 2005). In reality, the independent directors have little legal protection to carry out their duty when in opposition to the rest of the board. When the independent director wishes to be the whistleblower, a proper internal control system must be in place to ensure the reporting can be done safely.

Since non-executive director may have positive influence the company's performance. Hence, the following hypothesis for this paper is formulated:

H2: There is a significant positive relationship between the number of non-executive directors and corporate performance.

2.4 Duality and Corporate Performance

In order to reinforce the independence level of the Board, MCCG 2012 has recommended the chairman and CEO to be different person and the chairman must be a non-executive director. If chairman and CEO is the same person, there is a risk of insufficient segregation of duties. CEO was vested with the full power of management and control over all affairs of the company. CEO also required presenting periodic reports of the company to the board from time to time. The review and authorisation by the same person who is not substantially independent might result in the inappropriate authorisation. In addition, Singapore Code of Corporate Governance 2012 also recommends that if the chairman and chief executive officer is the same person, the board should be consisting of a majority of independent directors. The MCCG 2012 is desired to enhance the independence level of the board and provide better check and balance of the company.

Daily and Dalton (1994) reveals that company having a CEO duality has the higher chance to go bankrupt as compared to other. Abdul Rahman and Haniffa (2003) found that Malaysian companies with CEO duality are not performing when using accounting performance as measurement. Dahya, Lonie and Power (1996) opined that market had reacted negatively to the CEO duality. A separation of the role of chairman and CEO will improve monitoring and increase the transparency.

In opposition to the agency theory, Donaldson and Davis (1991) opined that CEO duality can maximize shareholder's value under stewardship theory. Under the stewardship theory, the directors owe fiduciary duties to the shareholders. A CEO duality does not affect the board performance and corporate performance. Moreover, when a CEO is also the chairman, he tends to be more efficient and effective since CEO will face less interfere by making a decision solely. A dominant CEO that sits as a chairman has more power. There are many researchers also support the duality role (Dahya et al., 1996; Rechner and Dalton, 1991). Shukeri et al (2012) opined that there is a negative relationship between CEO duality with the company's financial performance.

Since role duality may have positive influence the company's performance. Hence, the following hypothesis for this paper is formulated:

H3: There is a significant positive relationship between role duality and corporate performance.

2.5 Multiple directorships and corporate performance

It is a norm that a director to sit in one or more board. The non-executive director usually holds multiple directorships. The appointment of non-executive director enables the multi-disciplinary experienced professionals from outside of the company to join the board.

Dahya et al (1996) opined that multiple directorship is beneficial because the board can make a decision under more perspective. In addition, a director sits in multiple boards enable the director to share his diverse skills and knowledge to board. Moreover, Fama and Jensen (1983) and Ferris, Jagannathan and Pritchard (2003) concluded that directors with multiple directorship is a quality Director. Director with multiple directorships has more experience and perform better.

Ferris, Jagannathan and Pritchard (2003) found out director who is from big cooperation easier to have additional directorship. He disagreed that director with multiple directorships will increase the chance of company to fail. Director who sits in the multiple boards can effectively carry out duty (Fama and Jensen, 1983). Based on the study on Australian companies, Kiel and Nicholson (2006) found that most directors with multiple directorships are appointed in related companies. Hence, the director's workload is lower and could not affect his performance.

The number of directorships of a director should be based on the capacity of the director himself, and how much they can contribute to the board. Director himself should know how much time they should spare to each company in order to commit to his duty sufficiently. There are many cases that a director holds too many directorships which led to rush or uninformed decision. Another situation is to approve certain important decision merely via directors' resolution in writing instead of a discussion in board meeting due lack of commitment from director. Some directors may treat the directors' resolution in writing as unimportant matter by sign blindly.

However, Core, Holthausen, and Larcker (1999) opined that the Directors may not be well-performed when director sits in multiple boards. This is because they are over dedicated and unable to act as proper check and balance based on the Busyness Hypothesis. Busyness hypothesis predicted the inverse relationship between number of directorship hold by a director and share price. Director need to meet up quarterly to discuss the ordinary business for meeting, they also need time to review the unaudited financial statements and to carry his duty assignment by committee he joins.

In addition, directors who sit in multiple boards may not be able to fully dedicate themselves to discharge his duties as a director. From the study done by Core et al (1999), they found a positive relationship between multiple directorship and excess of remuneration pay to chief executive officer due to the lack of checks and balances. This is reducing value of company. Lipton and Lorsch (1992) explained that inadequate time was the reason for it. This is further supported by a survey by Korn/Ferry International (1998). It found that many directors regarded to having too many directorships put an unbearable burden on a director.

Since multiple directorships may have positive influence the company's performance. Hence, the following hypothesis for this paper is formulated:

H4: There is a significant positive relationship between multiple directorships and corporate performance.

2.6 Concentration of ownership and corporate performance

In Malaysia, it is a norm for a company has concentration of ownership by individuals with a familial relationship or government link corporate shareholder. The Malaysian public-listed companies have shareholding pattern which is much different from United States of America and United Kingdom. Company with concentrated shareholding will post a risk that company has poorer performance since takeover threat is much lower. This situation is true especially if the parent company is willing to support financial of the company.

On the other hand, Bushman, Chen, Engel and Smith (2004) revealed that high concentration ownership vary inversely with the company's revenue. The high concentration of ownership may lead to a non-independent judgment and limited transparency in decision making. In order to relieve such problem, the management team should take up a loan to enable the company to be supervised by outsiders, e.g., the creditors to improve the company's performance (Whitehead, 2011). Debt financing can control agency cost and result in effective use of resources as well.

Abdullah and Mohd-Nasir (2004) study corporate governance on Malaysian public-listed companies. They found out that the average total shareholdings held by the top 20 shareholders were more than half of the issued paid-up. Based on a study in Malaysia, the mean of the largest shareholder is 36% of the outstanding shares (Abdullah, 2001). The concentrated shareholding in public-listed company is not favorable to minority shareholders because their participation in share voting has a very limited effect.

Besides, the large corporate shareholder that has a substantial amount of shareholding in a company tends to pay higher attention to the company as compared to the lower amount of shareholding (Kang and Sorensen, 1999). Large corporate shareholder is suitable to act as a supervisor because it is considered worthwhile to safeguard its large stake of interest in the company (Ramzi, 2008).

Since the concentration of ownership may have positive influence the company's performance. Hence, the following hypothesis for this paper is formulated:

H5: There is a significant positive relationship between top five shareholdings and corporate performance.

2.7 Director's shareholding and corporate performance

Based on Farrer and Ramsay (1998), there was a correlation between the directors' shareholdings and corporate performance on the findings on 180 listed Australian companies. Granting shares to executives will reduce agency problems (Jensen and Meckling, 1976). It is not only acting as an incentive to motivate and retain the managers, it will align the managers' interest with shareholders' interest. Thus, stock options plan or issuance of employee shares to director will enhance the corporate performance. It will reduce the bankruptcy risk of the company as well.

However, it is difficult to fix the appropriate level of directors' shareholding that can improve the corporate performance (Farrer and Ramsay, 1998). Based on McConnell and Servaes (1990), management ownership of 5%-25% will increase the company's performance. However, Morck, Shleifer and Vishny (1988) found a positive effect on company's performance only when the management ownership is lower than 5%.

Ali, Salleh and Hassan (2008) examined 1000 non-financial listed companies in Malaysia for the period from 2000 to 2003 and opined that management ownership can increase a company's value. Hiraki, Hideaki, Ito, Kuroki and Masuda (2003) also opined the same based on the studies conducted in Japan. Bhagat and Bolton (2012) indicated that directors' ownership can reduce the value destroying activities on the company.

However, if the directors' shareholdings were too much, it may be harmful to the company due to management entrenchment. Based on Wright (1996), management who hold substantial shares has higher chances to make a decision that not in line with company's target. Moreover, Fama and Jensen (1983) and Mcconell and Servaes (1990) opined that company with management-controlled has lower competitiveness. This is because management may make a decision that is for self-interest rather than company's benefit. The management who has insider information will make bias decision whenever there is a conflict of interest. For example, board may recommend the dividend to shareholder in which the board knows that the company should have retained the earnings. Abu-Bakar (2001) also found the same that negative relationship between directors' shareholding and financial distress.

In a sum, the above discussion presents mixed evidence on the impact of directors' ownership on corporate performance (McConnell and Servaes, 1990; Hermalin and Weisbach, 1991).

Since directors' ownership may have positive influence the company's performance. Hence, the following hypothesis for this paper is formulated:

H6: There is a significant positive relationship between director's shareholding and corporate performance.

2.8 Summary

The above literature review discussion has covered the main 6 variables related to corporate performance, namely the board size, composition of non-executive directors in board, duality role as chief executive officer and chairman, multiple directorships, top 5 shareholdings and directors' ownership. Corporate governance is best examined through a variety of lenses. The establishment of a robust corporate governance framework will minimize the potential problems and preserve the company's value. Directors must exercise the professional scepticism and act in the best interest of company and shareholders. Although the shareholders are the owner of the company, a shareholder is unable to run the business by them. Shareholders especially the minority shareholders have limited power over the management's decision. Directors who represent the shareholder's interest will help to overseas the management team.

CHAPTER THREE

METHODOLOGY

This chapter starts with a research design in Section 3.1, then data and sample collection in Section 3.2, follow by variable selection in Section 3.3, research model in Section 3.4 and lastly chapter summary.

3.1 Research Design

This paper had conducted descriptive research approach to test the relationship between corporate governance structure and corporate performance in Malaysia.

3.2 Data and sample selection

This study focused on corporate governance practice for recent years in Malaysia. Data were collected for the period from 2009 to 2013 on dependent and independent variables of the research model i.e., board size, composition of non-executive directors in board, duality role as chief executive officer and chairman, multiple directorships, top 5 shareholdings, directors' ownership, Tobin’s Q ratio and return on assets.

The construction industry provides the necessities such as public infrastructure to public. Besides, palm oil production and rubber gloves have huge contribution to Malaysia's economy. Thus, there is a need to know more about the corporate governance of the companies in those industries. The sample comprises of all companies from construction industry and plantation industry which are listed on the Main Market of Bursa Malaysia Stock Exchange. The sample selected from construction industry and plantation industry based on classification made by Bursa Malaysia. If there is incomplete or unavailability data due to new listing status, it will be excluded from the sample. Thus, the final sample consists of 37 companies from construction industry and 38 companies from plantation industry.

Secondary data was collected for this study. In this study, data in relation to corporate governance variables were gathered from annual reports which are available at Bursa Malaysia website. The information collected was regarding the characteristic of board, shareholder's feature and financial performance. The financial results data was extracted from Worldscope through the Datastream interface.

This study had performed statistical analysis by using Statistical Package for the Social Sciences (SPSS) to test the hypotheses. The SPSS had performed descriptive statistical analysis, correlation test and regression analysis.

3.3 Variables Selection

Due to the time and budget limitation, this study focused on corporate governance variables only. The control variables were not included in this study. Based on the previous discussion in literature review, the research framework is designed as below.

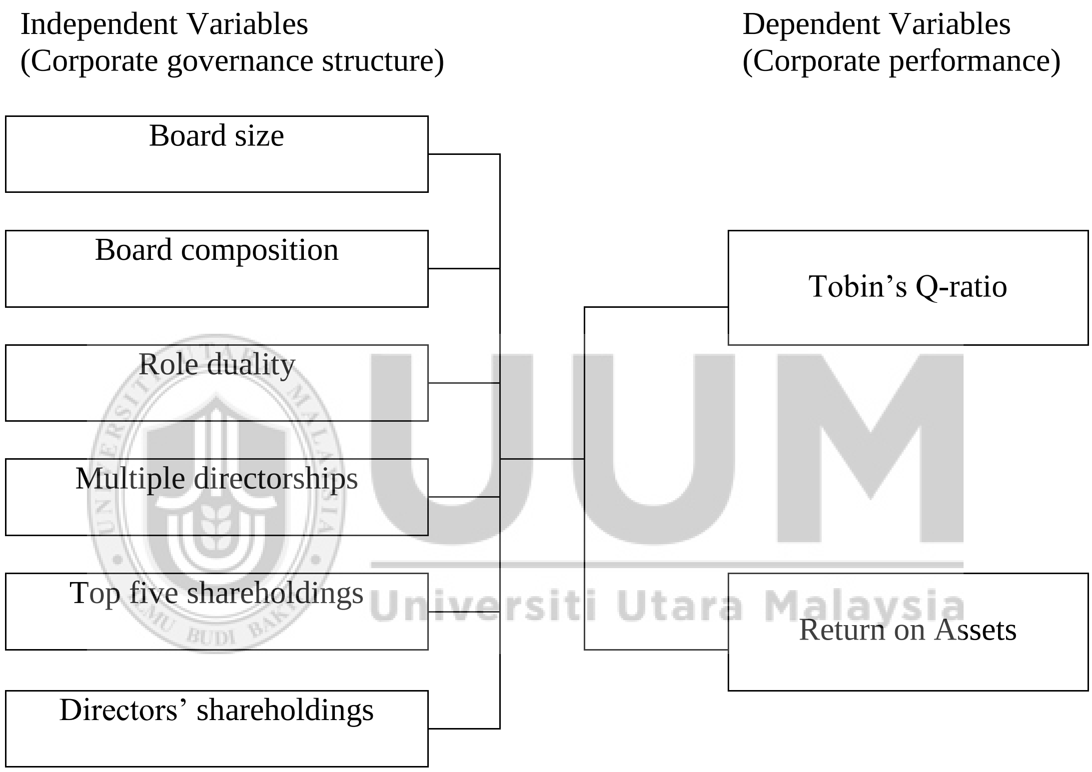

Figure 3.1
Research Framework

The variables that were used in the analysis are as follows:-

The dependent variable is corporate performance. The measurements for corporate performance are Tobin's Q (Q-Ratio) and return on assets (ROA). Q-ratio is a measure of corporate value based on market value (Doukas, 1995). A higher Q-Ratio will indicate as better market value and better governance (Weir, Laing and

McKnight, 2002). This is due to the market value of a firm should approximately equal to the cost of replacing the company’s assets. Company with low corporate value has an average Q-ratio less than 1.

Next, in term of accounting measure, ROA is chosen to measure the corporate performance. The return that can be generated from asset can show the efficiency on utilization of the company’s asset. Q-Ratio and ROA have been used in previous studies on corporate governance studies (Rhoades, Rechner and Sudramurthy, 2001).

The independent variables consist of 6 corporate governance variables; board size (BSIZE), composition of non-executive directors in board (BODCOM), duality role as chief executive officer and chairman (DUAL), multiple directorships (MDIR), top five shareholdings (TOP5) and directors' ownership (DOWN).

Table 3.1
Explanation of the Research Variables

Dependent variables:	
Tobin's Q	$\frac{\text{total market value of outstanding shares}}{\text{total asset value}}$
Return on assets (%)	$\frac{\text{net income}}{\text{total asset}}$
Independent variables:	
Board size	The total number of directors sits in the board.
Composition of board (%)	$\frac{\text{total number of non} - \text{executive directors}}{\text{total number of directors on the board}}$
Role duality	Binary variable value of 1 if the Chairman is also the CEO and 0 for otherwise
Multiple directorships (%)	$\frac{\text{total number of directors who hold more than one directors}}{\text{total number of directors on the board}}$
Top 5 shareholders (%)	$\frac{\text{total shares owned by the five largest shareholders}}{\text{total issued share capital}}$
Directors' ownership (%)	$\frac{\text{total shares owned by the directors}}{\text{total issued share capital}}$

3.4 Research Model

Regression is a statistical model that predicts the response of the dependent variable based on the values of the explanatory variables. This study had performed regression analysis to analyse the relationship between the various corporate governance variables and corporate performance. Based on the research done by Haniffa and Hudaib (2006), the regression equation for this study is written as:

Model 1:

$$Q\ Ratio_t = a_0 + \beta_1 Bsize + \beta_2 \text{BODCOM} + \beta_3 \text{DUAL} + \beta_4 \text{MDIR} + \beta_5 \text{TOP5} + \beta_6 \text{DOWN} + \varepsilon \qquad \textbf{(3.1)}$$

Model 2:

$$ROA_t = a_0 + \beta_1 Bsize + \beta_2 \text{BODCOM} + \beta_3 \text{DUAL} + \beta_4 \text{MDIR} + \beta_5 \text{TOP5} + \beta_6 \text{DOWN} + \varepsilon \qquad \textbf{(3.2)}$$

where:

a_0	Intercept.
Q-Ratio	Tobin's Q Ratio
ROA	Return on assets
BSIZE	Board size
BODCOM	Board composition
DUAL	Role duality
MDIR	Multiple directorships
TOP5	Shareholdings held by top 5 shareholders
DOWN	Shareholdings held by Directors
ε	Error term

Summary

This chapter provided a detailed description of the data and variables to be used in this study. The sample comprises 75 companies from Bursa Malaysia Main Market which cover the period from 2009 to 2013. Building on chapter 1 and 2, 6 testable research hypotheses were developed. These research hypotheses and questions attempt to identify the relationship between corporate governance structure and performance of the company. The chapter also presented the proxy variables used to test the research hypotheses. The selected proxy variables are clearly defined and justified based on theoretical and empirical research done. Analysis of the results will be presented in the next chapter.

CHAPTER FOUR

FINDINGS

4.1 Descriptive Statistics

Table 4.1 presents the descriptive statistics for the construction industry and plantation industry. The dependent variables made up of market performance and accounting performance represent by Tobin's Q (Q-Ratio) and return on assets (ROA) respectively. The independent variables consist of corporate governance variables, i.e. board size (BSIZE), composition of non-executive directors in board (BODCOM), duality role as chief executive officer and chairman (DUAL), multiple directorships (MDIR), top five shareholdings (TOP5), and directors' ownership (DOWN).

The mean value of Q-Ratio for the period from 2009 to 2013 is 0.65. The mean value of ROA for the period from 2009 to 2013 is 4.65%.

The mean value is 7.67 of board size (BSIZE) for the period from 2009 to 2013. This average is within the range suggested by Jensen (1993). Lipton and Lorsh (1992) also recommended the optimal board size is 8 to 9 directors in order to form an effective board. For the period from 2009 to 2013, the minimum board size is 4 members and maximum board size is 16 members.

In relation to board composition (BODCOM), the average proportion of non-executive directors in BOD for the period from 2009 to 2013 is 64.34%. This show in average, the board of companies in construction and plantation industries majority consist of outsiders. The maximum of BODCOM for the period from 2009 to 2013 is 100.00%, while the minimum for the same variable is 22.00%, indicating some companies have all non-executive directors in BOD.

With regards to the companies with CEO in duality role (DUAL), the mean has decreased from 34.67% in 2009 to 26.67% in 2013 and the mean for the whole period is 32.27%, indicating that role duality is getting less popular in both industries. This implies that more companies are adopting recommendation in MCCG 2012 to separate the role of chairman and CEO.

The mean of directors who hold more than one directorship (MDIR) for the period from 2009 to 2013 is 73.47%. The maximum of MDIR is 100.00% while the minimum for the same variable is 13.00%. This show that some companies have board consists of all directors with multiple directorships.

As for ownership structure, on average, the five largest shareholders (TOP5) hold approximately 55.58% of total outstanding shares of the sample companies for the period from 2009 to 2013 shows that concentrated ownership exist in majority Malaysian companies. The maximum mean of TOP5 is 85.00% while the minimum for the same variable is 15.00%.

Directors have an average shareholding of 37.86% of total outstanding shares for the period from 2009 to 2013. The maximum mean of DOWN is 83.00% while the minimum for the same variable is nil, indicating some directors have high control in the company.

4.2. Correlation analysis

Table 4.2 presents the correlation matrix for the dependent and independent variables. The correlation coefficient for many pair of variables is weak. However, there are three pairs that show a moderate correlation. The first pair is BODCOM and DOWN with a negative correlation coefficient of -0.376. The second pair is DUAL and DOWN with a positive correlation coefficient of 0.324. The third pair is ROA and Tobin with a positive correlation coefficient of 0.410.Since the correlations are relatively low, it indicates there is no multicollinearity problem and thus all the variables in the equal can be taken into the subsequent regression analysis. A rule of thumb is correlation coefficients should not exceed 0.80 where multicollinearity could be a problem (Gujarati, 1995).

Table 4.1

Descriptive statistics of Performance Measures and Continuous Independent Variables

	N	Minimum	Maximum	Skewness	Kurtosis	Mean (for 2009-2013)	Mean				
							2013	2012	2011	2010	2009
Performance measures:											
Q-Ratio	375	0	2.60	1.23	1.26	0.65	0.67	0.66	0.67	0.67	0.59
ROA (%)	375	-33.00	31.00	-0.65	6.02	4.65	4.37	4.93	5.12	4.12	4.60
Independent Variables:											
BSIZE	375	4.00	16.00	0.79	0.63	7.67	7.69	7.59	7.65	7.57	7.87
BODCOM (%)	375	22.00	100.00	0.11	-0.75	64.34	65.92	65.33	64.35	63.64	62.62
DUAL (%)	375	0	100.00	0.76	-1.43	32.27	26.67	30.67	34.67	34.67	34.67
MDIR (%)	375	13.00	100.00	-0.79	0.16	73.47	73.53	72.58	73.99	73.69	73.20
TOP5 (%)	375	15.00	85.00	-0.53	-0.17	55.58	55.36	56.05	55.80	55.36	55.12
DOWN (%)	375	0	83.00	-0.16	-1.18	37.86	37.64	38.28	37.86	37.46	37.53

Note: Q-Ratio refers to Tobin's Q; ROA refers to return on assets; BSIZE is board size; BODCOM is composition of non-executive directors in board to total number of directors in board; DUAL is duality role as chief executive officer and chairman; MDIR is proportion of directors having multiple directorships to total number of directors in board; TOP5 is total number of shares owned by the five largest shareholders over total shares outstanding; DOWN is total number of shares owned by all directors to total share outstanding.

Table 4.2
Pearson correlation matrix

Pearson Correlations								
	Q_Ratio	ROA	BSIZE	BODCOM	DUAL	Multiple_ MDIR	TOP5	DOWN
Q_Ratio	1							
ROA	0.41**	1						
BSIZE	0.183**	0.228**	1					
BODCOM	0.195**	-0.090	-0.188**	1				
DUAL	0.038	0.086	-0.042	-0.281**	1			
Multiple_ MDIR	0.243**	0.042	0.054	0.176**	0.026	1		
TOP5	0.212**	0.215**	0.069	0.086	-0.014	-0.043	1	
DOWN	-0.03	0.145**	-0.009	-0.376**	0.324**	0.000	0.233**	1

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Note: Q-Ratio refers to Tobin's Q; ROA refers to return on assets; BSIZE is board size; BODCOM is composition of non-executive directors in board to total number of directors in board; DUAL is duality role as chief executive officer and chairman; MDIR is proportion of directors having multiple directorships to total number of directors in board; TOP5 is total number of shares owned by the five largest shareholders over total shares outstanding; DOWN is total number of shares owned by all directors to total share outstanding.

4.3 Regression analysis

4.3.1 Results based on market measure (Q-ratio)

The correlation matrix (Table 4.2) and Variance Inflation Factor (VIF) (Table 4.4) indicate no multicollinearity problem, as the correlations and VIF are relatively low. Normality tests based on skewness and kurtosis were presented in Table 4.1. They indicate no normality problem[1].

Table 4.3
Model Summary

Adjusted R Square	Change Statistics		
	R Square Change	F Change	Sig. F Change
.159	.172	12.746	.000

Predictors: (Constant), CAPEX, Multiple_Directorship, Role_Duality, Boardsize, Top5_Shareholding, Board_Composition

From the above table 4.3, it is found that the adjusted r-square model is 0.159 suggesting that this model (through its variables; BSIZE, BODCOM, DUAL, MDIR, TOP5 and DOWN) can aggregately determine Q-ratio by 15.90%. Moreover, this model has an F-value of 12.74 affirmed that this model is significant at $\alpha = 0.05$. Therefore, linking these two results together suggest that this model is both strong and sound model to be used for analysis.

Table 4.4 reports the results from the regression model 1 which presented in previous chapter. Q-ratio is used as market performance measure. The significance of each

[1] Normality may become problem when skew value > 2.1 and kurtosis value >7.1 (West et al.,1996).

variable is obtained at 0.05. Table 4.4 shows the results of 6 likely relationships. Tobin's Q (Q-Ratio) is regressed by the independent variables, which are board size (BSIZE), board composition (BODCOM), duality role (DUAL), multiple directorships (MDIR), top five shareholdings (TOP5) and directors' shareholdings (DOWN). The ANOVA result shows that the model 1 can predict the dependent variable using all independent variables. Since the significant is 0.000, it is suggested that model 1 has predictive value.

Hypothesis 1 suggested that there is a significant positive relationship between size of the board and corporate performance. The variable board size (BSIZE) has a significant positive relationship with market performance with p-value equal to 0.000 ($p<0.05$). Hence hypothesis 1 can be accepted. For each change in BSIZE, Q-ratio will change by 0.045 units. A larger board size can improve corporate performance. The higher the board size, the higher the Q-ratio. From the result, one can make a distinction that a bigger board size would produce better future performances. Logically, this is feasible, as a bigger number of board members would improve the diversity of perspective and ideas that are necessary in making sound decision. This in turn would produce better strategy for the company to follow.

Hypothesis 2 suggested that there is a significant positive relationship between number of non-executive directors in board and corporate performance. As illustrated in table 5, the variable number of non-executive directors (BODCOM) has a significant positive effect on market performance with p-value equal to 0.000 ($p<0.05$). Hence hypothesis 2 can be accepted. For each change in BODCOM, Q-ratio will change by 0.544 units. The findings indicate that the non-executive directors in board can enhance corporate performance. This is probably due to the function of non-executive director to bring in outsider's perspective and spot potential business which management has not discovered. Non-executive directors will help the company's performance by providing oversight function as well.

Hypothesis 3 suggested that there is a significant positive relationship between role duality and corporate performance. The results indicate a significant positive relationship between role duality of CEO and corporate performance for the pooled data. The p-value is 0.032 ($p<0.05$). Hence hypothesis 3 can be accepted. This is inconsistent with MCCG 2012 which recommending positions of chairman and CEO should be held by different individuals. This finding suggests that CEO duality may lead the company more effectively. This is due to better control of the company's affairs as CEO will bring in the same leadership style from management into board.

Hypothesis 4 suggested that there is a significant positive relationship between multiple directorships (MDIR) and corporate performance. The independent variable the number of directors who hold multiple directorships (MDIR) has a significant positive effect on market performance with p-value equal to 0.000 ($p<0.05$). Hence hypothesis 4 can be accepted. For each change in MDIR, Q-ratio will change by 0.435 units. The positive result implies better market performance when more directors hold multiple directorships. This is because multiple directorships help to create synergy since the directors can offer more ideas, expertise, knowledge and skills, especially when the information is exclusive to limited party, multiple directorships will facilitate information exchange and improve company's performance

Hypothesis 5 suggested that there is a significant positive relationship between top 5 shareholdings (TOP5) and corporate performance. The TOP5 has a significant positive effect on market performance with p-value equal to 0.000 ($p<0.05$). Hence hypothesis 5 can be accepted. For each change in TOP5, Q-ratio will change by 0.666 units. A concentrated shareholding can improve corporate performance. The higher the shareholding held by 5 largest shareholders, the higher the Q-ratio. Higher stake of ownership by shareholder recommend a closer monitoring in the company. The findings suggest that shareholders with significant shareholdings have a strong economic incentive and motivation to monitor the company. The survival and value maximisation of company is priority to them. Thus, the company's performance would be better by having concentrated ownership structure.

Hypothesis 6 suggested that there is a significant positive relationship between directors' ownership (DOWN) and corporate performance. However, the independent variable (DOWN) has p-value equal to 0.509 ($p>0.05$). Hence there is no significant relationship between directors' ownership (DOWN) and corporate performance and hypothesis 6 is rejected. Therefore, shares as incentive and reward to directors in order to reduce the agency problem are not affecting corporate performance.

By using the above regression results, a regression frame work is as follows:

$$\text{Performance} = -0.744 \quad + 0.045\, Bsize + 0.544\ \text{BODCOM} + 0.114\ \text{DUAL} \\ + 0.435\ \text{MDIR} + 0.666\ \text{TOP5} - 0.071\ \text{DOWN} \quad + \varepsilon$$

Table 4.4

Regression of Tobin's Q-Ratio on Corporate Governance Characteristics

Model	Unstandardized Coefficients		Standardized Coefficients	t-statistic	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Intercept	-.744	.174		-4.269	.000		
BSIZE	.045	.011	.199	4.039	.000	.926	1.079
BODCOM	.544	.155	.196	3.512	.000	.720	1.390
DUAL	.114	.053	.111	2.154	.032	.853	1.172
MDIR	.435	.104	.204	4.169	.000	.942	1.062
TOP5	.666	.167	.201	3.986	.000	.888	1.126
DOWN	-.071	.108	-.037	-.660	.509	.726	1.378
Dependent Variable: Q-Ratio							

* Represent the significance at the 5% level

Note: Q-Ratio refers to Tobin's Q; ROA refers to return on assets; BSIZE is board size; BODCOM is composition of non-executive directors in board to total number of directors in board; DUAL is duality role as chief executive officer and chairman; MDIR is proportion of directors having multiple directorships to total number of directors in board; TOP5 is total number of shares owned by the five largest shareholders over total shares outstanding; DOWN is total number of shares owned by all directors to total share outstanding.

4.3.2 Results based on accounting measure (ROA)

Table 4.5
Model Summary

Adjusted R Square	Change Statistics		
	R Square Change	F Change	Sig. F Change
.095	.109	7.507	.000

Predictors: (Constant), CAPEX, Multiple_Directorship, Role_Duality, Boardsize, Top5_Shareholding, Board_Composition

From the above table 4.5, the adjusted r-square model is 0.095 suggesting that this model (through its variables; BSIZE, BODCOM, DUAL, MDIR, TOP5 and DOWN) can aggregately determine ROA by 9.50%. This model has an F-value of 7.507 showing that this model is significant at α = 0.05. Therefore, linking these two results together suggest that this model is sound model to be used for analysis.

Table 4.6 reports the results based on return on asset as accounting performance in regression model 2. Performance is measured by return on assets. The significance of each variable is obtained at 0.05. Table 4.6 shows the results of 6 likely relationships. The dependent variable ROA is regressed by the independent variables of the corporate governance, which are board size (BSIZE), board composition (BODCOM), duality role (DUAL), multiple directorships (MDIR), top five shareholdings (TOP5) and directors' shareholdings (DOWN). The ANOVA result shows that the model 2 cannot predict the dependent variable using all independent variables. Since the significant is 0.329, it is suggested that model 2 has no predictive value.

Hypothesis 1 suggested that there is a significant positive relationship between size of board and corporate performance. The variable board size (BSIZE) has a significant positive relationship with market performance with p-value equal to 0.000 ($p<0.05$). Hence hypothesis 1 can be accepted. For each change in BSIZE, Q-ratio will change by 0.006 units.

Hypothesis 2 suggested that there is a significant positive relationship between number of non-executive directors in board and corporate performance. BODCOM is found not to be significantly related to accounting performance which consistent with analysis done by Mehran (1995). The independent variable number of non-executive directors (BODCOM) has p-value equal to 0.613 ($p>0.05$). Hence hypothesis 2 can be rejected.

Hypothesis 3 suggested that there is a significant positive relationship between role duality and corporate performance. However, the independent variable role duality (DUAL) has p-value equal to 0.222 ($p>0.05$). Hence hypothesis 3 can be rejected.

Hypothesis 4 suggested that there is a significant positive relationship between multiple directorships (MDIR) and corporate performance. The variable MDIR has not achieve significant result and this is consistent with analysis done by Mariolis (1975). The independent variable multiple directorships (MDIR) has p-value equal to 0.407 ($p>0.05$). Hence hypothesis 4 can be rejected.

Hypothesis 5 suggested that there is a significant positive relationship between top 5 shareholdings (TOP5) and corporate performance. The TOP5 has a significant positive effect on market performance with p-value equal to 0.000 ($p<0.05$). Hence hypothesis 5 can be accepted. For each change in TOP5, Q-ratio will change by 0.082 units.

Hypothesis 6 suggested that there is a significant relationship between directors' ownership (DOWN) and corporate performance. However, the directors' ownership (DOWN) has with p-value equal to 0.2223 ($p>0.05$). Hence hypothesis 6 can be rejected.

By using the above regression results, a regression frame work is as follows:

$$\text{Performance} = -0.058 \quad + 0.006\, Bsize - 0.011\ \text{BODCOM} + 0.009\ \ \text{DUAL} + 0.012\ \text{MDIR} + 0.082\ \text{TOP5} + 0.018\ \text{DOWN} \quad + \varepsilon$$

The above discussion shows a contradicting result on effects of corporate governance variables on performance of Malaysian companies. The first view supports corporate governance has significant impact on market performance (Q-ratio), while the second indicating no effects on operational performance (ROA). The results imply that Malaysian companies are more concern on future performance and growth opportunities which reflects in share price. The share price was determined by how the market perceives the value of the Company. On the other hand, ROA is more concern on past accounting information. Hence, it is not surprised to obtain different results by using different measurement.

The summary of the result research is presented in table 4.7. It shows that among the 6 hypotheses, 5 were found significant after tested by model 1. It also shows that among the 6 hypotheses, 2 were found significant after tested by model 2.

Model 1 result is based on market return (Q-ratio). P-value of board size of 0.000 suggests that the board size has positive influence on market return of Company. The large size of board can enhance companies' performance since more invaluable input or ideas can be shared among the directors (Pearce and Zahra, 1992). Nevertheless, the size of the board should be appropriate according the company's need. The result also shows that there is a significant positive relationship between the proportion of non-executive directors and corporate performance. This supports the recommendations in MCCG 2012 to have at least one-third of non-executive directors in board. Non-executive Directors are able to reinforce Board's knowledge and contribute their valuable experience and knowledge which belongs from their own fields (Weir, 1997). The result also reported that there is a significant positive relationship between the role duality and corporate performance. This is inconsistent with the recommendation in MCCG 2012 which the positions of chairman and CEO should be held by different individuals. The result also shows that there is a significant positive relationship between the multiple directorships and corporate performance. Multiple directorships are beneficial to company because the director can share his diverse skills and knowledge to board (Dahya et al., 1996). Company is required to ensure the director comply with Bursa Malaysia Listing Requirements on the restriction on directorships. The result shows that there concentrated shareholding structure can positively affect the corporate performance. This is because large corporate shareholder is able to act as a supervisor since it is considered worthwhile to put effort in safeguard their large stake of interest (Ramzi, 2008). The result shows that there is no significant relationship between the director's shareholding and corporate performance.

Model 2 results are based on accounting measure instead of market measure. The null hypothesis of H2, H3, H4 and H5 cannot be rejected. Therefore, the results show board size has effect on corporate performance. Board composition with more non-executive directors has influence on corporate performance as well. The duality role by chief executive officer has no significant influence on the company performance. The findings also demonstrate that a multiple directors in board do not have any significant influence on company's performance. The results exhibit that top 5 shareholdings in company did have any significant impact on company's performance. The results also show that directors' shareholding do not have any significant effect on the corporate performance.

In short, there is no ideal set of corporate governance structure (Yoshikawa and Phan, 2003). The local business environment and restriction may shape the corporate governance system of each country (Seifert, Gonenc and Wright, 2005).

Table 4.6
Regression of ROA on Corporate Governance Characteristics

Model	Unstandardized Coefficients		Standardized Coefficients	t-statistic	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Intercept	-.058	.024		-2.472	.014		
BSIZE	.006	.002	.210	4.117	.000	.926	1.079
BODCOM	-.011	.021	-.029	-.506	.613	.720	1.390
DUAL	.009	.007	.065	1.222	.222	.853	1.172
MDIR	.012	.014	.042	.830	.407	.942	1.062
TOP5	.082	.023	.190	3.634	.000	.888	1.126
DOWN	.018	.015	.070	1.219	.223	.726	1.378
Dependent Variable: ROA							

* Represent the significance at the 5% level

Note: Q-Ratio refers to Tobin's Q; ROA refers to return on assets; BSIZE is board size; BODCOM is composition of non-executive directors in board to total number of directors in board; DUAL is duality role as chief executive officer and chairman; MDIR is proportion of directors having multiple directorships to total number of directors in board; TOP5 is total number of shares owned by the five largest shareholders over total shares outstanding; DOWN is total number of shares owned by all directors to total share outstanding.

Table 4.7
Summary of the research result

		Model 1		Model 2	
Hypothesis	Hypothesis statement	P	Results	P	Results
H1	There is a significant relationship between size of the board and corporate performance.	0.000	Accept	0.000	Accept
H2	There is a significant relationship between a number of non-executive directors and corporate performance.	0.000	Accept	0.631	Reject
H3	There is a significant relationship between role duality and corporate performance.	0.032	Accept	0.222	Reject
H4	There is a significant relationship between multiple directorships and corporate performance.	0.000	Accept	0.407	Reject
H5	There is a significant relationship between top five shareholdings and corporate performance.	0.000	Accept	0.000	Accept
H6	There is a significant relationship between director's shareholding and corporate performance.	0.509	Reject	0.223	Reject

*Represent the significance at the 5% level

CHAPTER FIVE

CONCLUSIONS

5.1 Conclusion

This study provides valuable insights on the importance of corporate governance and its effect on the corporate performance of Malaysian companies. This study conducted using data collected from annual reports of 75 Malaysian companies listed on Main Market in Bursa Malaysia for the period of 2009 to 2013. This paper examined the relationship between 6 corporate governance variable, i.e. board size (BSIZE), board composition (BODCOM), duality role (DUAL), multiple directorships (MDIR), top five shareholdings (TOP5), and directors' shareholdings (DOWN) and 2 corporate performance, i.e. Tobin's Q (Q-Ratio) and return on assets (ROA) which focus on plantation and construction industries.

5.2 Limitations and Future Research

This paper has useful implications in providing significant evidence to support the relationship between performance and corporate governance structure. The contradicting results from model 1 and model 2 suggest a need to perform a further research. The results of this paper exhibit several limitations. The first limitation is this study was using Q-ratio and ROA to measure corporate performance. This study could also utilized other performance ratios such as earnings per share and return on equity because earnings per share is related to the profitability of a company where return on equity is related how much the investors earned for his investment

Secondly, this study disregards the external factors affecting the corporate performance. For example, the introduction of new laws and regulations, change in inflation rate and political change in a country may have substantial impact on company performance. In addition to the 6 corporate governance variables used in this paper, other variable for instance, gearing ratio and size of Company should be added as control variables.

Lastly, there is a limitation due to the limited sample size. This research has explored merely construction and plantation industries. In order to reflect the Malaysia market, sample may include all companies listed in Bursa Malaysia. In addition, a longer time series for example 10 years data can improve the accuracy of the sample results.

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