

Impact of Corporate Governance on The Financial Performance in Malaysia

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ABSTRACT

The aim of this study is to investigate the relationship between corporate governance and firm financial performance in Malaysia. This study is mainly focusing on four sections of corporate governance which are board independent, board size, the frequency of audit committee meeting and firm size. The population of this study is Top 30 firms in Malaysia that are public listed in Bursa Malaysia while for the period, this study focusses on year 2016 to 2019 which is 4 years. This study uses Return on Assets (ROA) to measure the firm effectiveness and efficiency. As for statistical analysis, this study uses E-View to run all the test such as Breusch-Godfrey Serial Correlation LM Test, Hausman Test, Ordinary Least Squared (OLS) method, Autocorrelation, Multicollinearity and Normality Test. According to the results of the analysis, board independent has positive insignificant relationship with firm performances while board size and firm performances have negative and insignificant relationship. As for the frequency of audit committee meeting and firm size, the results display that both variables have negatively significant relationship with the performances of the firm. Apart from that this study use two theories which are Prospect Theory and Agency Theory.

Keywords: Corporate governance, financial performance, agency theory

I.INTRODUCTION

This study aims to determine the impact of corporate governance on the financial performance of Malaysian companies. Turnbull (1997) defines corporate governance as "all the forces that shape the institutional structure," including those affecting managers and managers responsible for manufacturing, product, and service sales management. According to Ehikioya (2009), corporate governance is concerned with the processes and frameworks that allow participants in an organisation to take proactive measures to protect the interests of stakeholders. Corporate governors pursue a strategic advantage in a free-market information economy. This competitive advantage is possible if CG improves value by exploiting all available capital. Strong corporate governance practices ensure effective decision-making, process efficiency, and waste reduction.

Additionally, it balances the needs of all stakeholders, including executives and non-managers (Shleifer and Vishney, 1997). Shareholders may agree that businesses with sound corporate governance practices should ensure that free cash flow is returned to shareholders in the form of dividends rather than being seized by insiders (La Porta et al., 2002). Corporate governance has become increasingly relevant in contemporary times as businesses continue to grow in urban and rural areas (Freeman, 1983, 2010). They use local raw materials as

businesses grow, recruit local workers, sell to the community, and are taxed accordingly, all of which support the community in general. Furthermore, recent corporate scandals have been primarily attributed to 'poor' corporate governance. (Hearing news of scandals wreaking havoc on businesses is a near-daily occurrence.) The repercussions of organisational failure are enormous; they can be felt in every facet of society. For instance, investors' money can be wiped out overnight, jobs can be lost, and so forth (Mallin, 2016).

Moreover, interest groups known as stakeholders' activities can exert control over the company. For instance, if a business is unhappy with its operations, it will react negatively to the business. As a result, one should boycott its products. As a result, companies' "normal governance" will change, emphasizing socially responsible issues that break from the principle of shareholder primacy, while operations will remain exclusively focused on shareholder objectives (Rodriguez-Fernandez, 2016). Shareholders may agree that companies with sound corporate governance practises can ensure that free cash flow is returned to shareholders in the form of dividends rather than being reaped by insiders (La Porta et al., 2002).

This demonstrates that it is possible to understand corporate governance mechanisms about a business's financial results. Several independent researchers have spent decades researching the relationship between corporate governance and firm financial performance. The majority of these studies indicate that sound business management has a beneficial impact on a firm's financial efficiency (Stanwick & Stanwick, 2002).

LITERATURE REVIEW

The Cadbury Committee has been credited with the most common concept of corporate governance that governance is the structure that governs and regulates organizations (Cadbury, 1992). Shleifer and Vishny (1997) see corporate governance as ensuring their returns on corporate finance suppliers. Efficient monitoring of self-service management is necessary to provide the capital suppliers with this guarantee. Therefore, good governance includes efficient organizational frameworks that reduce the Agency's costs associated with the management of asymmetry of knowledge and entrenchment. Shah and Butt (2009) considered the Board's size to be adversely correlated with equity costs. Efficient corporate management would reduce the company's equity costs. Investors trust companies with a strong profitability profile and even a broad asset base.

Corporate governance is required as a result of management's separation from ownership and financial performance. A business must prioritize its economic and social objectives. Thus, it must be equitable with producers, shareholders, and customers, among others. It bears a variety of responsibilities to employees, customers, communities, and governance. Al-ahdal et al. (2016). Financial performance refers to the effectiveness with which a business organizes its internal and external actions or operations. Nowadays, performance is viewed as the organization's body, as it is believed that only when a firm performs well will its growth be accelerated. The firm's performance can be determined by the financial statements it publishes. Essentially, the success of a business is determined by its financial performance, which is analysed using a variety of tools and techniques. These indicators highlight the company's internal performance and profitability. Numerous studies have been conducted on various aspects of corporate governance and their impact on financial performance. For example, Abdullah & Ismail (2017) examined the relationship between corporate governance and financial performance at various levels of concentrated ownership and across various ownership types. Additionally, Mohamed et al. (2016) examined corporate governance

practises among Bursa Malaysia's top 100 publicly traded companies from 2008 to 2012 and the relationship between corporate governance practices and firm performance. The findings indicated that board size has a marginally negative relationship with return on asset (ROA). Moreover, in a sample of 20 companies listed in the S&P CNX Nifty 50 Index, Aggarwal (2013) examined the impact of corporate governance in the Indian context. Various tests such as regression, correlation, t-test, and F-test were used to examine this relationship over two years from FY 2010-11 to FY 2011-12. They have also taken into account the firm's size. They discovered that governance ratings have a significant positive effect on a company's financial performance.

Meanwhile, different corporate governance practises having been studied by Gupta & Sharma (2014) and companies in India and South Korea. The study reveals that corporate governance practices have limited effects on both corporate share prices and financial performance. However, Sayilir (2012) has also examined Turkish companies' relationship between corporate value and corporate governance. The study's results do not support the idea that improved corporate governance is linked to higher corporate values and better performance.

THEORETICAL FRAMEWORK

Prospect Theory

Prospect theory is a subgroup of behavioural economics that explains how people choose between probabilistic alternatives when there is risk involved, and the probability of different outcomes is unclear. Amos Tversky and Daniel Kahneman formulated this theory in 1979. They refined it in 1992, concluding that it is more psychologically accurate than the expected utility theory in terms of how decisions are made. Daniel Kahneman and Amos Tversky's work on prospect theory contributed significantly to our understanding of human behavioural biases. This culminated in Kahneman being awarded the 2002 Nobel Prize for Economics, which increased awareness of behavioural finance in financial and general academic communities.

Their interaction with the prospect theory cast doubt on the findings and their reliance on classical finance. According to prospect theory, a financial loss's (adverse) intensity is two or three times greater than the (positive) magnitude of an equal-sized benefit. This can make it easier to engage in behavior that avoids such an uncomfortable experience. To avoid the adverse emotional reaction before the investment's loss is realized, this could involve holding loss-making investments for a more extended period. Such behavioural forces may have a detrimental effect on the efficiency of equity research.

Prospect theory has been proven successful in various fields, including economics, finance, and management (Bernasconi, 1998; Bromiley 1991; Dhami and al-Nowaihi, 2007; Kyle et al., 2006; Odean, 1998; Rieger and Wang, 2006; Shimizu, 2007). Person conduct and non-corporate financial issues have been the focus of previous evidence on prospect theory. Few papers relate prospect theory to corporate decision-making, but there is inadequate empirical literature on corporate finance. Kyle et al. (2006) consider a liquidation problem compatible with prospect theory for a rational agent. They discover that if their current profits rise or fall below the break-even stage, the agent will liquidate a project with a higher Sharpe ratio.

On the other hand, if the project is currently losing money and the agent intends to liquidate it until it reaches break-even, the agent is willing to support a risky project with a relatively low Sharpe ratio. Shimizu (2007) addresses organisations' risk-seeking behaviours in the sense of divestiture of previously acquired units by incorporating prospect theory, organizational-level behavioural theory, and the threat-rigidity thesis. The evidence suggests that human and organisational factors influence divestiture decisions in ways that a single theory cannot explain.

Agency Theory

The agency theory of management elucidates the relationship between managers and shareholders (Donaldson & Davis, 1991). It seeks to resolve conflicting interests between the company's management and shareholders by prescribing mechanisms for resolving such conflicts, such as delegating project oversight to decision-making authority.

In addition to the agency principle, firms can maximize financial efficiency if costs are kept to a minimum. Shareholders may view the agency cost as a value loss due to the difference between managers' and owners' interests (Jensen & Meckling, 1976). Additionally, agency expenses are captured in the stock market, which influences the company's share price. As a result, if the agency's costs are handled effectively, it would help to increase the share price, thus improving the organization's overall financial efficiency. According to Jensen and Meckling, agency costs are measured as the number of price increases, bonding costs, and residual costs (1976). Additionally, the corporate governance process should eliminate the sources of these disputes to minimise the organisation, which is where the "agency principle." comes into play. Corporate governance processes that are well managed can allow executives to behave in the primary interest's best interest (Allen & Gale, 2001).

The agency's theory implies that when a well-developed market exists, corporate regulations are absent. Business failures, the lack of markets, adverse selection, asymmetric intelligence, incomplete contracts, and moral choices are all consequences. Numerous reports, however, suggest that vigilant oversight, healthy market competition, executive compensation regulation, prudent debt sourcing, effective boards of directors, corporate control markets, and concentrated holdings can all contribute to resolving the agency issue (Bonazzi & Islam, 2007). Proponents of agency theory contend that the CEO and chairperson roles should be separated. This enables successful oversight and a healthy balance between the CEO and the chairman (Gillan, 2006).

METHODOLOGY

This economic model is used to examine the relationship between corporate governance and firm performance. The financial output of the company in the analysis functions as a dependent variable and is calculated by one method which is return on assets (ROA). The control variables are the size of the firm in this analysis. Hence the estimation model is formulated and shown below:

$$ROA_{it} = \alpha_i + \beta_1(BI_{it}) + \beta_2(BS_{it}) + \beta_3(ACM_{it}) + \beta_4(FS_{it}) + \epsilon$$

Whereby

ROA = Return on Asset is Firm's Financial Performance
BI = Board Independent
BS = Board Size
ACM = Audit Committee Meeting,
FS = Firm Size
 β_0 = constant
eit = error term of the model

Descriptive Analysis

Descriptive statistics suggest the translation of raw data into a form that makes it easy to understand and define, redoing, ordering and manipulating information to produce descriptive information. They give easy overviews of the sample and the measures. They provide the basis, along with easy graphics analysis, for practically every quantitative data analysis,

Pearson Correlation Coefficient

The correlation coefficient of Pearson is the test statistics that calculate the relationship or interaction of variables between independent and dependent variables. Pearson Correlation Coefficient is considered to be the best method of measuring the correlation between variables of interest, as it is based on the concept of covariance. It offers information on the nature of the interaction, or correlation, and even the intensity of the relationship. To find out how strong a relationship is between data, correlation coefficient formulas have been used. A value between -1 and 1 is returned by the formulas, where:

- 1 reveals a clear positive interaction.
- -1 reveals a clear negative interaction.
- A consequence of zero implies no relationship exists.

Breusch Pagan LM Test

Breusch and Pagan (1980) invented a test called as Lagrange Multiplier (LM), which is used to distinguish between pooled and random effect model, in order to know which estimator is the most suitable model in assessing the investment equation for this research topic. Not only that, it is also a test that performed to know the presence of an unobserved variable or unobserved effect. This test is based on the statistical hypotheses as shown below:

H_0 : The model is pooled ordinary least square model.

H_a : The model is a model of random impacts.

Null hypothesis (H_0) will be rejected if p-value is lower than significant level (5%), indicated that random effect model is more appropriate as compared to pooled OLS model. In contrast, H_0 will not be rejected if chi-squared value is smaller than the calculated value or critical value, which resulting in the pooled model is the most appropriate model.

Hausman Test

Hausman specification test is a test that proposed by Hausman (1978). This test can be used to compare either fixed effect (FE) model or random effect (RE) model is the most appropriate model. In regression model, endogenous variables are the type of variable which have the value that identified by other variables. Endogenous explanatory variables (x) can be detected by performing this test. For panel data analysis, random and fixed effects models are statistical significantly different when the individual impacts are correlated with explanatory variables (x) and when the estimator is not correctly specified. This test is based on the hypotheses as shown below:

H_o : The model is random effects model.

H_a : The model is fixed effects model.

Fixed effects model will be selected as the most suitable model when the H_o is rejected due to the p-value is smaller in value than significance level (5%). In contrast, if chi-square statistic is smaller in value than critical value, the H_o will not be rejected, and random effects (RE) model is chosen as the most appropriate model.

Diagnostic Test

Ordinary Least Method

According to Frost (2013), the Ordinary Least Squares (OLS) estimation method is the most frequently used for linear models, and a good reason to conduct. As long as the model satisfies the OLS assumptions for linear regression, the user can rest assured that the best possible estimates will be obtained. Apart from that, Alto (2017) mentions that Ordinary Least Squares regression (OLS) is more commonly referred to as linear regression, regardless of the number of explanatory variables. The OLS method reduces the sum of square differences between observed and predicted values. Furthermore, Kenton (2021) stated that the Ordinary Least Squares (OLS) method is a type of mathematical regression analysis used to determine the best fit line for a set of data, thereby visualising the relationship between the data points. Each data point represents the relationship between an identifiable independent variable and an unknown dependent variable. Therefore, this method is use to examine whether there is any significant relationship between corporate governance and firm performance.

Multicollinearity Test

Multicollinearity is considered as a problem because one of the assumptions of CLRM stated has been violated, which is there is no multicollinearity founded between the explanatory variables (x). This indicates that the regressors (x) are correlated to each other, and the OLS estimation procedure will be difficult in estimating the relationship between each of the explanatory variable (x) and explained variable (y) independently. Multicollinearity also may lead to high variance of coefficient estimates. Variance Inflating Factors (VIF) can be used to detect the seriousness of multicollinearity problem. The serious problem of multicollinearity will occur when the VIF of regressors (x) is high ($VIF \geq 10$). Below is the hypothesis testing for multicollinearity:

H_o : No multicollinearity between the explanatory variables

H_a : Multicollinearity between the explanatory variables

H_o will be rejected if the VIF value of the independent variable is greater or equal to 10, otherwise it will not be rejected.

Heteroscedasticity Test (White)

In statistics, the problem of heteroscedasticity arises when there is no continuous variation in errors. This means that, for various observations, the variance is different. The error term must, according to the assumption in CLRM, be homoscedastic. Heteroscedasticity has some consequences. If there is heteroscedasticity, the Ordinary Least Square estimators remain impartial. The variance of the estimator may be greater or less than the true variance. In addition, the OLS estimator is inefficient (no longer has the minimum variance). In addition, significance checks are not true and the OLS estimators are not BLUE. The assumption is expressed as:

H_o : There is no heteroscedasticity among the error term (variance is constant)

H_a : There is heteroscedasticity among the error term (variance is not constant)

If the p-value is around 0.05, then H_o will be rejected at 5 percent of the significance stage. We should also assume that there is heteroscedasticity. On the other hand, if the p-value is 0.05, then it is difficult to deny H_o . The inference we should draw is that there is no heteroscedasticity.

FINDINGS AND DISCUSSION

Descriptive Analysis

Table 1: The Descriptive Statistics for All Variables

Variable	Observations	Mean	Std Dev	Min	Max
ROA	120	8.823777	8.752206	0.760000	49.17000
BI	120	51.04390	14.579650	17.00000	100.0000
BS	120	9.666667	2.870696	5.000000	20.00000
ACM	120	7.175000	4.445113	2.000000	30.00000
FS	120	6.804440	1.670438	3.240000	10.96636

Note: ROA=Return on Asset, BI=Board Independent, BS=Board Size, ACM=Audit Committee Meeting, FS=Firm Size

Table 1 presented the descriptive statistic that generated from the EViews software. There will be 120 observations, in which the data were taken from a total of Top 30 companies

listed under Bursa Malaysia (KLSE) and the annual report has been obtained from Bursa Malaysia from 2016 to 2019.

Based on the results above, the independent variables consist of corporate governance variables, i.e., board independent, board size, and audit committee meeting. In the case of board independence, the minimum number of members were 17% and the maximum numbers were 100%. This actually shows the strength of the firms and its performance. On the other hand, firm size is the control variables. Board size mean value is 9.67 for the period between 2016 to 2019. For the period from 2010 to 2017, the minimum board size is 5 members and maximum board size is 20 members. Board size is important as directors sit in the board to take decisions regarding the effective running of the firm. In the audit committee meeting the mean value is 7.18 and here the minimum number of meetings held during 2016 to 2019 were 2 and the maximum number of meetings were 30. As a control variable firm-size its mean value is 6.804444 and its range between 3.24 to 10.97.

Pearson's Correlation Matrix

Table 2: Pearson Correlation among Variables

	ROA	FS	BI	BS	ACM
ROA	1.000000				
FS	-0.148274	1.000000			
BI	-0.042157	0.251833	1.000000		
BS	-0.169954	-0.396026	-0.525479	1.000000	
ACM	-0.340894	0.041119	0.190744	0.096806	1.000000

Note: Indicates significant on 5% of significant level

ROA=Return on Asset, BI=Board Independent, BS=Board Size, ACM=Audit Committee Meeting, FS=Firm Size

Table 2 presented the Pearson's Correlation Matrix that generated from the EViews software. Pearson correlation is a statistical metric that is applied to determine the direction and strength of a relationship between two variables (Rodgers & Nicewander, 1988). The correlation coefficient will lie between -1 to +1, in which -1 indicates a perfectly negative correlation, while +1 is a positive correlation that is perfectly correlated. Moreover, the positive correlation indicates the increase of a variable will lead to the increase of another variable. Meanwhile for the negative correlation, the increase in one variable will be associated with the decrease in another variable.

The first pair is firm size and audit committee meeting show a positive correlation coefficient of 0.0411. The second pair is board independent and audit committee meeting with a positive correlation coefficient of 0.1907. The third pair is board size and audit committee meeting with a positive correlation coefficient of 0.0968. In the fourth, pair is ROA and audit committee meeting with a negative correlation coefficient of -0.3409.

Lastly, the relationship between board independent and audit committee meeting shows a positive correlation coefficient with value of 0.1907. 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 (1999).

Breusch-Godfrey Serial Correlation LM Test

Table 3: Breusch-Godfrey Serial Correlation LM Test Result

F-statistic	0.501218	Prob. F(2,113)	0.6071
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Table 3 presented the Breusch-Godfrey Serial Correlation LM Test Result that generated from the EViews software. The Breusch–Godfrey test is a test for autocorrelation in the errors in a regression model. It makes use of the residuals from the model being considered in a regression analysis, and a test statistic is derived from these.

The hypothesis of Breush-Godfrey test is:

H_0 : No autocorrelation in the error term.

H_a : Autocorrelations exist in the error term.

Based on the rejection rule of p-value approach, at 5% significance level, we reject H_0 if the p-value is less than 0.05. From the data above, the p-value is 0.6071 which is more than 0.05. Since $p\text{-value} > 0.05$, there is insignificant statistical evidence to reject the null hypothesis of no autocorrelation. Thus, we conclude that there is no serial correlation up to lag 2 in the residual of our regression model at 5% significance level.

Hausman Test

Table 4: Hausman Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq d.f	Prob.
Cross-section random	1.496339	4	0.8273

Table 4 presented the Hausman test result that generated from the EViews software. The Hausman test is used to detect the endogenous regressor in the regression model as well as to determine whether a fixed effect model (FEM) or random effect model (REM) is suitable to be used for the study (Zulfikar, 2019).

The hypothesis of Hausman test is:

H_0 : The preferred model is the random effect model. There is no correlation between the error term and the independent variables.

H_a : The preferred model is the fixed effect model. The correlation between the error term and the independent variables is statistically significant.

Based on the rejection rule of p-value approach, at 5% significance level, we reject H_0 if the p-value is less than 0.05. From the data above, the p-value is 0.8273 which is more than 0.05. Since $p\text{-value} > 0.05$, there is insignificant statistical evidence to reject the null hypothesis. Thus, we conclude that the preferred model is the REM and there is no correlation between the error term and the independent variables at 4 degree of freedom and at 5% significance level.

Diagnostic test

Ordinary Least Square Method (OLS)

Table 5: OLS Result

Variables	Coefficient	Standard Error	t-Statistics	P-Value
C	25.66833	6.705109	3.828175	0.0002
Board Independent	0.033900	0.062190	0.545113	0.5867
Board Size	-0.607986	0.329555	-1.844869	0.0676
Audit Committee Meeting	-0.635887	0.174753	-3.638784	0.0004
Firm Size	-1.195578	0.483865	-2.470890	0.0149
R ² = 0.180198 Adjusted R ² = 0.151683		Probability (F-Statistic) = 0.000124 F statistics = 6.319438		

According to table 5 the Ordinary Least Squared (OLS) Method results shows above, the empirical model is restructured as below:

$$\text{ROA} = 25.66833 + 0.033900 \text{ BI} - 0.0607986 \text{ BS} - 0.635887 \text{ ACM} - 1.195578 \text{ FS}$$

Whereby,

ROA is Return on asset.

BI is Board independent of the firm.

BS is Board size of the firm.

ACM is an Audit committee meeting.

FS is the firm size.

Based on the equation above, the board independent (BI) of the firm has a positive relationship with the return on assets (ROA) since the value is 0.033900. The result indicates that an increase of board independent (BI) by 1 percent will increase the number of returns on assets by 0.033900. However, if an increase of 1 percent in the board size (BS), audit committee meeting (ACM) and firm size (FS), the return on assets (ROA) will decrease by 0.0607986, 0.635887 and 1.195578, respectively.

Multicollinearity (VIF)

Table 6: Multicollinearity Result

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	44.95848	83.02300	NA
Board Independent	0.003868	20.11406	1.505511
Board Size	0.108606	20.38015	1.639014
Audit Committee Meeting	0.030538	4.008212	1.105008
Firm Size	0.234126	21.21479	1.196446

Table 7: VIF Result

Variable	VIF	Status of predictors
Board Independent	$1 < 1.505511 < 5$	not correlated
Board Size	$1 < 1.639014 < 5$	not correlated
Audit Committee Meeting	$1 < 1.105008 < 5$	not correlated
Firm Size	$1 < 1.196446 < 5$	not correlated

Based on the table 6 and 7 above, the centered VIF value for board independent, the board size, audit committee meeting, and firm size is 1.505511, 1.639014, 1.105008, and 1.196446, respectively. Hence, all VIF values for all variables shows that there is no multicollinearity problem in this study.

Heteroscedasticity (White)

Table 8: Heteroscedasticity (white) Test Result.

F-Statistic	0.721841	Prob.F(14,105)	0.7482
Obs*R-square	10.53547	Prob. Chi-Square	0.7221

According to table 8 the heteroscedasticity (white) test result shows above, the hypothesis for this test is stated as below:

H₀: There is no heteroscedasticity.

H_a: There is heteroscedasticity

Heteroscedasticity is a test that is used to assess whether there is an error term variance that is not constant in the model (Frost,2019). Based on the result above, the value probability chi-square of heteroscedasticity (white) test shows that 0.7221 which is greater than the level significant (0.05), hence do not reject the H₀. It also indicates that there is no heteroscedasticity in this study.

DISCUSSION ON FINDINGS

This study draws on the full accounts of Malaysia's publicly traded companies to provide insight into current internal corporate governance processes, which are likely to have an impact on firm performance. Prior research on the impact of corporate governance on business performance underlined the necessity for ongoing discussion on this topic. With the release of a revamped and improved version of the Malaysian Corporate Governance Guidelines, this study will investigate whether recent modifications to corporate governance procedures have benefited firm performance.

The first variable for this study is board independent and return on asset. Based on the Ordinary Least Squared (OLS) results shown above, the coefficient which is 0.033900 shows that there are positive association between board independent and return on asset. The p-value, Ordinary Least Squared (OLS) results show that p-value is higher than the significance level which is 0.05 or 5%, $0.5867 > 0.05$. Thus, hypothesis one that have been mentioned in Chapter 2 will be accepted since the findings of this study support the hypothesis one. There is previous research by Further, Frankel, McVay and Soliman (2011) extends related studies by associating board independence with the non-GAAP firm performance, which also shows that board independence is positively linked to the financial reporting quality of the firm.

The second variable of this study is board size and return on asset. The coefficient results displays that the relationship between board size and return on asset are negative because the value of the coefficient show -0.607986 . Nevertheless, as for the p-value, the value is higher where 0.5867 is higher than level of significance value, 5%. Hence the results indicate that board size and return on asset have negative and insignificant relationship. Therefore,

hypothesis two that have been developed in chapter two are needed to be reject since the relationship between two variables are negative. The results also shows that board size are likely less involves in produce better future of the firm. According to a previous study, firms with a larger board of directors were also found to negatively correlate with return on asset, thereby improving firm performance (Dalton, Daily, Johnson, & Ellstrand, 1999; Peasnell et al., 2005; Xie et al., 2003). According to Shakir (2008), board effectiveness is not dependent on the number of directors. However, a minimum number of directors with sufficient experience and knowledge must ensure tasks are completed efficiently. Al-Matari et al. (2012) also conclude that large board size has a detrimental effect on business performance when ROA is used as a metric. As a result, this analysis confirms the findings of Pathan and Skully (2010) and Dar et al. (2011), which indicate that there is no statistically significant relationship between board size and business performance.

Next, is the coefficient test result for audit committee meetings and return on asset. The coefficient results shows that there are negative linked between audit committee meetings and return on asset since the value of the coefficient test show -0.635887. However, as for the p-value of this study, the value is lower where 0.0004 is lower than level of significance value which is 0.05 or 5%. Thus, the results display that audit committee meetings and return on asset have negative and significant relationship. Hypothesis three that have been developed in chapter two are no needed to reject since the relationship between two variables are significant. There is previous research by Contrary, Brick and Chidambaran (2010) and Xie et al. (2003) discovered that board meeting frequency was negatively significant. Conger, Finegold, and Lawler (1998) found that a higher board meeting frequency effectively monitors managerial behaviour to ensure that it is consistent with shareholders' goals. This would almost certainly reduce agency conflicts and improve firm performance, as time spent in board meetings is a critical resource for increasing a board's effectiveness. Apart from that, Jensen's (1993) study emphasised that frequent board of director meetings are likely an indication of a firm's reaction to poor performance. The frequency of board meetings reflects the level of board activity. Effective businesses are expected to hold an appropriate number of board meetings.

For the last variable of this study which is firm size. The results of Ordinary Least Squared (OLS) method above shows that the relationship between firm size and the return on asset are negative since the coefficient value is -1.195578. As for the p-value of the variables shows 0.0149. The p-value of the variables are lower than the significance level which is 0.05 or 5%. Hence, the hypothesis four of this study cannot be accept since the p-value between firm size and the return on asset, is lower than the level of significance which is 0.05 or 5% and the results shows that there are negative association. Hypothesis four that have been developed in chapter two are needed to be reject since the relationship between two variables are significant. The results of the data analysis indicates that there is a negative relationship between firm size and firm profitability (ROA) is logically accepted because ROA's denominator is total assets, hence the higher a company's total assets, the lower its ROA, assuming constant net income. However, this study's findings contradict those of Dogan (2013), Akbas and Karaduman (2012), Devi and Devi (2014), and Prasanjaya and Ramantha (2013), all of whom found a beneficial influence. They say that the more assets a corporation has, the more revenue it can earn by employing those assets, and thus the higher its profitability. Other studies, such as Niresh and Velnampy (2014), suggest that there is no significant association between the two variables, i.e., ROA and total assets, assuming that some organizations do not place a high value on their assets when earning profits. As a result, this study adds to the literature on the relationship between firm size and profitability by demonstrating that it is negative.

CONCLUSION AND POLICY IMPLICATION

This study aims to determine the impact of corporate governance on financial performance of Malaysian companies. The companies that are being select to conduct this study is Top 30 best companies in Malaysia that are public listed in Bursa Malaysia. As for the period, this study uses four-year form year 2016 to 2019 (four years). The independent variable of this study, Corporate Governance is divided into few categories which are board independence, board size, audit committees. As for the dependent variable return on asset are used to measure the performance of the firm financial. This study has conducted few tests in order to find the presences of abnormal and error in the data. Besides that, this study uses E-Views statistical analysis to test the error that might occur in the data and at the same time E-Views also being used to find the relationship between independent and dependent variables which is corporate governance and the firm financial performance. Few tests has been conduct in this study such as descriptive analysis, Pearson Correlation Coefficient, Bruesch Pagan LM Test, Hausman Test, Ordinary Least Squared Method (OLS), Multicollinearity Test and Heteroscedasticity Test (White). All test indicates that there are no problem occur in the data that has been collected.

Overall, for the findings of this study, the results indicates that there are mixed findings on the relationship of independent variable and dependent variable. This study finds that independent board directors and firm performance have positive and significant relationship. The finding shows that with the presences of independent board director, can have better corporate governance and can improve the company performance. However, three variables which are board size, the frequency of audit committee meeting and firm size have no impact towards the firm financial performance. Apart from that, all the variables also display insignificant relationship with firm performances. Therefore, to sum up corporate governance does not give impact towards the firm performance.

The main purpose of this study is to investigate whether the firm performance can be affected by the corporate governance in Malaysia's firm. The outcome of this study might be helpful to solve the issues regarding the relationship between corporate governance and firm performance since some people still do not know the association between the two variables. This study also might help other researcher expanding the research. Besides that this study also might give new perspective of researchers and readers toward the relationship between corporate governance and firm performances.

Through the empirical results of this study, this study can help the firm manager and economic policymaker gain insight on how the firms in Malaysia operate. Besides that, this finding of this study can assist the economic policymakers in revising policies to enhance the efficiency of the firm in Malaysia. Furthermore, this study could help the management of the firms to ensure whether good corporate governance give impacts towards the firm performance.

This study only focuses on Top 30 Malaysian public listed companies from year 2016 to 2019 which is four years. Hence the results of this study cannot be generalized to the whole Malaysian economy. Apart from that there are few companies did some changes in the time period of their annual reports due to the company management's decisions therefore it give impacts towards the accuracy of the data. Lastly, this study only use one indicator to measure the firm performance.

More fascinating information about governance indicators can be discovered with a thorough research. Apart from yearly reports, additional data sources like as interviews with management, investors, and suppliers, as well as an examination of firms' records (if possible), can be used to ascertain the true state of a firm's governance quality. Future study also should use other indicator to measure firm performance since there are various method to measure firm performance such as Return on Equity (ROE), financial ratios, measure of the sales growth and many more.

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