CORPORATE GOVERNANCE COMPLIANCE VERSUS SYARIA' COMPLIANCE AND ITS LINK TO FIRM'S PERFORMANCE IN MALAYSIA

Noriza Mohd Saad*

Abstract

The purpose of this study is to investigate level of compliance by corporate governance (CG) code of best practices and sharia' principles among public listed companies in main board of Bursa Malaysia and to provide insights view in determining significance association between the corporate governance and sharia' compliance with firm's performance. Corporate governance compliance was measured by three board of directors (henceforth; BOD) facets; (i) director's remuneration, (ii) directors training and (iii) number of family members. Meanwhile, syaria' compliance is based on six proxies, (i) riba, (ii) gambling, (iii) sale of non halal product, (iv) conventional insurance, (v) entertainment and (vi) stockbroking. The data are gathered from the analysis of companies' annual report and Thompson DataStream for a sample of 147 companies (for corporate governance compliance) and 36 companies (for syaria' compliance) over the period of 2003 to 2007. The study employs multiple regression analyses, independent sample T-test and Pearson correlation on the hypotheses tested. The preliminary results reveal most of the company has complied well with the code of best practices and syaria' principles and there is a significant association to the firm's performance besides syaria' compliance firms show a better performance compared to corporate governance compliance firms.

Keywords: Corporate Governance, Syariah, Compliance, Firm's Performance, Board of Directors' Facets

*Universiti Tenaga Nasional, Kampus Sultan Haji Ahmad Shah, Pahang, Malaysia, noriza@uniten.edu.my

1. Introduction

Corporate governance is important for several reasons. First, corporate governance is most often viewed as both the structure and the relationships which determine corporate direction and performance. Second, the board of directors is typically central to corporate governance. Its relationship to the other primary participants, typically shareholders and management, is critical. Additional participants include employees, customers, suppliers, and creditors. The corporate governance framework also depends on the legal, regulatory, institutional and ethical environment of the community. Whereas the 20th century might be viewed as the age of management, the early 21st century is predicted to be more focused on governance. Both terms address control of corporations but governance has always required an examination of underlying purpose and legitimacy.

The evidence on the empirical failure of the Enron and others mentioned has brought attention to the duties and responsibility played by the board of directors (BOD) in the company. It failure also produced discussion of further regulations that will, it is hoped, can prevent another company collapse that similar to the Enron. For that reason, after detailed study and recommendation by the high level finance committee which was formed in 1998, Malaysian Code of Corporate Governance was introduce in March 2000 with the objectives of improving the corporate governance practice by the corporate sectors. In this code of best practice, it was highlight that the company was highly recommended to comply with the code such as the company should disclose the number of board meeting during the financial year in the annual report to make sure the interest of the company and the goal can be achieved. The company also should have a detail of level remuneration received per directors, have a clear job description on BOD in order to avoid management conflict especially those who have family members among company's director. Besides, also disclose in companies' annual report on the training attended by BOD for Mandatory Accreditation Program (MAP) as highlighted in the MCCG code of best practices.

A Compliant to syaria' principle is different with corporate governance where it does not have a code of best practices to follow. However, the Syariah Advisory Council (SAC) has applied a standard criterion in focusing on the activities of the companies listed on Bursa Malaysia. As such, subject to certain conditions, companies whose activities are not contrary to the Sharia' principles will be classified as Sharia'-compliant securities. On the other hand, companies will be classified as Sharia' non-compliant securities if they are involved in the following core activities such as financial services based on *riba* (interest), gambling and gaming, manufacture or sale of non-*halal* products or related products, conventional insurance, entertainment activities that are non-permissible according to Sharia', manufacture or sale of tobacco-based products or related products and stockbroking or share trading in Sharia' non-compliant securities and other activities deemed non-permissible according to Sharia'.

In this new era, most of the investors are demanding nearly perfect information to analyze the companies' performance to make sure their investment can generate income and increase their satisfaction in the business market. Measuring companies' performance is importance especially to the management, shareholders, government, customers, suppliers, and other stakeholders that have interest to the company directly or indirectly. Consider to this issue, this study was used three important financial ratios to measure the companies' performance, that is return on assets (ROA), return on equity (ROE) and operating profit margin (OPM). It also used to forecast the future success of companies, while the researcher's main interest is to develop models exploiting this ratio.

The remainder of the study is structured as follows. Section 2 review the existing literature on corporate governance and syaria' compliance towards firm's performance. Section 3 describes the data and methodology. Section 4 presents the findings and discussion on the results while, section 5 concludes and recommendations to the company.

2. Literature review

The discussion on Corporate Governance in Malaysia as well as other East Asian countries should be initiated from the event of East Asian economies collapsed in the second half of 1997.The period placed a greater concern and recognition of Corporate Governance to the public and private sector in those countries. The financial crisis was triggered in Thailand when foreign investors lost their confidence and started to withdraw capital due to currency devaluation. The problems transmitted to other neighboring countries. The most affected countries included Indonesia, Malaysia, South Korea, and the Philippines. In Malaysia, attempts to contain further devaluation caused higher level of interest rate and credit contraction. This created severe contractions in output and corporate profitability which was reflected in massive fall of equity prices. The Kuala Lumpur Composite Index declined by 72% during the period from end-June 1997 to end-August 1998. Real estate markets declined sharply due to high interest rates and in crisis environment. Banks, which had significant portion of their loan exposure in the construction and real estate sector; and stock purchase financing, were badly affected.

From the economic perspective, corporate governance is an important element of achieving an allocative efficiency in which scarce funds are moved to investment project with the highest returns. In practice, efficiency is achieved when at given level of risk, investments project offer the highest return exceeding its cost of capital. The crisis indicated how the failure to regulate good governance affected the mobilization of funds in an effective way. Corporate finance on the other hand, concerns on the effectiveness of corporate governance as an assurance in protecting the invested funds and to generate returns. As highlighted by Scheifer and Vishny (1997), corporate governance mechanisms assure investor in organizations that they will receive adequate returns in their investments.

Hollis Ashbaugh-Skaife, Daniel W. Collins, and Ryan LaFond *(*2006) investigate whether firms with strong corporate governance benefit from higher credit ratings relative to firms with weaker governance. They concluded that weak corporate governance has been singled out as the leading cause for recent high-profile cases of corporate fraud. They provide evidence that, CEOs of firms with speculative-grade credit ratings are overcompensated to a greater degree than their counterparts at firms with investment-grade ratings, thus providing one explanation for why some firms operate with weak governance. Allan Chang Aik Leng (2004) analyzes the impacts of corporate governance practices with the firm's performance. Using return on equity as the dependent variables, the degree of impact on firm's performance followed a quadratic fashion, with performance increase with the size of the firm, up to an optimal size of RM8, 839 million in turnover. Beyond that size, firm's performance declined with the increasing size. Another definition is corporate governance is about promoting corporate fairness, transparency and accountability. It was defined by *J. Wolfensohn*, president of the *Word bank*, as quoted by an article in *Financial Times*, June 21, 1999.

As highlighted by Scheifer and Vishny *(1997)*, corporate governance mechanisms assure investor in organizations that they will receive adequate returns in their investments. To relate this with the crisis, it is concluded that efforts on shareholders protection were inadequate during the crisis and as such contributed to the destruction of the value of their investment. Furthermore, Abdul Hadi bin Zulkafli (2006) defined from the economic perspective, corporate governance is an important element of achieving an allocate efficiency in which scarce funds are moved to investment project with the highest returns. In practice, efficiency is achieved when at given level of risk, investments project offer the highest return exceeding its cost of capital. The crisis indicated how the failure to regulate good governance affected the mobilization of funds in an effective way. Corporate finance on the other hand, concerns on the effectiveness of corporate governance as an assurance in protecting the invested funds and to generate returns.

From the Securities Commission Malaysia Book, (Nov 2007). *List of Shariah-compliant Securities by the Shariah Advisory Council of the Securities Commission*, pp 15, and paragraph 2 said that, the SAC also takes into account the level of contribution of interest income received by the company from conventional fixed deposits or other interest bearing financial instruments. In addition, dividends received from investment in Sharia' non-compliant securities are also considered in the analysis carried out by the SAC. For companies with activities comprising both permissible and non-permissible elements, the SAC considers two additional criteria which is the public perception or image of the company must be good and the core activities of the company are important and considered *maslahah* ("benefit" in general) to the Muslim *ummah* (nation) and the country, and the non-permissible element is very small and involves matters such as *`umum balwa* (common plight and difficult to avoid), *`uruf* (custom) and the rights of the non-Muslim community which are accepted by Islam.

The first reasoning holds for Sharia' compliance in that price, competitive and profitability differences may accrue from adherence to Islamic principles. However, it is not clear how Sharia' compliance may improve efficiency or create new opportunities relative to a non-constrained universe. If the universe for Islamic investment is defined differently, then there is, in theory, no inefficiency or loss in opportunities. At the property-investment level, there is a belief held by some investors that Sharia' compliance leads to a poorer portfolio performance, even though there is no clear consensus view (Ibrahim, Ong and Parsa**,** 2006).

3. Research methodology

3.1 Data Sampling

This study utilizes the secondary data , which are gathered from the analysis of companies' annual report taken from a sample of 147 companies for corporate governance compliance and 36 companies for syaria' compliance firms listed in the Main Board, Bursa Malaysia had been randomly selected in year 2003 to 2007. The industry that involved in this corporate governance analysis is consumer product, industrial product, trading & service, construction, plantation, properties and hotels. Data on firm's performance were gathered from Thompson DataStream and Bloomberg software.

3.2 Variables

For this study, it differentiates the variables into two parts, which is dependent and independent variables. The dependent variables for the corporate governance and sharia' compliance consists of return on asset, return on equity and operating profit margin while the independent variables for the corporate governance are board remuneration, board training, and board family members while for the sharia' compliance are gambling, riba, sale/ manufacture non halal product, conventional insurance, entertainment activities and stockbroking transaction that are non permissible according to sharia' principle.

3.3 Methodology

There are three main purposes of this study which is 1) to identify the level of compliance in corporate governance and syaria' practices by using descriptive statistics, 2) to analyze an association between BOD facets and syaria' principles towards companies' ROA, ROE and OPM by using multiple regression and Pearson correlation method and 3) to compare the firm's performance between corporate governance compliance firms and syaria' compliance firms by using independent sample T-test.

Then, the companies' ROA, ROE and OPM is calculated using the following equation;

$$ROA_i = {Net\ \Pr ofit} \big/ {TotalAssets_i}$$

$$ROE_i = {Net\ \Pr ofit_i} \big/ {TotalEquity_i}$$

$$OPM_i = {Operating\ \Pr ofit_i} \big/ {Sales_i}$$

Where $Net\ \Pr ofit_i$ = Net profit of the ith company for each year,

$TotalAssets_i$ = Total assets of the ith company for each year,

$TotalEquity_i$ = Total equity of the ith company for each year, and

$Sales_i$ = Sales of the ith company for each year.

Next, the relationship between the BOD facets and syaria' principles to the firm's performance will be estimated using the following regression equations model:

$$ROA_i = \alpha + \beta_1(BR_i) + \beta_2(DT_i) + \beta_3(FM_i) + \varepsilon_i \quad (1)$$

$$ROE_i = \alpha + \beta_1(BR_i) + \beta_2(DT_i) + \beta_3(FM_i) + \varepsilon_i \quad (2)$$

$$OPM_i = \alpha + \beta_1(BR_i) + \beta_2(DT_i) + \beta_3(FM_i) + \varepsilon_i \quad (3)$$

$$ROA_i = \alpha + \beta_1(RB_i) + \beta_2(GB_i) + \beta_3(NHP_i) + \beta_4(CI_i) + \beta_5(ENT_i) + \beta_6(SB_i) + \varepsilon_i \quad (4)$$

$$ROE_i = \alpha + \beta_1(RB_i) + \beta_2(GB_i) + \beta_3(NHP_i) + \beta_4(CI_i) + \beta_5(ENT_i) + \beta_6(SB_i) + \varepsilon_i \quad (5)$$

$$OPM_i = \alpha + \beta_1(RB_i) + \beta_2(GB_i) + \beta_3(NHP_i) + \beta_4(CI_i) + \beta_5(ENT_i) + \beta_6(SB_i) + \varepsilon_i$$

(6)

Where α = the constant term,
β = the slope or coefficient estimates of the explanatory variables,
BR_i = the Board renumeration of the ith company,
DT_i = the directors training of the ith company,
FM_i = the board of family members of the ith company,
RB_i = the riba of the ith company,
GB_i = the gambling of the ith company,
NHP_i = the non halal product of the ith company,
CI_i = the conventional insurance of the ith company,
ENT_i = the entertainment of the ith company,
SB_i = the stockbroking of the ith company,
ROA_i = the return on assets of the ith company,
ROE_i = the return on equity of the ith company, and
OPM_i = the operating profit margin of the ith company.

3.4 The Hypothesis

The hypothesis of the study is developed to cater for the pooling regression model. The hypotheses are:

Hypothesis 1

Ho: There is no relationship between dependent variables and all independent variables among BOD facets.

Ha: There is a relationship between dependent variables and all independent variables among BOD facets.

Hypothesis 2

Ho: There is no relationship between dependent variables and all independent variables on syaria' principles.

Ha: There is a relationship between dependent variables and all independent variables on syaria' principles.

Hypothesis 3

Ho: There is no significant mean different between corporate governance compliance firms and syaria' compliance firms in their performance.

Ha: There is no significant mean different between corporate governance compliance firms and syaria' compliance firms in their performance.

4. Results and discussion

4.1 Analysis of Descriptive Statistics on Corporate Governance Compliance in Malaysia

4.1.1 Board Remuneration

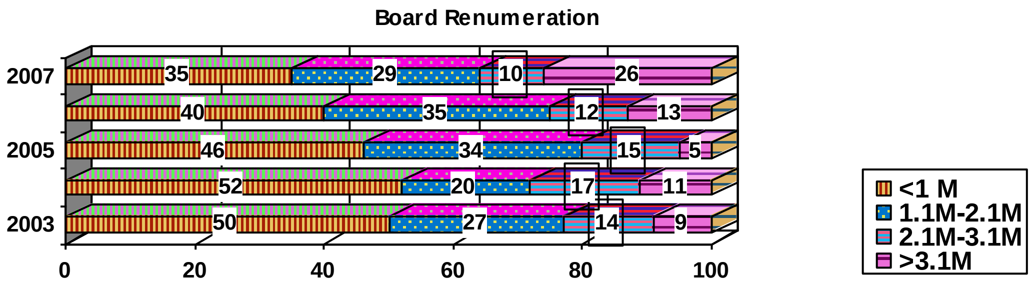

Figure 1. Level of Directors' Remuneration

Malaysia code of corporate governance practices stated that the level of remuneration must be adequate to attract and hold the required directors in running the business. The level also should be reasonable and appropriate with the expertise and experience of the directors. The amounts of remuneration are recommended to be represented in the annual repot of the company for stakeholder review. By referring to the figure 1, it was found that for 5 successive years from 2003 to 2007, majority of the company (around 52%) spend the total remuneration below 1 million a year to attract and retain the directors needed to run the company successfully. In the study also, it was found that the total remuneration of 1.1 million to 2.1 million has increased from 2003 till 2006 meanwhile the total remuneration below 1 million from year to year starting from 2004 decrease means that the companies might starting to pay more to their directors to make sure their directors give a full commitment and good performance to achieve their goal in organization.

4.1.2Director Training

For the board training in starting in 2003, all the companies listed in Bursa Malaysia have to send their directors to the Mandatory Accreditation Program (MAP) conducted by the Research Institute of Investment Analysts Malaysia (RIIAM) in accordance with the Listing Requirements of the Bursa Malaysia Securities Berhad in order to have a good director in their rank. The program also can be assumed as the formal orientation program that could be a one or two day program that involve educating the director as to the environment of the business, the company's current issues and the corporate strategy, the prospect of the company with reference to input from director and the common responsibilities of directors. In the analysis, for the year 2003 majority of the companies (82%) does not send their directors to the MAP for their formal orientation program instead only 18% of the companies did sent their directors to the MAP. Based on the figure 2 above, the statistics show that for 4 continuous years, majority of the companies sent their directors to the MAP despite the fact that small amount of the companies still does not comply with the code. Overall, since the introductions of the Malaysian Code on Corporate Governance by the Finance Committee in 2000, most of the companies complied with the code of best practice.

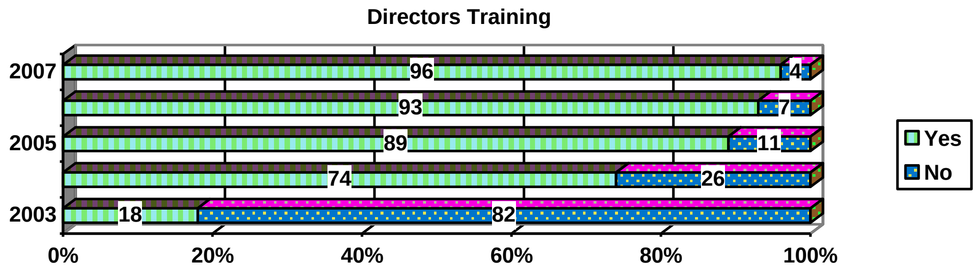

Figure 2. Training attended by directors

4.1.3 Number of Family Members in Board of Directors

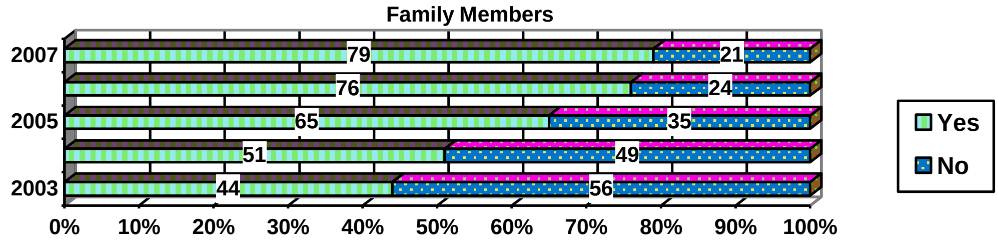

Figure 3. Numbers of Family Members in Board of Directors

Several directors in companies tend to appoint their family as the executive or non-executive directors. The presence of family members in the board of directors will lead to conflict of interest among the directors. To make it more wary, what if more than half of the directors have family connections. The information might be not transparent due to easy access for internal activities and stakeholder's interest is not well protected. Based on figure 3, an average of 37% of the companies did not have any family members who sit in the board from 2003 till 2007.The annually percentage comparison from 2006 and 2007 show similarity. Company with existing family members on board is likely want to have their family to pursue the business as inheritance. Where else, company with no family members might have policy not to appoint their relatives in the board to avoid conflict of interest.

4.2 Analysis of Descriptive Statistics on Sharia' Compliance among companies in Malaysia.

4.2.1 Number of companies involve in Riba

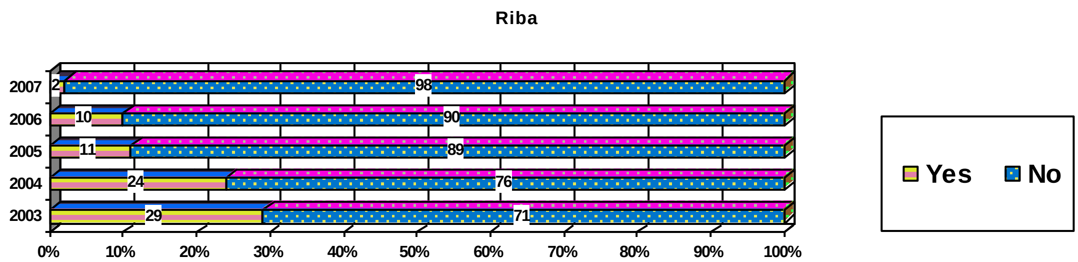

Figure 4. Financial service based on Riba

Riba means usury and is forbidden in Islamic economic jurisprudence. According to some, this refers to excessive or exploitative charging of interest, though according to others, it refers to the concept of interest itself. Based on figure 4, in 2003, there were 71% of the companies not involve in riba meanwhile the total number of companies not involve in riba increased 13% from 2005 to 2006 and 8% from 2006 to 2007.The number of the companies not involve in riba increased from year to year starting in 2003 till 2004.

4.2.2 Number of companies involve in Gambling

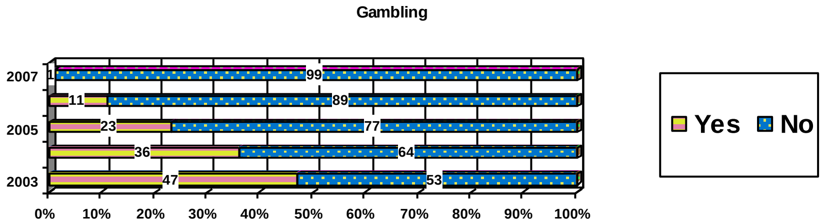

Figure 5. Gambling

Gambling has a specific economic definition, referring to wagering money or something of material value on an event with an uncertain outcome with the primary intent of winning additional money and or material goods. Typically, the outcome of the wager is evident within a short period of time. Based on the figure 5, there were 53% of the companies not involve in gambling in 2003, meanwhile the total number of the companies not involve in gambling increased 13% from 2004 to 2005 and 10% from 2006 to 2007.The number of the companies not involve in gambling decreased from year to year from 2003 till 2007.

4.2.3 Number of companies involve in Non Halal Product

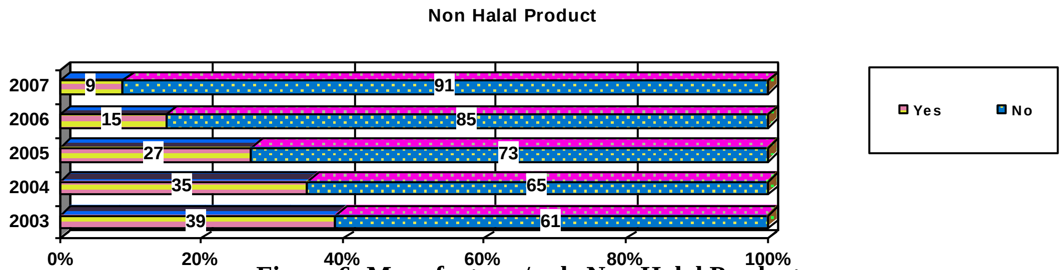

Figure 6: Manufacture / sale Non Halal Products

Halal applies not only to food products but to all aspects of life and social context. One may hear mention of, "Halal Money". Money derived from gambling, the selling of alcohol, drug trafficking, illicit social vices, or any illegal activity is considered haram or detrimental to society and therefore not acceptable or considered a halal income. Based on the figure 6, there were 39% of the companies involve in Non Halal Product. In 2004, 65% of the companies not involved in non halal product and the number decreased from 4 %(2004), 8% (2005), 12% (2006) and 4% (2007). The number of the companies not involve in non halal product decreased from year to year from 2003 till 2007.

4.2.4 Number of companies involve in Conventional Insurance

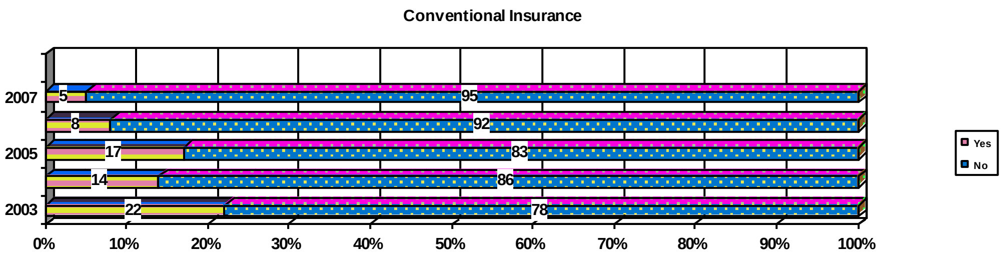

Figure 7. Conventional Insurance

Conventional insurance products are in conflict with Islamic beliefs for three reasons. Insurance involves an element of uncertainty, gambling and the charging of interest, which are prohibited by the Quran. Based on the figure 7, there were 78% of the companies not involve in Conventional Insurance in 2003, meanwhile the total number of the companies involve in Conventional Insurance increased 8% in 2004 but slightly decreased 3% in 2005. In 2006 the number of the company not involve in Conventional Insurance increased from 9% and 3% in 2007. The number of the companies not involve in Conventional

Insurance decreased from year to year from 2005 till 2007.

4.2.5Number of companies involve in Entertainment

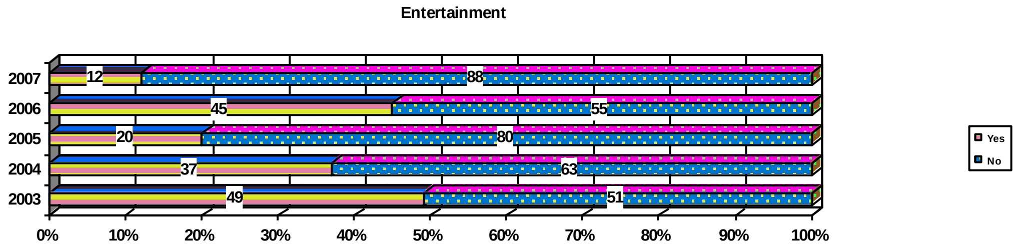

Figure 8. Entertainment Activities

Entertainment is an activity designed to give pleasure or relaxation to an audience (although in the case of a computer game the "audience" may be only one person). The audience may participate in the entertainment passively as in watching opera or a movie, or actively as in computer games. Based on the figure 8, there were 51% of the companies in 2003 not involved in entertainment activities that are not permissible according to Sharia', and in 2004, the number of the companies not involves increased 12%, meanwhile the total number slightly decreased 25% from 2005 (80%) but the number of companies not involve in entertainment decreased till 2007.

4.2.6 Number of companies involve in Stockbroking

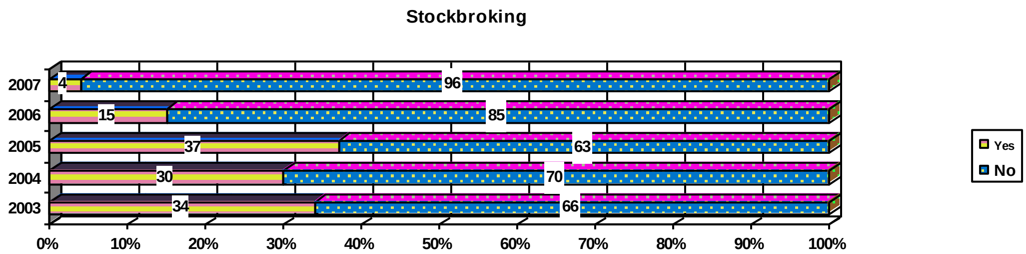

Figure 9. Stockbroking

Islamic Stockbroking (ISB) is an alternative of investment tools allowed an investor to invest based on sharia' principles. ISB allows investors to deal only in 'halal' securities approved and reviewed periodically by the Shariah Advisory Council of the Securities Commission. Halal securities are investments in companies listed on the Bursa Securities whom,se activities do not contravene sharia' principles. For the stockbroking which is not permissible according to sharia', based on the figure 9, there were 66% of the companies not involved in 2003, meanwhile the total number of the companies not involve in stockbroking increased 4% in 2004 but slightly decreased 7% in 2005. The number of companies not involve in non permissible stockbroking decreased from year to year until 2007.

4.3 Relationship between Dependent and Independent variables

4.3.1 Corporate Governance and Syaria' Principles with the Firm's Performance

Based on table1 (panel A), there is no relationship between FM, BR and DT. Therefore the alternate hypothesis was accepted at this level. BR is not related to ROA with the significance level of 0.939 with T-Ratio is 0.076 while DT also not related to ROA with 0.298 significant levels with their T-Ratio value is 1.043. But when we look to the value of R, its indicate 10.5% and it's not a strong relationship and the R-Square indicates that 1.1% of the variation in ROA is explained by the variation in the corporate governance. None of the independent variables have significant relationship with ROE. Thus, the null hypothesis is rejected. The R value indicates the model have a relationship but not strong enough, only 9.1% while the value of R Square indicates only 0.8% of the variation in ROE is explained in the corporate governance. So, the null hypothesis was rejected because all the P-Value has value less than 0.05 significant levels. There is relationship between OPM with BR and the relationship is significant 0.048 levels and the T-Ratio value indicates 1.980. The standardized coefficient of 0.093 indicates the parallel relationship between OPM and BR. So, the null hypothesis was rejected at this level. The R-Square indicates only 0.9% of the variation in OPM is explained by the variation in corporate governance while the R value indicates that the model do not have a strong relationship (9.4%). Panel B shows that there is a relationship between RB, NHP, CI and ENT. Therefore the alternate hypothesis was accepted at this level. RB is negative related to ROA with the significance level of 0.002 with T-Ratio is -3.148 while NHP also have negative related to ROA with 0.006 significant levels with their T-Ratio value is -2.807 same with CI and ENT both have a negative related which is -1.904 and -4.011 with the significant level of 0.058 and 0.000. But when we look to the value of R, its indicate 40.9% and it's not a strong relationship and the R-Square indicates that 16.7%% of the variation in ROA is explained by the variation in the Sharia' compliance. It's mean that the good Sharia' compliance can help the company to increase their profit and achieve their organizational goals. However, none of the independent variables have significant relationship with ROE. Thus, the null hypothesis is rejected. The R value indicates the model have a relationship but not strong enough, only 9.1% while the value of R Square indicates only 0.8% of the variation in ROE is explained in the corporate governance. So, the null hypothesis was rejected because all the P-Value has value less than 0.05 significant levels. There is relationship between OPM with GB and the relationship is significant 0.025 levels and the T-Ratio value indicates 2.254. The standardized coefficient of 0.170 indicates the parallel relationship between OPM and GB. So, the null hypothesis is rejected at this level. The R-Square indicates only 4.4 % of the variation in OPM is explained by the variation in Sharia' compliance while the R value indicates that the model do not have a strong relationship (20.9%).

Table 1. The Results of Multiple Regression Analysis

	ROA	ROE	OPM
Variables	Model 1	Model 2	Model 3
Panel A: CORPORATE GOVERNANCE COMPLIANCE			
Constant	3.419	3.313	0.228
	0.001	0.001	0.820
Board Renumeration (BR)	0.076	-1.453	1.980
	0.939	0.147	0.048**
Directors' Training (DT)	1.043	0.862	0.021
	0.298	0.389	0.983
Family Members (FM)	-1.406	-0.953	-0.007
	0.160	0.341	0.995
R	0.105	0.091	0.094
R Square	0.011	0.008	0.009
Adj. R	0.005	0.003	0.003
F-Statistic change	2.001	1.497	1.623
Std. Error of the Estimate	12.562	19.867	38.729
Panel B: SYARIA' COMPLIANCE	Model 4	Model 5	Model 6
Constant	3.698	2.684	0.341
	0.000	0.008	0.734
Riba (RB)	-3.148	-1.874	-0.311
	0.002***	0.063*	0.756
Gambling (GB)	1.580	1.531	2.254
	0.116	0.128	0.025**
Non Halal Product (NHP)	-2.807	-1.708	-0.812
	0.006***	0.089*	0.418
Conventional Insurance (CI)	-1.904	-1.993	-0.828
	0.058*	0.048**	0.409
Entertainment (ENT)	-4.011	-2.575	-0.638
	0.000***	0.011**	0.524
Stockbroking (SB)	-0.098	-1.032	0.047
	0.922	0.303	0.963
R	0.409	0.302	0.209
R Square	0.167	0.091	0.044
Adj. R	0.14	0.061	0.012
F-Statistic change	6.128***	3.059***	1.388
Std. Error of the Estimate	6.268	18.499	46.087

*Notes: In each cell, t-value appears in the first row and p-value (sig.) is in the second row. Symbols * indicates significance at the 10 percent level while ** indicates significance at the 5 percent level and *** indicates significance at the 1 percent level.*

4.4 Pearson Correlation analysis among variables

Table 2. The Results of Pearson Correlation Analysis

Panel A: CORPORATE GOVERNANCE COMPLIANCE

Variables	Correlation	ROA	ROE	OPM	BR	DT	FM
ROA	Pearson	1					
	Sig. (2-tailed)						
ROE	Pearson	0.515**	1				
	Sig. (2-tailed)	0.000					
OPM	Pearson	0.480**	0.200**	1			
	Sig. (2-tailed)	0.000	0.000				
BR	Pearson	-0.036	-0.079	0.094*	1		
	Sig. (2-tailed)	0.403	0.065	0.028			
DT	Pearson	-0.086	-0.048	0.041	0.404**	1	
	Sig. (2-tailed)	0.000	0.266	0.336	0.000		
FM	Pearson	-0.095	-0.055	0.042	0.410*	0.985**	1
	Sig. (2-tailed)	0.027	0.201	0.331	0.000	0.000	

Panel B: SYARIA' COMPLIANCE

Variables	Correlation	ROA	ROE	OPM	RB	GB	NHP	CI	ENT	SB
ROA	Pearson	1								
	Sig. (2-tailed)									
ROE	Pearson	0.903**	1							
	Sig. (2-tailed)	0.000								
OPM	Pearson	0.480**	0.520**	1						
	Sig. (2-tailed)	0.000	0.000							
RB	Pearson	-0.168	-0.092	-0.016	1					
	Sig. (2-tailed)	0.021	0.206	0.829						
GB	Pearson	0.188**	0.177*	0.189**	-0.041	1				
	Sig. (2-tailed)	0.009	0.014	0.009	0.575					
NHP	Pearson	-0.149	-0.085	-0.070	-0.098	-0.118	1			
	Sig. (2-tailed)	0.041	0.245	0.339	0.180	0.106				
CI	Pearson	-0.088	-0.113	-0.066	-0.069	-0.083	-0.079	1		
	Sig. (2-tailed)	0.225	0.120	0.366	0.344	0.254	0.281			
ENT	Pearson	0.243**	0.156*	-0.055	-0.095	-0.114	-0.108	-0.076	1	
	Sig. (2-tailed)	0.001	0.032	0.454	0.194	0.117	0.139	0.296		
SB	Pearson	0.074	-0.025	0.003	-0.111	-0.134	-0.127	-0.900	-0.123	1
	Sig. (2-tailed)	0.308	0.736	0.972	0.126	0.065	0.081	0.219	0.190	

*Notes: In all cases of Pearson correlation the symbols * indicates correlation is significant at the ≤ 5 percent level while ** indicates correlation is significant at the ≤1 percent level (2-tailed).*

Based on table 2 in panel A, the presence of independent directors resulted with insignificant value. There is no relationship between ROA with the Board Remuneration proxies. Director's remuneration results indicate that a good deal of salary has no impact towards the firm's stock price. For the director's training and family members, there is a relationship between both of the proxies. Although the board had complied with the code by holding the director's training, there is an effect to the ROA which has a negative correlation of at 5% significant level and same with the family members, ROE not correlated with any proxies in corporate governance while OPM with the board remuneration at 5% significant level. Thus, the decision is to reject H_0 for hypothesis H1 and H2. Other proxies are more than 5% significant level. Therefore, the decision is to reject Ho. This argument is supported by the correlation coefficient and R^2 where both value show 0.9% and 9.4% which are considered weak. Refers to panel B**,** there are significant relationship between the ROA and the sharia' compliance proxies for riba, gambling, non halal products and entertainment. The proxies are greater than 5% for the riba and non halal product and 1% for gambling and entertainment. ROE correlated at the significant level of 5% only for gambling and entertainment while OPM has a positive correlated 0.189 at 1% significant level. Thus, the decision is to accept hypothesis H1 and H2. Other proxies are more than 5% significant level. Therefore, the decision is to reject Ho.

The key result (refer table 3 to look at the significant mean different) is that sharia' compliance seems to create a higher profitability on ROA (3.8466) and ROE (6.4749) compared to corporate governance compliance firms with ROA (2.9306) and ROE (5.0738). However, corporate governance compliance firms indicate a higher mean different in term of OPM at 10.1511 compared to 9.6557 for sharia' compliance firms, so, accept Ha and reject Ho for H3. Based on this results, the corporate governance less restrictive then sharia' compliance where the sharia' compliance appear to provide better historical returns. Levene's test for equality of variances result shows that only ROA was significant at 10 percent (0.079) and F value at 3.086. Meaning to say that, Sharia' compliance rules and regulations must be strict to the newly classified sharia'-compliant securities to ensure the better performance and protect stakeholder's interest**.**

Table 3. The Results of Independent Sample T-test and Levene's Test for Equality of Variances

Performance	Category	Mean	Std.Deviation	Std. Error Mean	Levene's Test
ROA	CG Firms	2.9306	12.59699	0.53960	F = 3.086
	SC Firms	3.8466	6.75927	0.49037	Sig.= 0.079
ROE	CG Firms	5.0738	19.89490	0.85220	F = 0.127
	SC Firms	6.4749	19.09438	1.38525	Sig.= 0.722
OPM	CG Firms	10.1511	38.79600	1.66184	F = 1.306
	SC Firms	9.6557	46.37038	3.36406	Sig.= 0.254

5. Conclusion and Recommendations

In this study, it can be conclude that majority of the companies that listed in Bursa Malaysia have complied very well with the corporate governance code of best practices and syaria' principles. But, based on the statistics in chapter four, it's proved that the Corporate Governance companies' independent variables are not significant with the dependent variables which are ROA and ROE and only significant for the OPM. These results are broadly consistent with other studies (eg. Shamsul Nahar Abdullah (2004) and Klapper & Love (2004). From the findings, Sharia' compliance proxies which are non-permissible according to sharia' has also been gathered to examine the relationship independent variables in sharia' compliant are significant with the dependent variable (ROA, ROE, and OPM). The statistical result of the correlation coefficient is substantiated at the 5% level (p-value< 0.05). The null hypothesis was rejected at the 5% level of significant. From the analysis, indicated that significant on ROA and ROE tends to sharia' compliance over the period between 2003 till 2007. Sharia' compliance firms show the best performance for the ROA and ROE. Overall this study had found that there is a proof that the sharia' compliant can help company achieve their organizational goals and good in firm's performance the company who did not comply with sharia' compliance, they should follow the practice because it will bring a lot of benefit to the company. However, corporate governance does not mean that are not considered and allowing for differing sensitivities to benchmark its profitability returns because it still have a link with OPM. In summary, corporate governance regulators must be strict in ensuring all the companies comply with code of conduct and exercise fair treatment. Companies itself should take own initiative to comply or make continuous improvement their corporate governance practices. In ethical view, corporate governance has a positive effect towards the company's performance. So, it will be highly recommended for the company to comply with the code and principles because it will give the investor confidence to put their money to the company.

6. References

1. Abdul Hadi bin Zulkafli, M.Fazilah bt. Abdul Samad, and Md Ishak Ismail (2002), Corporate Governance in Malaysia, Unpublished Paper, University of Malaya.
2. Allan Chang Ai Lek (2004). The impact of corporate governance practices on firms' financial performance: Evidence from Malaysian companies. *ASEAN Economic Bulletin*, Vol 21 No 3, 308-318.
3. Andres et al. (2005), Corporate Boards in OECD Countries: Size, Composition, Functioning and Effectiveness, *Blackwell Publishing Ltd 2005*, Vol 13 (2) , 197-300.
4. Bai et al. (2003), Corporate Governance and Market Valuation in China, *William Davidson Working Paper (564)*
5. Bauer, R., Guenster, N. & Otten, R. (2004). Empirical Evidence on Corporate Governance in Europe - The Effect on Stock returns, Firm Value and Performance. *Journal of Asset Management*, Vol. 5(2), pp91-104.

6. Black et al. (2005), Does Corporate Governance Predict Firm's Market Values?: Evidence from Korea, *Working paper N 86/2005*, http://ssrn.com/abstract=311275
7. Bhasa, M.P. (2004). Understanding Corporate Governance Quadrilateral. *Corporate Governance*, Vol. 4(4), pp7-15.
8. Burke, R.J. (2003). Woman on Corporate Board of Directors - The Timing is Right. *Women in Management Review*, Vol. 18(7), pp346-348.
9. Chiang (2005), An Empirical Study of Corporate Governance and Corporate Performance, *The Journal of American Academy of Business, Cambridge*, 95-101.
10. Corporate Governance Committee (1997). Corporate Governance Principles: A Japanese View (Interim Report). http://www.ssrn.com/
11. Drobetz et al. (2003), Corporate Governance and Expected Stock Returns: Evidence from Germany, *WWZ/Department of Finance, Working Paper No.2/03*
12. Finance Committee on Corporate Governance (March 2002), *Malaysian Code on Corporate Governance*, Http://www.sc.com.my
13. Klapper & Love (2004), Corporate Governance, Investor Protection and Performance in Emerging Markets, *Journal of Corporate Finance, Vol 10(5)*, 703-728.
14. Korac-Kakabadse, N., K.Kakabadse, A. & Kouzmin, A. (2001). Board Governance and Company Performance - Any Correlations. *Corporate Governance*, Vol. 1(1), pp24-30.
15. Kula (2005), The Impact of the Roles, Structure and Process of Boards on Firm Performance: Evidence from Turkey, *Blackwell Publishing Ltd 2005, Vol.13 N 2*, 256-276.
16. Mardjono, A. (2005). A Tale of Corporate Governance. *Managerial Auditing Journal*, Vol. 20, pp272-283.
17. Mohamad Ishak, Hartini and Noriza (2004), The Disclosure of Corporate Compliance Program: A Study on the Board of Directors in the Bursa Malaysia Public-Listed Companies, *Proceedings UIBMC 2004*, 250-263.
18. Nikomborirak, D. (2001). An Assessment of the Role of Board of Directors in Building Good Governance: The Case of Thailand. Paper presented at the "Third Asian Round Table on Corporate Governance: The Role of Boards and Stakeholders in Corporate Governance".
19. Shamsul Nahar Abdullah. (2004). Board Composition, CEO Duality and Performances Among Malaysian Listed Companies. *Corporate Governance*, Vol. 4(4), pp47-61.
20. Thomsen, S. (2005). Corporate Governance as Determinant of Corporate Values. *Corporate Governance*, Vol. 5(4), pp10-27.
21. Werther Jr, W.B. & Kerr, J.L. (1995). Strengthening Corporate Governance Through Board Level Consultants. *Journal of Organizational Change*, Vol. 8(3), pp63-74.
22. Wier, C. & Laing, D. (2001). Governance Structures, Director Independence and Corporate Performance in the UK. *European Business Review*, Vol. 13(2), pp86-94.
23. Zandstra, G. (2002). Enron, Board Governance and Moral Failings. *Corporate Governance*, Vol. 2(2), pp16-19.