THE RELATIONSHIP BETWEEN BOARD CHARACTERISTICS AND FIRM FINANCIAL PERFORMANCE IN MALAYSIA

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Abstract

Corporate governance has drawn attention of investors and government after the incidence of financial crisis world- wide since the late 90's. Despite that reforms of corporate governance have been in place in Malaysia, voluntary disclosure of corporate governance has yet to proof its impact on the financial performance of the companies. This study examines the relationship between corporate governance attributes and firm financial performance in Malaysia. The relationship between board characteristics (board tenure, board size and CEO duality) were analyzed to investigate their correlation with firm financial performances. A total of 100 public listed companies were randomly selected from Bursa Malaysia for the year 2009 to 2013. Random effect panel data regression was obtained by using Stata. This study finds that board size, board tenure were significant to Return on Equity (ROE) and Return on Assets (ROA). However, firm size has no significant relationship with firm financial performance. It is recommended that apart from including more variables as controlling effects on firm financial performance and examining few industries as sample, it is also good to examine the correlation between board characteristics and corporate governance variables (foreign listings, equity analysis, external auditors, leverage ratios, dividend policy, etc.) on one hand, and ownership structures on the other hand, that have significant impact on firm financial performance.

Keywords: Board Characteristics, Corporate Governance, Financial Performance, Investors, Malaysia, Return on Assets, Return on Equity

1. INTRODUCTION

Corporate governance is often used in business activities to manage the structures and processes of a firm in enhancing its shareholders' wealth. After the Asian and global financial crisis in 1997, corporate governance has attracted public interest of the firm and society (Ghosh, 2007; Rachagan, 2010; Ng & Yeoh, 2012). This is due to the fact that investors have lost their confidence towards the market and start to withdraw their capital from the market. This is proven during the financial crisis from June 1997 to August 1998 where Kuala Lumpur Composite Index declined tremendously by 72%.There are many views or causes of financial crisis and part of the reasons was due to downtrend of economy, especially due to collapse in the property sector and stocks market. However, the more fundamental reasons were due to lack of loan policies and prudential regulations. Notwithstanding the regulations, Malaysia still faces difficulties in strengthening corporate governance, thus the need to enhance the governance system and policies because confidence level of investors and firm financial performance have strong correlation with corporate governance, especially by the weak ones. Bhattacharyay (2004) highlights few key problems of poor corporate governance which includes weak legal systems and regulatory framework, excessive government intervention and highly concentrated ownership structure that could result in poor performance of the firm. In addition are, weak external discipline in the corporate sector, poor accounting information and lack of investors' protection which also affect the efficacy of corporate governance mechanisms.

In Malaysia, government has focused on the reforms in corporate governance to overcome the crisis. Hence, Finance Committee on Good Governance (FCGG) has come up with an initiative to reform the corporate governance activities which covered the entire corporate sector including public listed and privately owned firms. This is to ensure that through best domestic institutions, it will drive excellent performance with the established infrastructure in more efficient and effective way. In addition, through this exercise, we can ensure that strong regulations and supervision will be established. Securities Commission and the Kuala Lumpur Composite Index (KLCI) also instituted a number of reforms to ensure better disclosure and greater transparency of information in order to bring Malaysia to the next level in Asia.

Moreover, the global economic crisis of 2009, triggered the market for the transparency and accountability of the firms on the effectiveness of existing corporate governance practices. These were due to the incidents whereby major corporations in the USA such as World Com and Enron were experiencing financial scandals and many investors

have lost their faith in capital markets (Sunday, 2008). In addition, Norlia, Zam& Ibrahim (2011) also examined the failure of corporate governance in financial reporting that caused most of big companies collapse during financial crisis such as Perwaja Steel, Technology Resources Industries (TRI), Transmile, Megan, Malaysian Airlines System (MAS), Port Klang Free Zone (PKFZ), Enron and WorldCom (WC). Companies have taken the advantages to manipulate their financial reporting with the poor risk management system to show they achieve a commendable performance.

Therefore, this study aims to analyze how board characteristics affect firm financial performance in public listed companies in Malaysia.

2. LITERATURE REVIEW

2.1. Agency Theory

Agency theory is one of the predominant theories and plays a vital role in most of the firms in Anglo-American model. In modern corporations today, agency problem may occur when separation between control and ownership of managers and shareholders exists (Berle and Means, 1932) due to conflict of interest and minimal alignment between managers and shareholders (Jensen and Meckling, 1976). Managers would tend to jeopardize the interests of owners due to their opportunistic behavior. The key insight of Jensen and Meckling (1976) was to model the relationship between owners and managers similar to one between a principal and an agent. The owners hire the managers to perform the controlling tasks of a firm on day-to-day operation to maximize the firm's wealth, but both are self-interested for own benefits, hence conflict of interest arises. As the managers have the effective control of the firm, they are more advantages and have the ability to consume benefits at the expense of the owners. Costs incurred by the divergence of interests between owners and managers as agency costs are monitoring cost, residual loss and bonding cost, said Jensen and Meckling. Furthermore, outside shareholders also involved agency cost to monitor manager's action. Hence, agency cost increased when there is conflict of interest between managers and shareholders. The agency theory is used as core theory in previous studies for corporate governance and firm performance (Colarossi, Giorgino, Steri & Viviani, 2008; Shakir, 2009; ZainalAbidin, Mustaffa Kamal& Jusoff, 2009; Tariq & Abbas, 2013; Gupta & Sharma, 2014; Andreou, Louca&Panayides, 2014; Ng et al., 2015) with the objective to reduce agency cost incurred by the principals or controlling the behavior of agents through internal control mechanism.

2.2. Stakeholder Model

The stakeholder approach emphasizes contribution by stakeholders that can contribute to the long term performance of the firm. Such stakeholders may include contractual partners such as employees, suppliers, customers, creditors, environmental forces, local, state and federal entities and public at large. Consistent with this view is Porter (1992) cited in Turnbull (1997) who recommended to the policy makers in the US, the allowance of long-term workers' ownership as well as participation on board of companies on a strong basis by financial advisers, suppliers, customers and local indigenes. Further to this, is that companies should focus on long-term owners with direct participation in governance. The relationship between a company and its strategic stakeholders is supported by the American Law Institute to the effect that the modern firms by its existence brings about the inter-relatedness with a variety of groups with whom the firm has dealings with which may include elements like customers, suppliers employees and the immediate society where the firm carries on business.

2.3. Corporate Governance

Corporate governance has attracted the attention of academic researchers and business world in recent years after the financial crisis of 2008. It is crucial to further study the relationship between corporate governance particularly controlling stake of the board of directors (Bhattacharyay, 2004) and firm performance. Malaysia has evolved over the decade in corporate governance, culminating in the development of Corporate Governance Blueprint 2011. This can improve the business reporting and drive effective stewardship through good corporate governance. The main objectives of corporate governance are to reduce equity agency cost and information asymmetry of public listed companies. Based on the pioneer study on controlling ownership, Berle and Means (1932) intensified the potential conflict of interest when managers do not have any controlling ownership in the firm. They found that salaried managers may not perform in the greatest interests of shareholders when they are running companies without ownership. Besides, they also highlighted the possibilities in achieving higher rates of the firms by concentrated ownership shareholders if any substantial relationship between managerial behavior and owner interests. Hence, a good corporate governance system should provide effective protection of security in getting higher return on investments for all shareholders, be it creditors or minority shareholders. It should consist of a set of rules such as rights and responsibilities that define clear relationships between shareholders, managers, creditors, government and other stakeholders. With the structured mechanisms in place, it will directly or indirectly shape the corporate governance system to enforce these rules more effectively in any country. To be more specific, it determines the nature of the agency problem of whether the dominant conflict is between managers and shareholders, or between controlling and minority shareholders.

2.4. Corporate Governance and Firm Financial Performance

Concentrated ownership of managerial functions demonstrated various possibilities to expropriate corporate wealth (Fama and Jensen, 1983) and easier to be entrenched (Stulz, 1988). This indicates greater power of internal constituency in influencing corporate performance when managers owned large ownership. It is crucial and actions need to be taken

by the firm to address the issues. Several studies had been conducted on the relationship between ownership structure and corporate performance in Malaysia. Scholars found a positive significant relationship between good corporate governance and corporate performance (Claessens, Djankov, Fan & Lang, 1999; Selvaggi& Upton, 2008 as cited in MohdAzmi et al. 2011; Joel Tham, 2012). The improvements of firm performance are in terms of higher Returns on Investments (ROI), Returns on Assets (ROE), Earnings Per Share (EPS), Returns on Assets (ROA) and higher stock price. According to Latifet et al. (2013), corporate governance has a significant relationship on the firm performance. To ensure efficient firm performance, a good practice of corporate governance must be implemented (Rashid and Lodh, 2011). Good corporate governance can consist of different determinants such as board size, CEO duality, ownership concentrations or even agency theory. Sheikh et al. (2013) argues that board size and managerial ownership affects firm performance.

Fazilah Abdul Samad (2004) shows significant relationship between corporate governance and corporate performance. The regression results between financial performance indicators such as return on equity (ROE), return on assets (ROA), leverage and corporate governance variables show that as companies grew larger, they attained higher returns on investment and relied less on debt financing. This result supported the agency theory whereby less agency cost incurred for monitoring manager's action. Besides, better risk management of corporate governance also enhancing the firm performance. This conclusion confirmed those of previous research carried out by Saldana (1999), Xu and Wang (1997) and Emmons and Schmid (1999) as cited in Fazilah (2004). However, the Asian Financial Crisis hassled to unusual effects for the corporate performance to be insignificant.

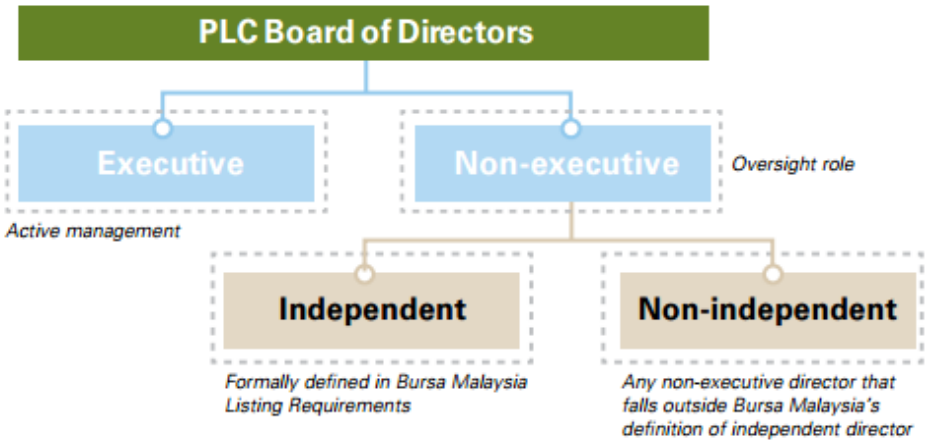
However, research on the relationship between corporate governance and corporate performance reported mixed results. This led to questions about whether the principles of best practices in corporate governance are applicable in other countries as those originated by the developed countries. Nazli Anum Mohd Ghazali (2010) shows weak evidence to indicate that companies which adopted good corporate governance practices performed better than others. Thus far, none of the corporate governance variables were statistically significant in explaining corporate performance.

2.5. Board Characteristics

Figure 1 indicates the types of directors and their roles in the public-listed company (KPMG Malaysia, 2013). Executive director refers to an active member in management who is involved in daily activities whilst non-executive director has oversight role for the firm. There are two types of non-executive directors which are independent and non-independent director. Independent non-executive director is one who is formally defined in Bursa Malaysia.

According to Lam et al. (2012), board committees have signification relationship with firm performance.

Figure 1. Types of board of directors in Malaysia



The study shows that remuneration committee is negatively related to firm performance whilst nomination committee is positively related to firm performance. This indicates that composition of board committee, be it independence (positive) or non-independence (negative) will affect the relationship towards the firm performance.

2.6. Board Size

Total number of directors in a company refers to board size of a firm (Abdullah, 2004; Hermalin and Weusbach, 1991 as cited by Jaana, 2012). According to Lipton and Lorsch (1992) and Jensen (1993), both scholars argued that larger boards tend to increase the coordination and lead to decision making problems. Hence they suggested that smaller boards are more effectively managed for the firms. Adversely, some argued that when board size increases, the board will tend to be more aligned and is less likely to be part of decision-making process (Hermalin and Weisbach, 2003). This can enhance the firm performance and reduced agency cost. However, Tham (2012) found that average seven board size is better informed about earnings per

share of the company in Malaysia and therefore can be regarded as having better monitoring abilities. Yermack (1996) also found a negative relation between board size and firm value. However, Pearce and Zhara (1992) and Dalton et al. (1999) both argue that board size is one of the important determinants of effective corporate governance.

2.7. Board Tenure

Board tenure is considered one of the important characteristic that has effect on firm performance (Herly&Sisnuhadi, 2011; Simsek, 2007). Longer tenure of the member will result in greater experience and knowledge gained by the board (Pfeffer, 1987).Additionally, board tenure has often been related to the leadership quality and power (Herly&Sisnuhadi, 2011; Shen, 2003). The board's leadership position has been measured in several studies according to the number of years in this position (Bhagat& Bolton, 2008; Herly&Sisnuhadi, 2011; Ozkan, 2011; Roselina, 2009; Simsek, 2007).

Furthermore, Ebrahim et al. (2013) conducted a study on 136 companies (exclude financial companies) listed Kuwaiti firms for financial year 2009 and examines the relationship of board tenure on firm performance. The study found that board tenure was adversely related to firm performance. This result indicates that the smaller time the board spent in his position, the better the firm performance. Similar findings were also obtained by Kyereboah-Coleman (2008), Bertsch& Mann (2005), and Adel, Fariba&Ehsan (2014) who investigated the relationship between board tenure and firm performance of Ghana, U.S and Malaysia respectively and subsequently found a negative association on firm performance.

2.8. CEO Duality

CEO duality refers to a board leadership structure in which the chief executive officer (CEO) is also the chairman of the board (Bozec, 2005). Ideally, from agency theory perspective, Chairman segregates some authority to the CEO rather than solely company owner held the office. This can increase the accuracy balance of accounting, at the same time increase the firm performance (Valenti et al., 2011). However, some studies report no significant relationship (Dalton et al., 1998) while other studies suggest a negative relationship between CEO duality and profitability (Ezzamel and Watson, 1993; Bozec, 2005). On the other hand, according to Ebrahim et al. (2013), Norazian (2012) and Jenny et al. (2011), CEO duality was found to have a significant effect on firm performance using Return on Asset (ROA) and financial strength (shareholder's right ratio). (Fariba et.al, 2013) opines that separate person of Chairman and CEO will result in better firm performance because this can make for accurate balance and checks of the top management for firms performance. This aligns with the statement of Malaysia Code of Corporate Governance (MGCC).

3. METHODS

3.1. Research Design

As was previously mentioned, the aim of this paper is to investigate the interrelationship between board characteristics and firm performance. To empirically examine this issue, we used linear multiple regression analysis (Hafiza et al., 2008; Fariba, 2013) to test the association between dependent variable of ROE and ROA and the independent variables: board size, board tenure, CEO duality, and firm size. The data is processed and analyzed by multiple regression methods using Stata 10.1 software.

In order to control for the other possible determinants of firm performance not captured by the ownership variables, we also include some observed firm characteristics as control variable. The control variable used in the study has been selected with reference to those employed in earlier empirical studies (Himmelberg, Hubbard & Palia, 1999; MajidAbbasi, Dadashinasab & Mohsen, 2013) which used firm size as the control variables. Consistent with prior studies, this study includes firm size as control variable in the regression model where we used the log of total assets to measure firm size and to control for the firm size effect (Jaggi et al., 2007; Majid et al., 2013).

3.2. Date collection technique

Data for this study was obtained from Data stream and companies annual report which includes100 firms listed on the Bursa Malaysia for the years 2009 through 2013. All data for independent variables such as board tenure, board size, and CEO duality are manually collected from companies' annual reports, whilst dependent variables and control variable are retrieved from Data stream. Firm size is the control variable and the dependent variables comprise of firm performance measures such as Return on Assets (ROA) and Return on Equity (ROE). Companies' annual reports were downloaded from Bursa Malaysia website.

3.3. Sampling frame

The companies that are registered on the Bursa Malaysia are randomly chosen as the sample study. Previous studies in Malaysia setting have used companies registered on the Main board (Abdullah, 2004; Chang, 2004; Doraisami, 2003) and Second Board (Rohana, 2009) in Bursa Malaysia, but examination on mixture companies of these two boards are largely under-researched. This study attempts to address this gap by using the sample chosen.

The final sample is chosen based on stratified sampling (DuMouchel et al., 1983). In determining the final sample, all companies listed on the Main Market and Ace Market of Bursa Malaysia were identified through browsing the website or from the Bursa Malaysia and Malaysia Stock Business database. There are 913 companies listed on Main Market and Ace Market as at 19 January, 2015 in Malaysia Stock Business website as indicated in Table 1.

Table 1. Public Listed Companies by Industry in Malaysia

Industry	No. of companies
Industrial Products	259
Trading-Services	196
Consumer Products	134
Technology	95
Properties	83
Construction	42
Plantation	41
Finance	35
REITs	16
IPC	6
Hotels	4
Closed-Fund	1
Mining	1
Grand Total	913

Source: Malaysia Stock Business 2015

Companies that are in the finance and loan sector are excluded from this study because they are governed by the Banking and Financial Institutions Act 1989 and therefore, finance sectors would have different way of presenting their financial information. Hence, the remaining balances of the total companies are 878 after excluded the 35 finance companies. To increase the accuracy of the sampling size, we have combined 5 industries and classified them as KLSE Others. KLSE others represent REITs stock, IPC stock, Hotel Stock, Closed-Fund Stock, and Mining Stock.

Percentage of composition for each industry is computed to represent the sample size. For example, industrial products represent 29.5% out of the total companies for the industry. Table 2 below represents the number of sample size for each industry based on the percentage of composition that resulted in total 100 sample size. The number of sample size chosen for each industry was based on stratified sampling according to their percentage of composition against industry.

Table 2. Final sample size by industry

Industry	No. of company	% composition	No. of company
KLSE Industrial Products Stock	259	29.50%	29
KLSE Trading-Services Stock	196	22.32%	22
KLSE Consumer Products Stock	134	15.26%	15
KLSE Technology Stock	95	10.82%	11
KLSE Properties Stock	83	9.45%	9
KLSE Construction Stock	42	4.78%	5
KLSE Plantation Stock	41	4.67%	5
KLSE Others	28	3.19%	3
Grand Total	878	100.00%	100

Out of the total companies, 100 companies were randomly selected as the final sample according to its industry as shown in table 3b. It represents 11% of the whole population. This is determined by the number of sample used in similar study area, for example 63 firms by Pauline and Mathews (2002) and 49 firms by Inchausti (1997). This is consistent with the central limit theorem which states that the more samples selected in the study to represent population, the more it can explain the population.

3.4. Sources of data

There are two methods for data collection, which are extracted manually from annual report and retrieved from Data stream. Details are show as table 3 below:

Table 3. Method of data collection for all variables

Variables	Method of Data Collection
Dependent Variable	
Return on Assets (ROA)	Data stream
Return on Equity (ROE)	Data stream
Independent Variables	
Board Size	Annual Report
Board tenure	Annual Report
CEO Duality	Annual Report
Managerial Ownership	Annual Report
Family Ownership	Annual Report
Institutional Ownership	Annual Report
Control Variables	
Firm Size	Data stream

3.5. Variables and measurement

Previous studies for the connection of corporate governance to firm performance have used different proxies of firm valuation such as Earning per Shares (EPS), Return on Assets (ROA) and Return on Equity (ROE) (Hermalin and Weisbach, 2003; Shleifer and Vishny, 1997; John & Senbet, 1996; Douma et al., 2006; Phung and Hoang, 2013). In this research ROA and ROE are considered as dependant variables and three independent variables (board size, board tenure, CEO duality) of present study are as a proxy for measuring firm performance. One variable is used as control variable in this research which is firm size (Chae et.al, 2009). The full specification of regression model is developed to fit the data in order to assess the effect of each variable on the firm performance:

$$ROA = \alpha+\beta_1 BSIZE+ \beta_2 BTENURE+ \beta_3 CEO+ \beta_4 LGSIZE+\varepsilon \quad (1)$$

$$ROE = \alpha+\beta_1 BSIZE+ \beta_2 BTENURE+ \beta_3 CEO+ \beta_4 LGSIZE+\varepsilon \quad (2)$$

where, ROA represents Return on Assets, ROE represents Return on Equity, BSIZE represents board size, BTENURE represents board tenure, CEO represents CEO duality, and LGSIZE represents firm size.

Table 4. List of variables

Variables	Description	Source
ROA	Return on Assets	Data stream
ROE	Return on Equity	Data stream
BSIZE	Board Size. Total number of directors	Annual Reports
BTENURE	Board Tenure. Average number of years of board service of independent non-executive directors	Annual Reports
CEO	CEO Duality. Roles as a Chairman and CEO	Annual Reports
LGSIZE	Firm Size. Log of total assets	Data stream

3.6. Operationalization of Research Variable

This study is focused on corporate governance and firm financial performance in Malaysia. Table 5 presents the operationalization of the research variables such as independent variables, dependent variables and control variable.

Table 5. Operationalization of Research Variables

Variable	Operationalization	References
Independent Variables		
Board Size	Total number of directors	Joel Tham (2012)
Board Tenure	Average number of years of board service of independent non-executive directors	Adel, Fariba&Ehsan (2014)
CEO Duality	Roles as a Chairman and CEO	Fariba et al. (2013)
Control Variable		
Firm Size	Log of total assets	EbrahimMohameed (2011)
Dependent Variable		
Return on Assets	Net Income / Total Assets	Ahsan Akbar (2014)
Return on Equity	Net Income/ /Total Shareholder's equity	Ahsan Akbar (2014)

3.7. Hypotheses

To examine the impact of corporate governance mechanisms on the firm financial performance in Malaysia, the main hypothesis and sub-hypotheses are designed as follow:

Main hypothesis

There is a significant relationship between corporate governance mechanisms (board characteristics) and firm financial performance.

Sub-hypotheses

H_1: The size of boards of directors is negatively associated with firm financial performance

H_2: Board tenure is negatively associated with firm financial performance

H_3: Firms with a separation role between Chairman and the CEO are likely to have greater firm financial performance.

3.8. Data Analysis

The data were collected manually and extracted from Data stream, after which they were imported into Stata 10.1 software to examine them and perform simple statistical analysis using the regression analysis to model and determine relationships through the test of hypotheses. The data analysis, was separated into four parts, which are descriptive analysis, correlation analysis, ANOVA or hypothesis testing, and multiple regression. All the tests were to indicate whether the results fit into the model or have any significant relationship between corporate governance and firm financial performance.

4. FINDINGS

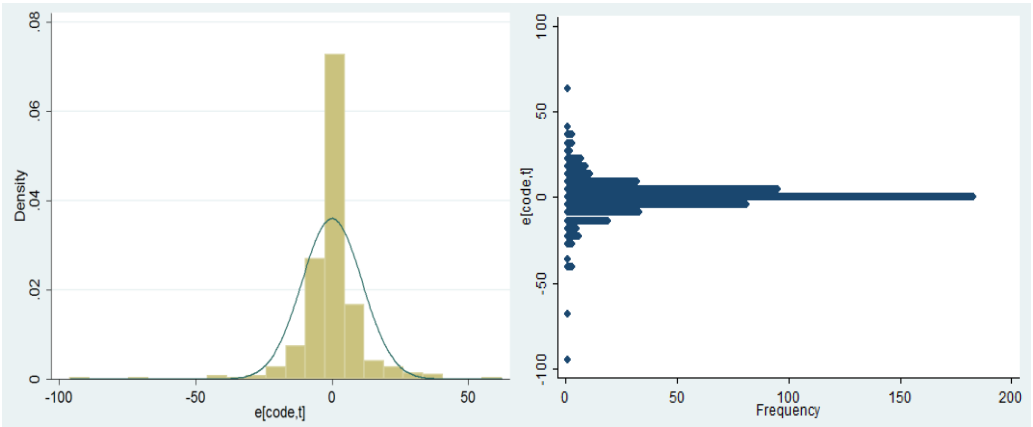
4.1. Descriptive Analysis

Table 6 shows the descriptive statistics for the 500 observations. The mean value for ROA is 3.8% and ROE is 5.0%. The average board size in the sample firms is about 8 members. The board tenure for independent non-executive director is about 7 years. The statistics also indicates that 27% of the sample firms have Chairman that is also CEO of the board. This means that 73% of the firms have separate person as Chairman and CEO. The standard deviation for ROA and ROE are 11% and 17% respectively. These indicate that there is a significant variation in return from the central value and some sample generating returns while some others are suffering losses. Based on the minimum and maximum value, result indicates no unexpected outcome in the analysis. The model of this study is normally distributed as shown in figure 2.

Table 6. Descriptive statistics

	ROA	ROE	BSIZE	BTENURE	LGSIZE
Mean	3.76	5.03	7.53	7.17	5.43
Max	50.22	101.66	13.00	23.50	7.62
Min	-160.41	-114.69	4.00	1.00	3.92
Std. Dev.	11.38	17.78	1.86	4.16	0.64
Obs	500	500	500	500	500

Figure 2. Normality test for residual



4.2. Correlation Analysis

Table 7 represents the correlation between the variables. It demonstrates that ROE has a positive relationship with board characteristics for board size and board tenure. The bigger the board size, the higher the ROE for the firm. This is in alignment with the mean value for board size of 8 members and board tenure of 7 years. However, negative relationship is observed between ROE and CEO duality. This means that firms with separate person of Chairman and CEO perform better than those firms with dual role of CEO. So, this reflects majority shareholders prefer to have separate persons as Chairman and CEO. On the other side, ROA has a positive relationship with all the board characteristics. Besides, dual role of CEO positively contributes to higher return of assets in Malaysia. In addition, CEO duality is positively correlated with family ownership. ROA and ROE has high correlation of 0.85, which is more than 0.7. This indicates that there is tendency of multicollinearity problem might arise if model indicate high correlation (Pearson's Correlation Coefficient). Overall, there is no highly correlation relationship among independent variables.

Table 7. Correlations Analysis

	ROA	ROE	BSIZE	BTENURE	CEO	LGSIZE
ROA	1					
ROE	0.85	1				
BSIZE	0.13	0.14	1			
BTENURE	0.11	0.15	0.45	1		
CEO	0.00	-0.01	-0.04	-0.07	1	
MOWNS	0.00	0.02	-0.06	-0.24	0.25	
FOWNS	0.04	0.03	0.08	-0.07	0.20	
INOWNS	0.06	0.08	0.14	0.14	-0.24	
LSIZE	0.08	0.08	-0.03	-0.03	-0.07	1

4.4. ANOVA

Tables 8 and 9 represent the results of ANOVA for ROE and ROA as dependent variables respectively. The result indicates that significant differences exist in ROA and ROE among the selected 100 sampled firms listed in Bursa Malaysia. These results interpret that the predicting variables like board size, board tenure, CEO duality and firm size affected the firm's financial performance differently. The F-statistic shows a substantial value and the significant level have justified the argument in this study. The reason is because corporate governance is only part of the variable that affects the firm financial performance; there are still many other variables that can affect the latter in Malaysia.

Table 8. ANOVA, ROE as a dependent variable

Model	Df	Sum of Square	Mean Square	F statistic	Sig.
Between group	5	111610.5	22322.1	239.6752	0.00
Within group	494	46008.61	93.1348		
Total	499	157619.11	315.87		

Table 9. ANOVA, ROA as a dependent variable

Model	Df	Sum of Square	Mean Square	F statistic	Sig.
Between group	3	44631.21	14877.1	369.5869	0.00
Within group	496	19965.61	40.2533		
Total	499	64596.82	129.453		

4.5. Regression Model

Table 10 exhibits the results of coefficient estimates of the dependent variables with their p values and t-statistics. Board size and board tenure are positively significant to ROE at 10%. In addition, board size is positively significant to ROA at 10% whereas board tenure is negatively significant to ROA. Besides, this study also found a positive relationship for CEO duality on ROA but negative relationship on ROE. Both of the firm financial performances are insignificant for CEO duality.

However, this study also found that control variable is not significant in affecting the firm performance for ROE and ROA. This indicates that there are other factors that could affect the firm performance other than firm size.

As considering the panel nature of the data, R square of ROE is 2.4% and ROA is 7.4%. These indicate very low variation of dependent variables (ROA and ROE) that can be explained by the independent variables (Board size, Board tenure, CEO Duality,). Lower R square value does not inherently mean bad model. This can be due to human behavior that is very hard to be predicted. Besides, although the R square is low in this study but if the variables are statistically significant, we can still be able to make conclusions about how changes in the corporate governance are associated with the change of firm performance. Additionally, F-statistic supports the overall fitness of models for both ROA and ROE.

Table 10. Regression results of coefficient estimator

	ROE			LN(ROA)		
Independent Variables	**coefficient**	**t statistics**	**p-values**	**Coefficient**	**t statistics**	**p-values**
Constant	-15.4614	-1.49	0.137**	0.5872	0.87	0.386
BSIZE	0.8562	1.44	0.149**	0.0690	1.82	0.07**
BTENURE	0.3734	1.49	0.138**	-0.0247	-1.56	0.121**
CEO	-0.00767	-0.00	0.998	0.1321	0.76	0.446
LGSIZE	0.7271	0.42	0.672	-0.0228	-0.21	0.83
No. of observations	500			400		
R2	0.0239			0.0740		
F-Statistic	5.13			51.03		
Prob (F-Statistic)	0.0000			0.0000		

*Note: *P is 5% and **P is 10% at 95% confidence level.*

4.6. Hypothesis Results

Hypothesis 1 shows that ROA and ROE is positively related to board size. Besides, board size has significant effect on corporate performance at 5% and 10% significant level. The average board size for this study is around eight members. Therefore, the smaller the board size has greater influence on firm performance. This justified that size of boards of directors is negatively associated with firm performance and aligned with previous studies (Jensen, 1983; Lipton &Lorsch, 1992; Yoshikawa &Phan, 2003; Joel Tham, 2012)

Hypothesis 2 reveals that board tenure is negatively associated with firm performance. Both ROA and ROE are statistical significant on firm performance at 10% significant level. ROA showed significant negative relationship with board tenure whereas ROE is positive significant. The findings are vague on the hypothesis. This is because longer tenure will increase the knowledge and experience gained for the board members who increase the leadership quality and power (Herly&Sisnuhadi, 2011; Ozkan, 2011). On the other hand, shorter tenure tends to increase firm performance due to less entrenchment cost and higher contribution on great ideas or strategy to the company (Kyereboah-Coleman, 2008; Ebrahim, 2013; Adel, Fariba&Ehsan, 2014). On top of that, there is possibility of inverted relationship happened on the firm performance for board tenure (Sterling Huang, 2013).

Hypothesis 3 shows that firm with a separation role between Chairman and the CEO are likely to have greater firm financial performance. This is proven on ROE that negative relationship occurred with separate role for Chairman and CEO. However, it does not go with ROA as firm financial performance because separate role will lower down the achievement for ROA. Nevertheless, the firm financial performance showed insignificant relationship with CEO duality. In other words, CEO duality does not influence company's performance. This is consistent with the study by Joel Tham (2012) and Fariba (2013).

5. DISCUSSION AND CONCLUSION

5.1. Discussion

Overall, this study proves that corporate governance associated with firm performance in Malaysia. Board size and board tenure are significantly related to ROE and ROA.

Board size is positively significant with firm performance. Smaller board size leads to effective management since larger size lead to coordination and decision making problems. An average of eight board size will have greater influence on firm performance. Hence, board size is negatively related to firm performance.

Board tenure is statistically significant with firm performance. Longer board tenure will reduce ROA achievement of firm and vice versa for ROE. This study can merely conclude that there is inverted relationship between firm performance and board tenure. The average board tenure is around 7 years per board members in Malaysia. A company that able to balance between entrenchment cost and experience gained of board able to enhance firm performance.

There is no significant relationship between CEO duality and firm performance. Firm with separate role of Chairman and CEO have greater performance in ROE but lower performance in ROA. This might be due to person with separate role shows greater concern in Return on Equity than the Return on Assets. The findings can relate to the personal interest of CEO as an executive board of directors which aims for retaining profits than achieving high growth ratio.

Overall, the f statistic is fitted in the model. However, variation of performance explained by independent and control variables as measured by R-Square are relatively very small, which is less than 10%.

5.2. Conclusion

In a nutshell, the findings of this research hopefully would be beneficial to the corporate companies in Malaysia in providing them a sense for enhancing their firm financial performance. Bursa Malaysia plays a vital role to ensure public listed companies practice quality accounting disclosures, higher risk management and prescriptive rules and regulations to strengthen corporate governance. This can provide greater protection of firms especially during financial distress and empowers market participants to take greater accountabilities and challenges in the future. With the implementation of ASEAN scorecard, we hope this can benefit the investors and provide best transparency and most diverse board to enhance firm financial performance. In addition, the transparency of accounting disclosures could mitigate the agency costs in the firms, be it with managerial, family or institutional ownership. Minority shareholders or investors must tactfully review the board characteristic to avoid any

manipulations by the directors. Reforms of corporate governance need be reviewed constantly in the dynamic markets for effective implementation of the mechanisms.

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