

DO BETTER-GOVERNED FIRMS ENHANCE SHAREHOLDERS' VALUE? A STUDY OF CORPORATE GOVERNANCE INDEX FIRMS

Abdul Basyith^{*}, Pauline Ho^{**}, Fitriya Fauzi^{***}

^{*} University of Muhammadiyah Palembang, Palembang, Indonesia

^{**} Riam Institute of Technology, Sarawak, Malaysia

^{***} Corresponding author, Department of Economics & Finance, RMIT University, Ho Chi Minh, Vietnam

Contact details: RMIT University, 702 Nguyen Van Linh, District 7, 700000 Ho Chi Minh, Vietnam



Abstract

How to cite this paper: Basyith, A., Ho, P., & Fauzi, F. (2022). Do better-governed firms enhance shareholders' value? A study of corporate governance index firms. *Journal of Governance & Regulation*, 11(2), 107–115.
<https://doi.org/10.22495/jgrv11i2art9>

Copyright © 2022 The Authors

This work is licensed under a Creative Commons Attribution 4.0 International License (CC BY 4.0).
<https://creativecommons.org/licenses/by/4.0/>

ISSN Print: 2220-9352
ISSN Online: 2306-6784

Received: 10.11.2021
Accepted: 07.04.2022

JEL Classification: G30, G32, G34
DOI: 10.22495/jgrv11i2art9

Malaysia has taken various actions to improve the corporate governance (CG) mechanisms and practices for all listed firms. In 2011, the Malaysian Corporate Governance Index (MCGI) was released, and before that, in 2009, the blueprint of MCGI was introduced. As a result, MCGI released annually the top 100 listed Malaysian firms that have been classified and ranked as the well-governed firms from its corporate governance compliance and disclosure. This study examines the efficacy of MCGI on shareholders' value over the 12-year periods from 2008 to 2019 and compares pre- and post-CG Blueprint. A generalized least square (GLS) method is employed as it fits the data characteristics in this study, and robust results are yielded. The results reveal that MCGI, firm size, ROA, and female directors exhibit a significant impact on shareholders' value while leverage and growth yield non-significant effects on shareholders' value. Overall, firms tend to use external financing rather than internal financing as the preferred option. This supports the contention that trade-off theory was adopted in the Malaysian context for the study period. However, this result is unstable over time; therefore, an up-to-date investigation of its relationship is necessary.

Keywords: Corporate Governance, Shareholders' Value, Malaysian Corporate Governance Index (MCGI), Malaysian Listed-Firms

Authors' individual contribution: Conceptualization — A.B., P.H., and F.F.; Methodology — F.F.; Writing — Original Draft — A.B., P.H., and F.F.; Writing — Review & Editing — F.F.; Supervision — A.B. and P.H.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

A country with a prospective investment appeal needs efficient financial markets in which corporate governance (CG) plays a vital role, affecting high investors' protections. Corporate governance mechanisms are designed to protect all interests within the firms, including shareholders and stakeholders (Jiraporn, Kim, Kim, & Kitsabunnarat, 2012). Corporate governance requires firms to uphold the best practice and demands voluntary participation; otherwise, law enforcement will hold

the firms accountable. Corporate governance is also essential to stakeholders in which their various roles affect the entire organization (Freeman, Harrison, & Wicks, 2008).

The success of maximizing shareholder welfare is largely determined by the implementation of value-based and long-term management. Managers and directors should have a similar commitment to shareholders' interest to maximize the firm value through allocative, productive, and dynamic efficiency-based on the shareholder model of agency theory (Brealey & Myers, 2002; Block & Hirt, 2000).

Over the past decades, there has been increased attention to the soundness of corporate governance framework in impacting shareholder value maximization. Several studies have examined the efficacy of corporate governance on shareholders' interests with inconclusive results. This difference can be caused by the absence of similarities in assessment or standardization, differences in perspective at the corporate or state level, lack of awareness to comply with regulations, many choices of mechanisms in the implementation of governance, different data sources, can cause measurement different data and different methodologies and statistical analysis. These studies are characterized by a lack of standardization, differing in terms of country focus, regulatory compliance requirements, choice of corporate governance mechanisms, data sources, selection of measurements, and statistical methodologies.

The Malaysian Capital Market in 2000 promulgated the Malaysian Code of Corporate Governance (MCCG), and then, the government evaluated the transformation impact of the governance structure. The best practices and recommendations of MCCG become an integral part of the Bursa Malaysia Listing Rules. The Securities Commission Malaysia (SC) initiative was the Capital Market Masterplan 2 (CMP2) launched in 2011. The first major deliverable from the CMP2 is the Corporate Governance Blueprint launched by the SC. The Blueprint led to the release of MCCG 2012. There is awareness about changing market behavior, global developments and the demand to continue to make changes and improve an effective governance system, which was revised after realizing changing market dynamics, international developments, and the need to continually recalibrate and improve the effectiveness of the governance framework. It is premised on the expectation that boards of companies occupy a central role as agents of shareholders within the corporate governance ecosystem. Under this new paradigm, self-and market discipline is promoted through a more proactive shareholder influence and the heightened role of gatekeepers and influencers.

Active participation of substantial institutional investors in public listed firms is required by Minority Shareholders Watchdog Group (MSWG) to support the government initiative of becoming an independent and extensive capital market. In this respect, it further strengthens and enhances the role of institutional investors in exercising responsible ownership and monitoring a firm's development by a leadership role in governance.

In light of this environment, this study is proposed to investigate the impacts of the MCGI on Malaysian public listed companies, shareholders and investors. Firstly, this study has two significant aims: 1) to examine the extent of compliance of Malaysian listed companies with corporate governance practices over the period from 2008 to 2019; and 2) to assess the impact of the MCCG on company valuation during the 12-year period. Secondly, the development of the corporate governance landscape over time provides the opportunity to undertake a comparative study to assess the efficacy of MCCG 2012. Hence, this study compares the extent of compliance and impact of the MCG on company valuation between the pre-CG

Blueprint (2008–2011) and post-CG Blueprint (2012–2019). Altogether, two areas are proposed in this study to examine the extent of compliance with corporate governance practices and the impact on shareholders' wealth over the 12-year period from 2008 to 2019 and compare between pre-and post-CG Blueprint.

This period (2008–2019) is chosen because it represents the global financial crisis (GFC) 2007–2008. Although its epicenter was in the United States, the GFC had brought enormous ramifications for the world economy, including Malaysia, with the collapse in exports and a slowdown in foreign direct investment. The aftermath of the Asian Financial Crisis was the regulation of the financial sector without affecting the stock market. Despite the GFC, the Malaysian Government confidently said in early 2009 that Malaysia's economic fundamentals were still strong. Further, MSWG introduced the Malaysian Corporate Governance Index (MCGI) in 2009 and subsequently enhanced the adoption of the ASEAN index to become the Malaysian-ASEAN Index from 2012. Hence, this study examines the impact of corporate governance practice through voluntary adoption using Malaysian listed companies from 2008 to 2019 to provide insight into the governance reform consequences. The MCGI captures each company's governance structure reflecting the code of corporate governance best practice recommendations. The MCGI is an indicator of good governance implementation for both the variety and the quality of corporate governance implementation. The results of research using twelve years of data show that the implementation of good corporate governance can improve the welfare of company owners, the results of this study form the basis of this research. As a control tool for unobservable events or the heterogeneity of the company structure and the choice to use governance mechanisms is to use panel data, this is in line with the arguments of Himmelberg, Hubbard, and Pailia (1999).

The structure of this paper is as follows. Section 2 reviews the relevant literature. Section 3 analyzes the methodologies that have been used to conduct empirical research on corporate governance indices and corporate performance. Section 4 presents findings and discusses the findings. Section 5 concludes the study.

2. LITERATURE REVIEW

The management of public firms is generally entrusted to the managers, and commonly this separation between the owner and the management leads to agency problems if the managers' interest does not align with the owners' interest according to agency theory (Jensen & Meckling, 1976). Thus, the Sarbanes-Oxley Act was introduced to enhance transparency and control of agency costs by enacting various governance requirements for listed firms. A company with poor corporate governance tends to increase the likelihood of financial distress and bankruptcy (Daily & Dalton, 1994). Corporate governance was used to enhance operating performance, and it was used to prevent fraud (Yeh, Lee, & Ko, 2002). It is also believed that good corporate governance helps to generate investor goodwill and confidence.

Corporate governance has been extensively studied in recent years. Many recent studies have focused on the corporate governance mechanisms, such as board structure, board demographics, board leadership, board education, and board evaluation, and relate it to firm performance across countries operating under different characteristics with the majority in the US, the UK, and Japan (Callen, Klein, & Tinkelman, 2003; Erhardt, Werbel, & Shrader, 2003; Garg, 2007; Kang, Cheng, & Grey, 2007; Rose, 2007; Sheridan & Milgate, 2005; Fauzi & Locke, 2012; Basyith, Fauzi, & Idris, 2015; Fauzi, Basyith, & Ho, 2017; Fauzi, Basyith, & Foo, 2017; Tarchouna, Jarraya, & Bourri, 2017; Bhagat & Bolton, 2019), and Asian countries such as Taiwan (Chen, Kao, Tsao, & Wu, 2007), Thailand (Hodgson, Lhaopadchan, & Buakes, 2011) and India (Arora & Bodhanwala, 2018; Kaur & Vij, 2018; Mishra, Jain, & Manogna, 2021), and the UAE (Al-Gamrh, Ku Ismail, Ahsan, & Alquhaif, 2020). Those studies yield different results affected by each country's trait and prevailing governance system. Thus, investigating Malaysian's listed firms could add diversity to the growing body of work that examines this relationship.

Furthermore, the relationship between corporate governance and firm performance of listed firms in Malaysia has been extensively investigated by many researchers (Ponnu, 2008; Ibrahim & Abdul Samad, 2011; Kah Marn & Romuald, 2012; Wan Yusoff & Alhaji, 2012; Mustafa, Mohd. Ghazali, & Mohamad, 2015; Mohamed Zabri, Ahmad, & Wah, 2016; Bhatt & Bhatt, 2017). Many recent studies have focused on the board structure as one of the corporate governance mechanism indicators. Ponnu (2008) studied the impact of corporate governance structures and the performance of Malaysian public listed companies for 1999 and 2005. Using 100 listed firms selected from 30 large companies and 70 mid-sized companies, this study employed a non-parametric test to test the difference between 1999 and 2005. Duality and proportion of independent directors are used as corporate governance proxy, and return on assets and return on equity are used as firm performance proxy. The results revealed no significant relationship between corporate governance structures and firm performance.

Ibrahim and Abdul Samad (2011) investigated the relationship of corporate governance mechanisms and performance between family and non-family ownership of public listed firms in Malaysia from 1999 to 2005. Two hundred ninety firms were selected from 474 firms listed on the main board of Bursa Malaysia. Board size, independent directors, and duality are used as corporate governance proxy, and return on assets and return on equity are used as firm performance proxy. The results revealed that family-owned firms experienced a higher value than non-family-owned firms. Further, the corporate governance for family and non-family firms has a significant solid influence on firm performance.

Kah Marn and Romuald (2012) studied the impact of corporate governance mechanism and corporate performance of listed firms in Bursa Malaysia from 2006 to 2010. Using 20 firms, a panel regression is employed. Board size, audit committee,

board composition, CEO, and ownership status are used as corporate governance proxies, and earning per share is used as corporate performance. The results revealed that only board size and ownership status significantly affect firm performance.

Wan Yusoff and Alhaji (2012) examined the relationship between corporate governance and firm performance of listed companies in Malaysia. Using 813 listed firms that represent 9 sectors of the main board of Bursa Malaysia from 2009 to 2011, they employed a proportion of non-executive directors, board leadership structure, and board size as corporate governance proxies and earning per share and return on equity as firm performance proxies. The results revealed that the influence of corporate governance on the financial performance of Malaysian listed firms is similar to previous studies in Malaysia and other countries. They also concluded that there is no different effect on financial performance even though various corporate governance reforms have been undertaken in Malaysia since 2000.

Mustafa et al. (2015) studied the influence of corporate governance and organizational capacity on the performance of Malaysian listed companies for the period of December 2009 to April 2010. They employed a survey method to derive corporate governance variables (independent director, CEO duality, board size, ownership concentration, financial management, and organizational learning) and corporate performance variables. As they stated, the reason for using the survey method to acquire the data using the application of a mail questionnaire is to add value in how findings from the questionnaires highlight the perceptions of individuals about the research objectives extend the research methodology corporate performance. However, the results found no significant effect of corporate governance on firm performance.

Mohamed et al. (2016) investigated the impact of corporate governance practices on firm performance among the top 100 listed firms in Bursa Malaysia from 2008 to 2012. Descriptive analysis and correlation are employed. Board size and board independence are used as corporate governance proxy, and return on assets and return on equity are used as firm performance proxies. The results revealed that board size has a significantly weak negative relationship with return on assets but significantly affects return on equity. Further, there is no significant effect of board independence on firm performance. In conclusion, this result seems inconclusive as there is no robustness in the results found. Furthermore, Bhatt and Bhatt (2017) investigated the effect of the MCGI on the performance of the 113 listed companies in Malaysia and found a positive and significant impact of MCGI on firm performance.

Kaur and Vij (2018) investigated the compliance of corporate governance practice in the Indian banking sector and found that the corporate governance index has a significant and positive impact on firm financial performance measured by return on assets, Tobin's Q, and economic value-added. However, Mishra et al. (2021) who also investigated the impact of corporate

governance on firm performance in India, found an inconclusive result. The corporate governance index (CGI) positively affects return on assets and return on net worth but negatively affects Tobin's Q.

Bhagat and Bolton (2019) found a positive and significant impact of director stock ownership as a measure of corporate governance on firm performance but a negative impact on a firms' future risk in the U.S. financial institutions sector. In addition, Al-Gamrh et al. (2020) found a weak corporate governance practice in the UAE for all listed firms on the Abu Dhabi Stock Exchange (ADX) and the Dubai Financial Market (DFM). If the firms implement a good corporate governance practice, it can eliminate the negative impact of investment opportunities on firm performance.

It can be concluded that the results from previous recent studies for the period before and after the corporate governance code (2009 to 2019) yield inconsistent and inconclusive results; hence, this study attempts to examine top 100 listed firms in Bursa Malaysia robustly. Thus the results could add diversity to the growing work exploring this relationship. Moreover, all previous studies employed the corporate governance variables to examine their effects on firm performance. Yet, this study only focused on those listed firms ranked in terms of their corporate governance compliance and disclosure. Thus, this study assumed that all firms included in the analysis are well-governed. Therefore, this study attempted to link the corporate governance rank with its shareholders' value without having more corporate governance variables in the models except for female directors. In addition, the proportion of female directors on board is low as few firms in the study still have no female directors on board (see Table 1).

Further, the higher regulatory requirements compliance provided a catalyst for the increased importance of corporate governance, which is perceived by investors as voluntary ownership responsibility as studied by the Institutional Shareholders Services Global Institutional Investor in 2006. Consistent with this, it is expected that corporate governance within Malaysian firms has improved due to the enhanced MCCG. Thus, the study tests the following hypothesis:

H1: The extent of compliance with corporate governance practices by Malaysian listed firms has improved from 2008 to 2019.

Prior academic studies substantiate the importance of corporate governance in making a difference in managerial decisions and firm performance and valuation (Larcker, Richardson, & Tuna, 2005). It is widely acknowledged companies that run good governance will provide guarantees for investors to pay premiums. Several indicators that can be used to assess the company's implementation of good governance are by looking at the independence of the board, openness, accountability, the board of directors who carry out the function as an agent of the company and show superior performance. Jensen and Meckling (1976) have long touted this mechanism for reducing agency problems by monitoring and controlling management's opportunistic behavior. Hence, it is expected that better-governed firms have enhanced shareholders' wealth. Thus, the following hypothesis has been tested:

H2: There is a negative association between the corporate governance's rank of the firm and the shareholders' wealth.

The above hypotheses H1 and H2 will be tested: 1) over 12 years from 2008 to 2019; 2) pre-and post-CG Blueprint.

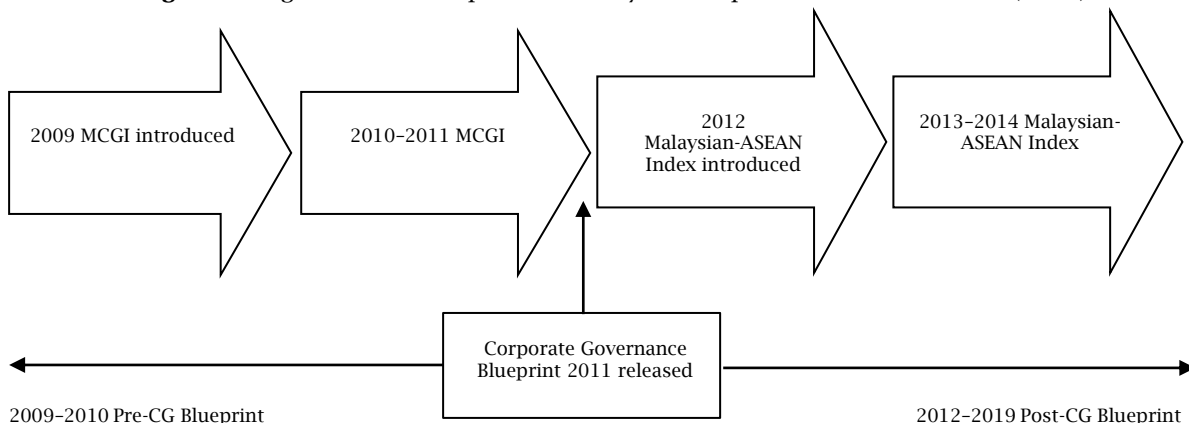
3. METHODOLOGY

3.1. Data

This study uses data from the annual report of Malaysian-listed firms for 2008–2019, collected from the Bursa Malaysia archive (Malaysian Stock Exchange). This study includes listed firms in the top 100 companies issued by Minority Shareholders Watchdog Group. MSWG was set up in 2000 as a Malaysian Government initiative to participate in the capital market. This body aims to protect the interests of minority shareholders and bring awareness about minority shareholders' protection.

The development of Malaysian Corporate Governance Index that frames the study is illustrated as follows:

Figure 1. Stages of the development of Malaysian Corporate Governance Index (MCGI)



Samples selected for the study are taken from the top 100 companies based on the MCGI over a 12-year longitudinal timeframe from 2008 to 2019. This study uses 6 MCGI starts from 2010 to 2019 (6 MCGI reports), and only firms listed for at least 4 times on the top 100 companies are included for analysis. Further, this study excludes banks, trust, investment, and insurance companies and, those firms with any missing observations for any variable in the model during the research period are dropped. Thus only 47 firms fit the criteria giving a total of 564 observations. The exclusion of banks, trust, and insurance companies has different management and governance structures and is subject to banking and other regulatory requirements. Though only 47 firms were observed, the sample will suffice in capturing aggregate corporate governance in the country because those top 100 listed firms represent the whole industry in Malaysia.

3.2. Variables

This study uses market capitalization (*MCAP*) to measure shareholders' value as the dependent variable. Market capitalization measures the company's size, which is vital as the company size determines various characteristics in which investors are interested. According to market capitalization, firms can be categorized into large-capital, middle-capital, and small-capital firms. Most firms included in the top 100 MCGI are large-capital and middle-capital firms in which those firms are significant players in well-established industries. These firms generally have a consistent increase in share value and dividend payment, and hence they provide consistent rewards for investors. Market capitalization is calculated by multiplying the market share price and the total number of shares outstanding.

The explanatory variables Malaysian Corporate Governance Index (*MCGI*), firm size (*FSIZE*), leverage (*LEV*), return on assets (*ROA*), *Auditor*, female directors on board (*WOMEN*), growth (*GROWTH*), and *financial year*. *MCGI* is measured using the firm's rank listed on the top 100 firms listed by Malaysian Corporate Governance Index. This *MCGI* can measure the level of awareness to comply with the governance structure. Which will be used as an indicator of the independent variable and the index becomes the basis of the methodology that is widely used in similar research. Examples include the Standard and Poor's 500, CLSA (Credit Lyonnais Securities Asia) and the ISS Corporate Governance Quotient, as well as self-developed governance indices (Klapper & Love, 2004; Gompers, Ishii, & Metrick, 2003; Black, 2001; Black, Jang, & Kim, 2006; Henry, 2008; Ho & Taylor, 2013). The level of compliance with the corporate governance structure will be measured using the *MCGI*, which functions as a proxy for the independent variable. The index has become a popular methodological approach to measuring the overall quality of compliance with a comprehensive set of governance-related mechanisms.

Further, firm size (*FSIZE*) is measured as the natural logarithm of total assets. Leverage (*LEV*) is measured as the ratio of total debts over total

assets. Return on assets (*ROA*) is measured as net income ratio over total assets. The *Auditor* is a dummy variable that takes the value of 1 if a firm uses big four auditor firms such as Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and Klynveld Peat Marwick Goerdeler (KPMG) and zero if otherwise. The female director variable (*WOMEN*) is measured as the percentage of female directors on the board. *GROWTH* is measured as the ratio of dividends per share over the market share price. The *financial year* (2008 to 2019) is set as dummy variables.

3.3. Method

A panel data analysis is employed since the data are pooled across firms from 2008 to 2019. To estimate the shareholders' value against the explanatory variables, this equation is the first point to begin; the Ordinary Least Square (OLS) model is as follows:

$$MCAP_{it} = \beta_0 + \beta_1 MCGI_{it} + \beta_2 \Delta MCGI_{it} + \beta_3 FSIZE_{it} + \beta_4 LEV_{it} + \beta_5 ROA_{it} + \beta_6 AUDITOR_{it} + \beta_7 WOMEN_{it} + \beta_8 GROWTH_{it} + \beta_9 IND_{it} + u_{it} \quad (1)$$

$$u_{it} = \mu_i + \lambda_t + v_{it} \quad (2)$$

$$i = 1, \dots, N; t = 1, \dots, T$$

where, *MCAP_{it}* is market capitalisation for firm *i* in year *t*; *MCGI_{it}* is corporate governance score; $\Delta MCGI_{it}$ is change in corporate governance score; *FSIZE_{it}* is firm size; *LEV_{it}* is leverage; *ROA_{it}* is return on asset; *AUDITOR_{it}* is auditor type; *WOMEN_{it}* is proportion of women on board; *GROWTH_{it}* is growth opportunity; *IND_{it}* is industry type. Further, μ_i denotes the unobservable individual effect, λ_t denotes the unobservable time effect, and v_{it} is the remainder stochastic disturbance term.

Given the desirability of evaluating changes in corporate governance structures over multiple time frames, the use of the OLS fixed effect estimation technique would be helpful as it can control for unobserved firm heterogeneity over the panel time series, while also providing robust regression estimates. The use of the OLS fixed effect estimation technique is used to reduce or eliminate events that cannot be observed. After the heteroscedasticity test using Breusch-Pagan got the results of 74.84 (p-value 0.000), this condition indicates that there is the inconstancy of variance between variables. In OLS, the assumptions used for the inter-variable variables are constant; that is, the variance of the observations is unrelated to the same regardless of the values of the explanatory variables associated with them, and the mean value of the observations is determined by the explanatory variable, then the value of the observed variance is equal to the mean value. If an unrelated variance exists, it is not there is no certainty that the OLS estimator is the most efficient and unbiased. Therefore, generalized least square (GLS) should be used. GLS is a modification of OLS which takes into account the inequalities of variance in the observations. However, there are other methods that can also be used to solve heteroscedasticity problems such as the generalized method of moment (GMM).

4. FINDINGS AND DISCUSSION

Table 1 presents all variables' descriptive statistics, and Table 2 shows regression results. The mean value of *MCAP* is 10,591.7 with a range of 75.4875 to 199,040, suggesting that most of the firms in the sample have lower market capitalization amongst the top 100 firms indexed by the *MCGI*. The mean value of *MCGI* is 17.052, with a range of 1 to 99, suggesting that most firms in the sample have a higher range. The mean value of firm size is 8.3653 with a range of 4.8203 to 11.671, implying that most firms in the sample have leverage close to the average leverage of industry. The average total debt utilized by Malaysian top 100 firms indexed by the *MCGI* accounts for 50%, which is close to the range of the average total debt for most developed countries in the 1990s, being 50 to 60% (Rajan & Zingales, 1995). Moreover, recent studies by Bessler, Drobtetz, and Grüninger (2011) indicates that the average total debt for all firms over the world is 25%, for non-US firms is 26%, for US firms is 23%, for common law countries is 25% and for civil law, countries are 27%. Based on this, it seems that Malaysian firms now utilize debt financing above the average. The mean value of *ROA* is 0.1432 with a range of -0.0497 to 0.5457, suggesting that most firms in the sample have a lower performance-based on accounting measures. The mean value of *Auditor* is 0.9021 with a range of 0 to 1, suggesting that most firms in the sample

have big four audit firms as their auditor. The mean value of *WOMEN* is 0.3943 with a range of 0 to 3, suggesting that most firms in the sample have lower female directors on board, and some of those firms even have no female directors on boards. This lower existence of female directors on board in the Malaysian listed firms is somehow disheartened as most countries around the world encourage the firms to have more female directors on board. The mean value of *GROWTH* is 41.738, with a range of 1 to 325, suggesting that most firms in the sample frequently pay dividends.

Table 1. Descriptive statistics

Variables	Obs.	Mean	Std. dev	Min	Max
<i>MCAP</i>	564	10591.7	18802.0	75.4875	199040
<i>MCGI</i>	564	17.052	25.534	1.0000	99.000
<i>FSIZE</i>	564	8.3653	1.5877	4.8203	11.671
<i>LEV</i>	564	0.5050	0.2776	0.0435	0.9347
<i>ROA</i>	564	0.1432	0.3920	-0.0497	0.5457
<i>Auditor</i>	564	0.9021	0.2975	0.0000	1.0000
<i>WOMEN</i>	564	0.3943	0.5958	0.0000	3.0000
<i>GROWTH</i>	564	41.738	62.294	1.0000	325.00

Table 2 presents the correlation matrix for all variables. Based on the correlation value obtained, it shows that there is no strong correlation between variables; this is because the largest correlation value is -0.2934 between the firm size (*FSIZE*) variable and *ROA*. It can be concluded that there is no symptom of multicollinearity between variables.

Table 2. Correlation matrix

	<i>MCGI</i>	<i>FSIZE</i>	<i>LEV</i>	<i>ROA</i>	<i>Auditor</i>	<i>WOMEN</i>	<i>GROWTH</i>
<i>MCGI</i>	1.0000						
<i>FSIZE</i>	-0.1018	1.0000					
<i>LEV</i>	-0.1364	0.2860	1.0000				
<i>ROA</i>	-0.0599	-0.2935	-0.0916	1.0000			
<i>Auditor</i>	-0.0642	0.1576	0.1181	-0.2439	1.0000		
<i>WOMEN</i>	-0.0527	-0.0525	0.0969	0.0847	-0.1315	1.0000	
<i>GROWTH</i>	-0.0223	-0.1214	0.2626	0.1310	0.1270	0.2202	1.0000

Table 3 presents the regression results. The *MCGI* coefficient exhibits a negative and non-significant impact on shareholders' value, suggesting that the higher the *MCGI* rank, the lower the shareholders' value. This indicates that the market players observe the firm's management of its corporate governance mechanisms. The lower value suggests that the stock of those firms that have than previous *MCGI* have been actively sold. Thus, it decreases the stock price and affects the shareholders' value.

The *FSIZE* coefficient exhibits a positive and significant impact on shareholders' value, suggesting that the larger the firm size, the higher the market capitalization.

The *LEV* coefficient exhibits a positive and non-significant impact on shareholders' value, suggesting that the higher the leverage, the higher the shareholder's value. This means that firms tend to use external financing rather than internal financing as the preferred options and supports the contention that a trade-off theory was adopted in the Malaysian context, particularly the top 100 firms indexed by *MCGI* for the study period. However, this result is unstable over time; therefore, an up-to-date investigation of its relationship is necessary. The result also indicates that larger firms

with higher assets' tangibility utilize more leverage to gain the tax benefits of debt, as larger firms have less risk of bankruptcy. Moreover, this result supports the fact that the market capitalization in Malaysia is considerably high, thus attracting investors to acquire capital gain.

The *ROA* coefficient exhibits a positive and significant impact on shareholders' value, suggesting that the higher the company's performance as indicated by *ROA*, the higher the shareholders' value.

The *Auditor* coefficient exhibits a positive and non-significant impact on shareholders' value, suggesting that using the four biggest audit firms tends to increase the shareholders' value. This indicates that investors seem to have complete confidence in the company, and it thus increases the stock price.

The *WOMEN* coefficient illustrates the opposite and significant impact on shareholders which means that the higher the number of female directors, the lower the shareholder value. One of the contributing factors is that the number of female directors is still around 40%. This result does not contradict the agency and resource dependence theory that increasing the level of diversity will reduce the dominance of the decision-making

process and encourage diversity of ideas from various points of view. Generally, having more female directors on the board increases the size of the human resources from which directors can be drawn and can provide some of the different knowledge and skills and additional perspectives that may not be possible with an all-male board. It can be concluded that there is no evidence that the presence of female directors on the board of directors is not effective on share value.

The *GROWTH* coefficient exhibits a negative and non-significant impact on shareholders' value, suggesting that higher payment of dividends tends

to lower shareholder's value. This result indicates that investors of these large firms may not be appealed by getting a higher premium. Technically, those larger firms attempted to convey the information to investors about the firm's prospects by paying a higher dividend. However, the investor might think that higher dividend payments may lessen the firm's ability to develop in the future. Moreover, this result also indicates that higher growth firms tend to have more debt, as they expect to expand their business scale, and debt financing is preferable as it carries a lower cost.

Table 3. Regression results

Variables	Model 1	Model 2	Model 3	Model 4
	Coefficient	Coefficient	Coefficient	Coefficient
Constant	(46593.53)*** 5488.60	(41844.2)*** 6065.70	(46785.01)*** 5646.21	(39606.7)*** 5781.19
<i>MCGI</i>	(9.2394) 19.1517	(65.916)** 29.4117	(10.7228) 27.6097	(94.8831)** 37.9734
<i>FSIZE</i>	6483.23*** 625.3587	6289.64*** 625.096	6414.93*** 619.713	6221.92*** 604.465
<i>LEV</i>	3127.90 2030.059	2269.56 1874.81	2978.73 1903.14	1998.97 1864.148
<i>ROA</i>	6260.13*** 2319.81	5595.14** 2506.77	6068.77*** 2255.53	5771.82** 2428.6
<i>Auditor</i>	2445.00 2428.69	1930.98 2347.04	2362.01 2452.04	1851.31 2354.01
<i>WOMEN</i>	(1216.85)*** 503.4712	(1375.07)*** 470.768	(1385.70)*** 512.814	(1545.39)*** 524.039
<i>GROWTH</i>	(4.5064) 7.8404	(7.8399) 7.5824	(5.1771) 8.0651	(7.8213) 7.4998
Year 2008		(9005.99)*** 2316.95		(10457.01)*** 2133.139
Year 2009		(4791.50)*** 1594.19		(6239.27)*** 1555.82
Year 2010		4131.49*** 1505.12		3648.42*** 652.28
Year 2011		284.033 1532.766		(39606.7)*** 5781.19
Year 2012			777.99*** 1101.07	(3546.72)** 1797.24
Year 2013			2828.63*** 892.829	(1519.86) 1521.32
Year 2014			2247.73*** 445.098	940.277 719.4
Year 2015			2265.84*** 5646.21	404.206 560.64
Year 2016			2317.15*** 5314.11	388.58 476.82
Year 2017			2212.54*** 5598.18	399.34 492.44
Year 2018			2244.60*** 5488.10	442.87 510.72
Year 2019			2228.16*** 5638.68	436.81 527.33

Notes: Second row is Std. err. *** Sig. level at 1%, ** Sig. level at 5%, * Sig. level at 10%.

5. CONCLUSION

To improve boards' performance, the Malaysian Government has stipulated and released some rules and codes of practice for listed firms to guide listed firms in managing their firm by Malaysia legal requirements and corporate governance standards. There are several regulations that have been issued by the Malaysian Securities Commission, namely principles and guidelines on best corporate governance practices (Securities Commission Malaysia, 2012), and the Malaysian Code of Corporate Governance 2012 which is the first submission of the CG Blueprint and replaces the Code. This MCGG 2012 sets out overarching

governance principles and specific recommendations for companies to adopt regarding structures and processes in making corporate governance, both an integral part of their business dealings and as well as their corporate culture. One of the weaknesses of this code is that although many companies have implemented these principles, they have not yet become mandatory, and the impact of these principles on Malaysian companies has not been studied. Thus, this paper attempts to empirically test whether Malaysian firms with better governance increase shareholder value.

The results reveal that *MCGI*, firm size (*FSIZE*), *ROA*, and female directors (*WOMEN*) exhibit a significant impact on shareholders' value while

leverage (*LEV*) and *GROWTH* yield non-significant effects on shareholders' value. The result also indicates that corporate governance improves firm performance over time. Overall, firms tend to use external financing rather than internal financing as the preferred option. This supports the contention that trade-off theory was adopted in the Malaysian context for the study period. However, this result is unstable over time; therefore, an up-to-date investigation of its relationship is necessary.

Limited data is one of the weaknesses of this research, where the data obtained is still limited to publicly available data such as annual reports

obtained from the website and other databases. This result is also related to validate findings, where professional accounting practice can limit problems related to data disclosure. Another thing is the relatively limited sample size of the top 100 companies indexed by the Malaysian Corporate Governance Index from 2010 to 2019. Furthermore, the economic conditions during the data period in this study were also an obstacle in making the findings valid. This paper is important for future research because it can compare the pattern of the impact of corporate governance indices on company performance.

REFERENCES

- Al-Gamrh, B., Ku Ismail, K. N. I., Ahsan, T., & Alquhaif, A. (2020). Investment opportunities, corporate governance quality, and firm performance in the UAE. *Journal of Accounting in Emerging Economies*, 10(2), 261-276. <https://doi.org/10.1108/JAEE-12-2018-0134>
- Arora, A., & Bodhanwala, S. (2018). Relationship between corporate governance index and firm performance: Indian evidence. *Global Business Review*, 19(3), 675-689. <https://doi.org/10.1177/0972150917713812>
- Basyith, A., Fauzi, F., & Idris, M. (2015). The impact of board structure and ownership structure on firm performance: An evidence from blue chip firms listed in Indonesian stock exchange. *Corporate Ownership & Control*, 12(3-4), 344-351. <https://doi.org/10.22495/cocv12i4c3p2>
- Bessler, W., Drobetz, W., & Grüniger, M. C. (2011). Information asymmetry and financing decisions. *International Review of Finance*, 11(1), 123-154. <https://doi.org/10.1111/j.1468-2443.2010.01122.x>
- Bhagat, S., & Bolton, B. (2019). Corporate governance and firm performance: The sequel. *Journal of Corporate Finance*, 58, 142-168. <https://doi.org/10.1016/j.jcorpfin.2019.04.006>
- Bhatt, P. R., & Bhat, R. R. (2017). Corporate governance and firm performance in Malaysia. *Corporate Governance*, 17(5), 896-912. <https://doi.org/10.1108/CG-03-2016-0054>
- Black, B. (2001). The corporate governance behavior and market value of Russian firms. *Emerging Markets Review*, 2(2), 89-108. [https://doi.org/10.1016/S1566-0141\(01\)00012-7](https://doi.org/10.1016/S1566-0141(01)00012-7)
- Black, B. S., Jang, H., & Kim, W. (2006). Does corporate governance predict firms' market values? Evidence from Korea. *The Journal of Law, Economics, & Organisation*, 22(2), 366-413. <https://doi.org/10.1093/jleo/ewj018>
- Block, S. B., & Hirt, G. A. (2000). *Foundations of financial management* (9th ed.). London, the UK: Pitman Publishing.
- Brealey, R. A., & Myers, S. C. (2002). *Principles of corporate finance* (7th ed.). London, the UK: McGraw-Hill/Irwin.
- Callen, J. L., Klein, A., & Tinkelman, D. (2003). Board composition, committees, and organizational efficiency: The case of nonprofits. *Nonprofit and Voluntary Sector Quarterly*, 32(4), 493-520. <https://doi.org/10.1177/0899764003257462>
- Chen, A., Kao, L., Tsao, M., & Wu, C. (2007). Building a corporate governance index from the perspectives of ownership and leadership for firms in Taiwan. *Corporate Governance: An International Review*, 15(2), 251-261. <https://doi.org/10.1111/j.1467-8683.2007.00572.x>
- Daily, C. M., & Dalton, D. R. (1994). Bankruptcy and corporate governance: The impact of board composition and structure. *The Academy of Management Journal*, 37(6), 1603-1617. <https://doi.org/10.5465/256801>
- Erhardt, N. L., Werbel, J. D., & Shrader, C. B. (2003). Board of director diversity and firm financial performance. *Corporate Governance: An International Review*, 11(2), 102-111. <https://doi.org/10.1111/1467-8683.00011>
- Fauzi, F., & Locke, S. (2012). Board structure, ownership structure and firm performance: A study of New Zealand listed-firms. *Asian Academy of Management Journal of Accounting of Finance*, 8(2), 43-67. Retrieved from <https://researchcommons.waikato.ac.nz/bitstream/handle/10289/7793/Board%20Structure.pdf?sequence=1&isAllowed=y>
- Fauzi, F., Basyith, A., & Foo, D. (2017). Committee on board: Does it matter? A study of Indonesian Sharia-listed firms. *Cogent Economics & Finance*, 5(1), 1316547. <https://doi.org/10.1080/23322039.2017.1316547>
- Fauzi, F., Basyith, A., & Ho, P.-L. (2017). Women on boardroom: Does it create risk? *Cogent Economics & Finance*, 5(1), 1325117. <https://doi.org/10.1080/23322039.2017.1325117>
- Freeman, R. E., Harrison, J. S., & Wicks, A. C. (2008). *Managing for stakeholders: Survival, reputation, and success*. London, the UK: Yale University Press. <https://doi.org/10.12987/9780300138498>
- Garg, A. K. (2007). Influence of board size and independence on firm performance: A study of Indian companies. *Vikalpa: The Journal for Decision Makers*, 32(3), 39-60. <https://doi.org/10.1177/0256090920070304>
- Gompers, P., Ishii, J., & Metrick, A. (2003). Corporate governance and equity price. *The Quarterly Journal of Economics*, 118(1), 107-155. <https://doi.org/10.1162/00335530360535162>
- Henry, D. (2008). Corporate governance structure and the valuation of Australian firms: Is there value in ticking the boxes? *Journal of Business Finance & Accounting*, 35(7-8), 912-942. <https://doi.org/10.1111/j.1468-5957.2008.02100.x>
- Himmelberg, C. P., Hubbard, R. G., & Palia, D. (1999). Understanding the determinants of managerial ownership and the link between ownership and performance. *Journal of Financial Economics*, 53(3), 353-384. [https://doi.org/10.1016/S0304-405X\(99\)00025-2](https://doi.org/10.1016/S0304-405X(99)00025-2)
- Ho, P.-L., & Taylor, G. (2013). Corporate governance and different types of voluntary disclosures: Evidence from Malaysian listed firms. *Pacific Accounting Review*, 25(1), 4-29. <https://doi.org/10.1108/01140581311318940>
- Hodgson, A., Lhaopadchan, S., & Buakes, S. (2011). How informative is the Thai corporate governance index? A financial approach. *International Journal of Accounting & Information Management*, 19(1), 53-79. <https://doi.org/10.1108/18347641111105935>

25. Ibrahim, H., & Abdul Samad, F. (2011). Corporate governance mechanisms and performance of public-listed family-ownership in Malaysia. *International Journal of Economics and Finance*, 3(1), 105-115. <https://doi.org/10.5539/ijef.v3n1p105>
26. 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. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
27. Jiraporn, P., Kim, J.-C., Kim, Y. S., & Kitsabunnarat, P. (2012). Capital structure and corporate governance quality: Evidence from the Institutional Shareholder Services (ISS). *International Review of Economics & Finance*, 22(1), 208-221. <https://doi.org/10.1016/j.iref.2011.10.014>
28. Kah Marn, J. T., & Romuald, D. F. (2012). The impact of corporate governance mechanism and corporate performance: A study of listed companies in Malaysia. *Journal for the Advancement of Science & Arts*, 3(1), 31-45.
29. Kang, H., Cheng, M., & Gray, S. J. (2007). Corporate governance and board composition: Diversity and independence of Australian boards. *Corporate Governance: An International Review*, 15(2), 194-207. <https://doi.org/10.1111/j.1467-8683.2007.00554.x>
30. Kaur, M., & Vij, M. (2018). Corporate governance index and firm performance: Empirical evidence from Indian banking. *Afro-Asian Journal of Finance and Accounting*, 8(2), 190-207. <https://doi.org/10.1504/AAJFA.2018.091065>
31. Klapper, L. F., & Love, I. (2004). Corporate governance, investor protection and performance in emerging markets. *Journal of Corporate Finance*, 10(5), 703-728. [https://doi.org/10.1016/S0929-1199\(03\)00046-4](https://doi.org/10.1016/S0929-1199(03)00046-4)
32. Larcker, D. F., Richardson, S. A., & Tuna, A. I. (2005). *How important is corporate governance?* (Working Paper). <https://doi.org/10.2139/ssrn.595821>
33. Mishra, A. K., Jain, S., & Manogna, R. L. (2021). Does corporate governance characteristics influence firm performance in India? Empirical evidence using dynamic panel data analysis. *International Journal of Disclosure and Governance*, 18, 71-82. <https://doi.org/10.1057/s41310-020-00098-7>
34. Mohamed Zabri, S., 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. [https://doi.org/10.1016/S2212-5671\(16\)00036-8](https://doi.org/10.1016/S2212-5671(16)00036-8)
35. Mustafa, I. R., Mohd. Ghazali, N. A., & Mohammad, M. H. S. (2015). The influence of corporate governance and organizational capacity on the performance of Malaysian listed companies. *Mediterranean Journal of Social Sciences*, 6(3), 27-33. <https://doi.org/10.5901/mjss.2015.v6n3s1p27>
36. Ponnu, C. H. (2008). Corporate governance structures and the performance of Malaysian public listed companies. *International Review of Business Research Papers*, 4(2), 217-230.
37. Rajan, R. G., & Zingales, L. (1995). What do we know about capital structure? Some evidence from international data. *The Journal of Finance*, 50(5), 1421-1460. <https://doi.org/10.1111/j.1540-6261.1995.tb05184.x>
38. Rose, C. (2007). Does female board representation influence firm performance? The Danish evidence. *Corporate Governance: An International Review*, 15(2), 404-413. <https://doi.org/10.1111/j.1467-8683.2007.00570.x>
39. Securities Commission Malaysia. (2012). *Annual report 2012*. Retrieved from <https://www.sc.com.my/api/documentms/download.ashx?id=3ca6b34d-809a-4eb9-b1bd-1d81d9fe7d35>
40. Sheridan, A., & Milgate, G. (2005). Accessing board positions: A comparison of female and male board members' views. *Corporate Governance: An International Review*, 13(6), 847-855. <https://doi.org/10.1111/j.1467-8683.2005.00475.x>
41. Tarchouna, A., Jarraya, B., & Bourri, A. (2017). How to explain non-performing loans by many corporate governance variables simultaneously? A corporate governance index is built to US commercial banks. *Research in International Business and Finance*, 42, 645-657. <https://doi.org/10.1016/j.ribaf.2017.07.008>
42. Wan Yusoff, W. F., & Alhaji, I. A. (2012). Corporate governance and firm performance of listed companies in Malaysia. *Trends and Development in Management Studies*, 1(1), 43-65. Retrieved from <http://jyotiacademicpress.org/uploads/1473573083TDMS1109123Yusoff43.pdf>
43. Yeh, Y. H., Lee, T. S., & Ko, C. E. (2002). *Corporate governance and rating system*. Taipei, Taiwan: Sunbright Culture Eds.