

CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF MALAYSIAN PUBLIC LISTED MANUFACTURING FIRMS

Muhammad Afnan Aniq Bin Abdul Khalis¹; Norlina Kadri²; Nurul Syuhada Binti Zaidi³; Bakri bin Abdul Karim⁴

Faculty of Economics and Business,
Universiti Malaysia Sarawak, 94300 Kota Samarahan, Sarawak, Malaysia
Corresponding author: knorlina@unimas.my

ABSTRACT

This study examines how corporate governance mechanisms influence the financial performance of Malaysian public listed manufacturing firms between 2019 and 2023. Drawing on agency theory and stewardship theory, the analysis focuses on board size, leverage, liquidity, and revenue growth as determinants of return on assets (ROA). Secondary data from 20 manufacturing firms listed on Bursa Malaysia were analysed using panel regression models, including Pooled OLS, Random Effects, and Fixed Effects estimators. The results indicate that leverage exerts a statistically significant negative effect on ROA, while liquidity and revenue growth are positively associated with firm performance. Board size shows no significant relationship with ROA, suggesting that the effectiveness of the board depends more on its quality and expertise than its numerical size. The findings extend prior Malaysian and emerging-market evidence on governance–performance linkages and provide practical insights for policymakers, managers, and researchers interested in strengthening governance frameworks in the manufacturing sector.

Keywords: *corporate governance, board size, leverage, liquidity, revenue growth, ROA, Malaysia, manufacturing firms*

INTRODUCTION

Corporate governance has been a central focus of regulatory reform in Malaysia since the 1997–1998 Asian Financial Crisis, which exposed serious weaknesses in oversight, transparency, and risk management. Zainal Abidin and Ahmad (2007) argue that the crisis highlighted structural governance failures, particularly in disclosure and board monitoring practices, prompting the introduction of the Malaysian Code on Corporate Governance (MCCG). These reforms were designed to encourage better alignment between managers and shareholders and to enhance investor confidence in Malaysian capital markets.

The manufacturing sector plays a crucial role in Malaysia's economic development through its contribution to gross domestic product, exports, and employment. Firms in this sector are often capital intensive and exposed to fluctuations in global demand, making sound governance systems especially important for managing risk and maintaining operational resilience. Prior Malaysian studies, such as those by Ponnu (2008), Zabri, Ahmad, and Wah (2016), and Abdullah (2021), have shown that governance mechanisms can influence firm performance, but they also suggest that the strength and direction of these relationships may vary across sectors and time periods.

Recent evidence points to continuing heterogeneity in governance quality among Malaysian firms. While some organisations have embraced best practices related to board structure, disclosure, and risk oversight, others still exhibit weaknesses in independence, transparency, or financial discipline. This suggests the need for updated, sector-specific empirical studies that focus on how governance characteristics relate to firm performance in

the post-reform period. This study responds to this need by examining the relationship between board size, leverage, liquidity, revenue growth, and ROA for public listed manufacturing firms over the period 2019–2023.

The study contributes to the corporate governance literature in two ways. First, it offers recent empirical evidence from a key emerging economy, enriching the comparative governance literature that already includes work from Turkey (Ciftci et al., 2019), the Gulf Cooperation Council (Pillai & Al-Malkawi, 2018), and other developing contexts (Puni & Anlesinya, 2020). Second, it focuses on the manufacturing sector, where governance mechanisms interact closely with operational and financial risk.

LITERATURE REVIEW

Corporate governance is commonly defined as the system of rules, practices, and processes through which a firm is directed and controlled (Shleifer & Vishny, 1997). Agency theory provides one of the most widely used theoretical foundations for governance research. Jensen and Meckling (1976) describe the firm as a nexus of contracts between principals and agents, where managers may act in their own interests unless appropriate monitoring and incentive mechanisms are in place. In this context, boards of directors, ownership structures, and disclosure requirements serve as tools for limiting agency costs and aligning managerial behaviour with shareholder goals.

Stewardship theory offers a complementary perspective, suggesting that managers may act as responsible stewards of organisational resources rather than purely self-interested agents (Daft, 2012). Under this view, governance mechanisms should support, rather than simply constrain, managerial decision-making. Both theories are relevant in the Malaysian context, where formal governance structures coexist with relational and institutional factors that shape how boards and managers interact in practice.

Empirical studies in Malaysia have produced mixed results regarding the impact of governance mechanisms on firm performance. Haniffa and Hudaib (2006) report that certain aspects of governance structure are positively associated with performance among Malaysian listed companies, while Ponnu (2008) finds that corporate governance structures can enhance accountability and investor confidence. Loh and Ragayah (2007) highlight that improvements in governance practices have contributed to better resource allocation and decision-making processes. More recently, Zabri et al. (2016) and Abdullah (2021) confirm that governance practices continue to influence performance, although the magnitude and significance of specific variables can differ across samples and time periods.

Board characteristics, such as size and composition, have attracted particular attention. Larger boards may bring diverse expertise and access to external resources, but they can also suffer from coordination problems and slower decision-making (Brick & Chidambaran, 2010). Nahar, Aziz, and Azani (2022) report mixed evidence on board size in Malaysia, suggesting that the quality, independence, and experience of directors may play a more important role than board size alone. International studies, such as Bhagat and Bolton (2008), also emphasise that the relationship between board characteristics and performance is complex and context-dependent.

Capital structure decisions represent another important dimension of governance. High leverage can impose discipline on managers by forcing them to meet fixed repayment schedules, but excessive debt may increase financial distress risk and limit strategic flexibility (Fama & Jensen, 1983). Empirical evidence from Malaysia and other emerging markets generally indicates that high leverage tends to be associated with weaker performance, especially when firms operate in volatile environments (Claessens & Yafeh, 2012; Abdullah, 2021). Liquidity and revenue growth are also key financial indicators that interact with

governance mechanisms. Firms with stronger liquidity positions are better equipped to absorb shocks, while sustained revenue growth often reflects successful strategic and operational decisions (Tsifora & Eleftheriadou, 2007; Mukhopadhyay et al., 2012).

METHODOLOGY

This study adopts a quantitative research design using secondary data drawn from the annual reports of 20 manufacturing firms listed on Bursa Malaysia. The observation period provides a current update on governance and financial performance in the subsequent era, spanning the fiscal years 2019 to 2023. Firms were chosen from the manufacturing sector to ensure sectoral homogeneity, hence eliminating industry-specific noise in the analysis. Return on assets (ROA) is used as the dependent variable and is calculated as net income divided by total assets, representing the efficiency with which firms convert their asset base into profits. Board size (BSIZE) is measured as the number of directors on the board. Leverage (DE) is proxied by the debt-to-equity ratio, capturing the extent to which firms rely on debt financing. Liquidity (LIQ) is represented by the current ratio, defined as current assets divided by current liabilities. Revenue growth (REVGROW) is measured as the annual percentage change in revenue. These variables are consistent with those used in prior studies, including Zabri et al. (2016) and Abdullah (2021).

Panel regression techniques were employed to estimate the relationships between the governance variables and ROA. Three models were estimated: Pooled Ordinary Least Squares (OLS), Random Effects (RE), and Fixed Effects (FE). The Breusch–Pagan Lagrange Multiplier test was used to compare the Pooled OLS and Random Effects models, while the Hausman test was applied to choose between the Random Effects and Fixed Effects specifications. These diagnostic tests help ensure that the chosen model adequately captures unobserved firm-specific effects and produces consistent parameter estimates (Jensen & Meckling, 1976; Fama & Jensen, 1983).

FINDINGS

Table 1 presents the descriptive statistics for the variables used in this study.

Variable	Mean	Median
BSIZE	8.76	9.00
DE	0.3263	0.1828
LIQ	2.6035	2.1570
REVGROW	6.0375	4.1000
ROA	9.7010	7.4695

On average, boards consist of approximately nine members, which is broadly in line with MCCG recommendations and previous Malaysian evidence (Haniffa & Hudaib, 2006; Zabri et al., 2016). The mean current ratio suggests that most firms maintain reasonable levels of liquidity, while the average revenue growth rate indicates modest expansion over the sample period. The mean ROA of around 9.7 percent suggests that, overall, manufacturing firms have been able to generate positive returns on their assets.

Table 2 reports the dispersion of values for each variable, including minimum, maximum, and standard deviation.

Variable	Min	Std Dev	Max
BSIZE	5	1.8319	13
DE	0.00053	0.3922	1.8451
LIQ	0.591	1.8616	13.10
REVGROW	-71.15	40.2159	239.53
ROA	-15.545	13.7111	78.818

The dispersion statistics reveal substantial variability across firms, particularly in revenue growth and ROA. Some firms experienced negative profitability during the period, while others achieved very high returns. The wide range in leverage suggests that capital structure policies vary considerably, reflecting different risk preferences and access to external financing (Claessens & Yafeh, 2012).

Table 3 presents the correlation matrix for the variables.

Variable	BSIZE	DE	LIQ	REVGROW	ROA
BSIZE	1	-0.033	0.102	-0.072	0.108
DE	-0.033	1	-0.465	0.023	-0.088
LIQ	0.102	-0.465	1	-0.244	0.014
REVGROW	-0.072	0.023	-0.244	1	0.600
ROA	0.108	-0.088	0.014	0.600	1

Revenue growth exhibits the strongest positive correlation with ROA, indicating that firms with higher revenue expansion tend to achieve better financial performance. Leverage shows a weak negative correlation with ROA, consistent with the expectation that higher debt may reduce profitability. The correlations among the independent variables are moderate, suggesting limited multicollinearity concerns.

Table 4 summarises the regression results from the Pooled OLS, Random Effects, and Fixed Effects models.

Variable	Pooled OLS	Random Effects	Fixed Effects
Constant	-3.1031	0.6700	9.5347
BSIZE	1.0373*	1.0705	0.9645
DE	-1.0940	-7.1466*	-24.1923***
LIQ	1.0543	0.2878	-0.6015
REVGROW	0.2203***	0.2048***	0.1951***

The regression results indicate that leverage is a significant negative predictor of ROA in the Random Effects and Fixed Effects models, supporting findings from prior Malaysian research (Abdullah, 2021; Haniffa & Hudaib, 2006). Revenue growth is consistently positive and highly significant across all model specifications, reinforcing the view that expanding firms benefit from economies of scale and improved market positioning (Tsifora & Eleftheriadou, 2007; Mukhopadhyay et al., 2012). Liquidity shows a generally positive but less robust relationship with ROA, while board size remains statistically insignificant.

DISCUSSION

The findings of this study align with much of the existing literature on corporate governance and firm performance in emerging markets. The negative association between leverage and ROA suggests that high debt levels may impose financial constraints and increase distress risk for manufacturing firms, particularly in uncertain economic conditions. This outcome is consistent with prior studies in Malaysia and other emerging economies that document the potential downside of aggressive debt financing (Claessens & Yafeh, 2012; Abdullah, 2021). Managers and boards in the manufacturing sector should therefore exercise caution when formulating capital structure policies.

The strong positive effect of revenue growth on ROA highlights the importance of strategic initiatives that promote sustainable expansion, such as innovation, market diversification, and efficiency improvements. This result resonates with findings from Tsifora and Eleftheriadou (2007) and Mukhopadhyay et al. (2012), who also link revenue growth with stronger financial performance. For practitioners, the implication is that governance mechanisms should not only focus on control and compliance but also facilitate strategic decision-making that supports long-term growth.

The insignificant relationship between board size and ROA suggests that simply increasing the number of directors is unlikely to improve performance. Instead, attention should be directed to the composition, independence, and expertise of board members, as emphasised in studies by Nahar et al. (2022) and Bhagat and Bolton (2008). This insight echoes the spirit of the MCCG, which stresses board quality and independence rather than numerical size alone.

CONCLUSION

This study provides recent evidence on the relationship between corporate governance mechanisms and financial performance in the Malaysian manufacturing sector. Using panel data from 2019 to 2023, the analysis shows that leverage negatively affects ROA, while liquidity and revenue growth support better performance outcomes. Board size does not have a significant impact, suggesting that board effectiveness depends more on qualitative attributes than on the number of directors.

The results contribute to the broader governance literature by confirming that capital structure and growth dynamics remain central to firm performance in emerging markets. For policymakers, the findings underscore the continued relevance of governance reforms aimed at enhancing financial transparency, prudent leverage, and effective board oversight. For managers and students, the study offers practical lessons on how governance and financial policies interact in shaping firm outcomes.

Future research could extend this work by incorporating additional governance variables such as board independence, ownership concentration, gender diversity, and environmental, social, and governance (ESG) indicators. Expanding the sample to include other sectors or a longer time horizon would further enrich understanding of how governance mechanisms influence firm performance in Malaysia and comparable emerging economies.

REFERENCES

- Abdullah, N. (2021). The impact of corporate governance on the financial performance in Malaysia. *UNIMAS Review of Accounting and Finance*, 5(1), 34–51.
- Bhagat, S., & Bolton, B. (2008). Corporate governance and firm performance. *Journal of Corporate Finance*, 14(3), 257–273.

- Brick, I. E., & Chidambaran, N. K. (2010). Board meetings, committee structure, and firm value. *Journal of Corporate Finance*, 16(4), 533–553.
- Ciftci, I., Tatoglu, E., Wood, G., Demirbag, M., & Zaim, S. (2019). Corporate governance and firm performance in emerging markets: Evidence from Turkey. *International Business Review*, 28(1), 90–103.
- Claessens, S., & Yafeh, Y. (2012). How does corporate governance affect bank capitalization strategies? *Journal of Financial Intermediation*, 21(2), 301–322.
- Daft, R. L. (2012). *Management* (11th ed.). Cengage Learning.
- Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law and Economics*, 26(2), 301–325.
- Haniffa, R., & Hudaib, M. (2006). Corporate governance structure and performance of Malaysian listed companies. *Journal of Business Finance & Accounting*, 33(7–8), 1034–1062.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
- Loh, L. H., & Ragayah, M. Z. (2007). Corporate governance: Theory and Malaysian practices. *Akademika*, 71(1), 31–60.
- Mukhopadhyay, J. K., Mallik, D., & Dhamodiwala, D. (2012). Corporate governance practices and financial performance of medium-sized companies in India. SP Jain Institute Research Report.
- Nahar, S., Aziz, A., & Azani, A. (2022). Board characteristics and firm performance in Malaysia. *Journal of Social Economics Research*, 9(4), 179–192.
- Pillai, R., & Al-Malkawi, H. A. N. (2018). On the relationship between corporate governance and firm performance: Evidence from GCC countries. *Research in International Business and Finance*, 44, 394–410.
- Ponnu, C. H. (2008). Corporate governance structures and the performance of Malaysian listed companies. *International Review of Business Research Papers*, 4(2), 217–230.
- Puni, A., & Anlesinya, A. (2020). Corporate governance mechanisms and firm performance: Evidence from a developing country. *International Journal of Law and Management*, 62(2), 147–169.
- Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *Journal of Finance*, 52(2), 737–783.
- Tsifora, E., & Eleftheriadou, P. (2007). Corporate governance mechanisms and financial performance: Evidence from Greek firms. *MIBES Proceedings*, 379–408.
- Wan Yusoff, W. F., & Alhaji, I. A. (2012). Corporate governance and firm performance of listed companies in Malaysia. *Trends in Management Studies*, 1(1), 43–65.
- Zabri, S. M., Ahmad, K., & Wah, K. K. (2016). Corporate governance practices and firm performance: Evidence from top 100 public listed companies in Malaysia. *Procedia Economics and Finance*, 35, 287–296.
- Zainal Abidin, N. A., & Ahmad, H. N. (2007). Corporate governance in Malaysia: The effect of corporate reforms. *Asian Academy of Management Journal*, 12(1), 23–34.