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The Effect of Corporate Governance and Firm Performance in Malaysia

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Abstract

This study aims to examine the effect of corporate governance and firm performance in Malaysia. The firm performance will be the dependent variable in this study and measured by return on assets (ROA). Corporate governance is the independent variable used in this research and consists of 5 important variables, which are CEO duality, board independence, board size, board meetings and audit committee size. Bursa Malaysia's 85 listed companies will be included in this research, analysed and tested by ordinary least squares (OLS). The findings support that only board size and audit committee size have a significant association with ROA (firm performance), while CEO duality, board independence and board meetings have an insignificant effect on ROA (firm performance). This study also provides significant benefits to various related parties like investors, company management, future researchers and more.

Keywords: Corporate Governance, Firm Performance

Introduction

The research topic is the effect of corporate governance and firm performance in Malaysia, the main or important research area in this topic includes two which is corporate governance and firm performance. Corporate governance act as a mechanism of communication between board members, stakeholders, management, and shareholders of a corporation (Almashhadani & Almashhadani, 2022). The main function of corporate governance is setting rules for the management and control of businesses, guiding their operations to ensure that investors are assured that the resources they provide are managed to attain efficiency and profitability. In addition to outlining the guidelines and processes for deciding on business-related issues, the corporate governance structure outlines the allocation of rights and obligations among the many stakeholders in the company, including the board, managers, shareholders, and other interested parties (Castrillón, 2021).

Furthermore, an economic metric known as "firm performance" measures how well a company uses its material and human resources to meet its goals. Effective use of business resources during the production and consuming processes is another aspect of firm performance to be taken into account. Firm performance demonstrates the relationship between the input resources used in an enterprise's business activities and the output results. Based from the past research, the profitability, growth, market value, total return on shareholders, economic value added, and customer happiness of a company are all taken into consideration while evaluating its performance. Additionally, accounting professionals and managers view organisational performance differently. Accountants are focused on an organization's financial performance, while managers are interested in ways to improve the performance of the company both now and in the future (Charles & Ochieng, 2023).

For this research, dependent variable only consists one such as return on assets (ROA), is a common type of variable used in research for calculate firm performance and it can be calculate by using net income scaled by total assets (Rou & Kassim, 2022). Independent variable part includes five, the first one is board size. Board size is the number of member and some company have large board size but some company only have small board size (Koji, Adhikary & Tram, 2020). Next, the second is board meeting, is a structured arrangement designed to bring together a board of directors to talk about and resolve pertinent issues pertaining to the past and present situation as well as issues pertaining to the firm's survival in the future (Rou & Kassim, 2022). The third variable is audit committee size, refer to the number of director on the audit committee size (Khatib & Nour, 2021). Then, the fourth variable is board independence, independent directors have a more effective and efficient function than executive directors in monitoring a company's funding concerns. They are responsible for exercising better control, bringing in outside resources, reducing agency expenses, and increasing financial transparency (Wu, 2021). The last one is CEO duality, the practice known as "CEO duality," in which the CEO also serves as the chair of the Board (COB), is quite common in the corporate leadership structure of the United States (Puni & Anlesinya, 2020).

Additionally, according to the study of relevant literature, there is a dearth of knowledge and investigation regarding how corporate governance interactions affect the connections between EM and firm performance, especially in the Malaysian setting (Nasiri & Ramakrishnan, 2020). According to Wong et, al (2020), limited empirical research has been done to examine the relationship between corporate governance and firm performance. However, only a few reviews have been conducted on the Malaysian environment, and none have taken into account all facets of the corporate governance literature. The majority of these evaluations were focused on a single governance mechanism (such as the audit committee size) or outcome (such as capital structure) (Khatib et, al, 2022). The reported business scandal in Malaysia revealed flaws in corporate governance as a result of financial mismanagement, political meddling, corporate fraud, and other conflicts of interest that ultimately caused the company to fail (Rou & Kassim, 2022).

Moreover, the research between corporate governance and firm performance is very importance as following high-profile corporate crises, the public's desire for corporate governance components often encouraged academics, policymakers, and the public and private sectors to step up efforts to promote good corporate governance in firms (Rou &

Kassim, 2022). In addition, the goal of corporate governance is to close the gap between various stakeholders with an interest in the business, boost investor trust, and lower agency costs (Alabdullah, Ahmed & Kanaan-Jebna, 2022). Because of this, this study focuses on Malaysia and aims to find out how corporate governance affects the firm financial performance. The findings can help business manager, future researchers, investors, financial regulator and other ASEAN countries make better decisions and build stronger and more efficient financial performance (Nasiri & Ramakrishnan, 2020).

The purpose of this study is to investigate how corporate governance affects the performance of Malaysian firms. Focusses especially on determining how CEO duality, board independence, board size, board meetings and audit committees size affect the performance of Malaysian firms. The goal is also to use data to answer problems, such as how corporate governance aspects or policies affect the financial performance of firms. This topic is important because corporate governance plays a crucial role in ensuring transparency, accountability, and effective decision-making in Malaysian firms. By examining its effect on firm performance, the study provides insights into how governance practices can enhance competitiveness, attract investors, and strengthen the overall stability of the Malaysian capital market. To sum up, this study will focus on the relationship between corporate governance elements and the financial performance of Malaysian firms. It will look into how CEO duality, board independence, board size, board meetings and audit committees size impact business outcomes. The results are expected to contribute to both the academic literature and practical corporate governance reforms in the industry.

Literature Review

This research or project dependent variable is firm performance, include return on assets (ROA) uses to measures the firm performance and test the relationship with independent variable. Additionally, return on assets (ROA) is one of the popular firm performance measure based from past studies research, the description of ROA is a ratio of net income to total assets and this metrics also are regarded as important predictors of business performance (Farooq, Noor & Ali, 2022). One accounting metric (book value performance) of the return on assets (ROA) is used to assess the success of the company. These metrics are employed to give a more reliable foundation for evaluating the connection between corporate governance and firm performance (Mertzanis, Basuony & Mohamed, 2019). According to Khatib & Nour (2021), ROA stands for earnings before interest and taxes divided by total assets. If a company's ROA number is around zero or negative, it means that Malaysian listed firms have been performing noticeably worse recently than the earlier time frame. The ratio of net income to average total assets for the year after preferred dividends are paid is known as ROA, calculated as operating income divided by total assets or net income divide total assets and times 100 (Bhagat & Bolton, 2019; Koji, Adhikary & Tram, 2020).

According to Bhagat & Bolton (2019), the corporate governance which is independent variable measure include CEO duality and independent director, an indicator variable that is equal to 1 if the CEO is also the board chair and 0 otherwise is used to measure CEO duality, the proportion of directors on a board who are categorised as independent, as opposed to the overall number of directors. CEO duality means that the CEO of the company also serves as the board chairman (Wu, 2021), indicated that a CEO who plays two roles may have an impact on the board's deliberate judgements, which may reduce the board's ability to oversee (Jesuka & Peixoto, 2022) and is a dummy variable that, if the CEO is also the board chairman, equals 1; else, it equals 0. Board independence is an independent outside director who serves just as a board member and has no operational connection to the company (Shao, 2019). "The proportion of independent directors to the total number of directors on the board of directors determines the independence of the board as a measure of board composition." Moreover, the proportion of independent directors to all directors on the board of directors is a statistic used to assess the independence of the board or measure by percentage of non-executive board members serves as the basis for the measurement. (Akbar et al, 2019; Wu, 2021).

Additionally, since the board is in charge of establishing the strategic direction of the company and overseeing its administration, board size is seen as a crucial factor in determining how well a company performs over time, the total number of executive and non-executive board members is referred to as the board size in this article or the sum of all the directors on the board (Antounian, Dah & Harakeh, 2021; Akbar et al, 2019). According to Jesuka & Peixoto (2022), indicate the more people on the board improve a company's performance. Furthermore, the quantity of yearly board meetings is another particular corporate governance element that this quantitative study looks into. The annual number of board meetings is purposefully used as a crucial indication to illustrate how active and involved the board is and how important board meetings are to the necessary oversight, control, and monitoring of the company. Therefore, the more board meetings a company holds in a given year, the more likely it is that it will perform, if four meeting once a year, the dummy variable will be 1, and if not, it will be 0 (Akbar et al, 2019; Danilov, 2024). The audit committee size's makeup has a significant impact on the accountability and consistency of financial information that is presented (Akbar et al, 2019). The audit committee lowers the cost of capital by ensuring the accuracy and consistency of the financial data revealed. The committee's viewpoint increases investor dependability and lends credibility to financial reporting, it is determined as the percentage of outside directors on the audit committee (Akbar et al, 2019; Jesuka & Peixoto, 2022).

According to Zarefar & Narsa (2023), the primary conclusions of the study showed that the performance of market-based firms is positively impacted by the size and proficiency of the audit committee size. Additionally, according to the findings, the factors of board independence, audit committee size independence, while the variable of firm size has a negative and substantial link with profitability, ownership concentration, CEO duality, and return on assets have positive and significant relationships with the firm's profitability (Anwar & Aziz, 2019). The findings indicate that the presence of a CEO role duality, the size and independence of the board, the audit committee size, and the frequency of board meetings all negatively impact business performance, but ownership concentration and frequency of board meetings enhance performance (Boshnak, 2021).

Theories

Agency Theory

A key economic theory that supports the corporate governance framework and draws several studies on corporate governance is agency theory, which is also a crucial theory. The agency theory gives shareholders and company managers a contractual relationship, which makes it significant. Agency theory states that CG mechanisms are required to lower agency costs by balancing CEOs' financial interests with those of stakeholders by adjusting their benefits and compensation, designating an impartial board of directors (BoD) to oversee management conduct, and designating an impartial board of directors (BoD) to oversee managerial conduct. From the perspective of agency theory, CG is a procedure where the Board of Directors, or BoD, is crucial in keeping an eye on managers to validate their actions, minimising conflicts between agents and shareholders, and assisting the company in accomplishing its objectives. Many researchers have investigated this role.

Additionally, according to the agency theory, board directors need to be independent in order to safeguard shareholders' wealth by reducing agency conflicts, increasing profitability, guaranteeing the long-term survival of companies, and strengthening the quality of transparency and information. Numerous studies indicate that an independent board of directors is significantly positively correlated with improved company financial performance (Alabdullah, Ahmed & Kanaan-Jebna, 2022). According to Hermuningsih, Kusuma & Cahyarifida (2020), agency theory, a manager (an agent) and an owner (a principle) enter into a contract for a service that serves the owner's interests and involves the delegation of authority and decision-making. Information asymmetry and agency conflicts arise from the owners and managers divergent interests. The manager may put their personal interests ahead of the owners' desire for dividend income from the investment. It is anticipated that agency disputes will decrease and business performance will increase with sound corporate governance.

This expectation is supported by the study's findings, as this article findings indicated that a company's financial performance was positively and significantly impacted by strong corporate governance, and that a company's financial performance is increased when excellent corporate governance is correctly implemented. Moreover, it is interesting to note that agency theory appears to be the dominant theory when describing how the CG mechanisms included in this study affect company performance, the primary theory driving Malaysian enterprises' CG structures appears to be agency theory. (Haron et al, 2020), the majority of research looks at how corporate governance and business performance are related from the standpoint of agency theory (Mertzanis, Basuony & Mohamed, 2019).

According to agency theory, an independent board of commissioners will keep an eye on management's actions to safeguard shareholders' interests. It is also found that a sizable number of independent commissioners will enhance decision-making objectivity, which will boost business performance (Muharam & Atyanta, 2021). Furthermore, according to Anwar & Aziz (2019), the majority of the variables in this study's methodology, such as board independence, audit committee size independence, and return on assets, have positive and significant associations. These findings are consistent with the majority of previous research and theories of corporate governance, particularly agency theory, regarding the role of corporate governance activities in reducing agency costs and enhancing firm performance.

Hypothesis Development

CEO Duality

For example, prior research indicates a positive correlation between business performance and CEO duality (Mertzanis, Basuony & Mohamed, 2019). According to Puni & Anlesinya (2020), data from companies listed on the New Zealand Stock Exchange between 2004 and

2007 showed that CEO duality significantly improved financial performance. Because of the wide range of theoretical perspectives, empirical research on the topic has produced a variety of conclusions, including both positive and negative findings as well as no correlation between CEO duality and firm performance (Saha & Kabra, 2019). Furthermore, CEO duality helps big board’s collaborate cognitively and build trust. Through better board effectiveness and greater access to resources, this might help businesses get past their loan repayment obligations and raise their chances of surviving in the capital market. Businesses in the early stages of growth might also benefit from CEO duality since it helps speed up decisions that may be required in a changing environment (Kijkasiwat, Hussain & Mumtaz, 2022).
H1: CEO duality is significantly associated with firm performance**.**

Board Independence
According to certain studies, a board of independent directors can win over stakeholders' trust and, in turn, stimulate greater investment. There have been assertions that board independence improves firm performance and has a positive correlation with firm performance. It is anticipated that having more outside directors on the board will reduce self-serving management choices and enhance company performance (Kijkasiwat, Hussain & Mumtaz, 2022). Additionally, according to Wu (2021), discovers that the firm's financial performance improves when there are more independent directors on the board. Imply that, after adjusting for a firm's historical performance, independent outside director appointments do have a notably positive effect on a firm's performance. Hence, state that independent outside directors have a very favourable impact on the operation of the company. Some studies discovered that enabling independent directors may increase the value of the company by encouraging effective oversight. However, other research have found no correlation or a negative relationship between board independence and company performance. This study's hypothesis is based on these arguments (Rou & Kassim, 2022).
H2: Board independence is significantly associated with firm performance.

Board Size
According to Hermuningsih, Kusuma & Cahyarifida (2020), one crucial aspect of corporate governance that defines the performance of a firm is the size of the board of directors. It was discovered that this variable positively affects the financial success of the organisation. Recent empirical research has shown that board size significantly improves financial success. But it also implied that a huge board size can drastically lower the value and performance of the company (Puni & Anlesinya, 2020). Moreover, greater monitoring authority in comparison to the board's strict decisiveness can indicate both positive and bad impacts from a larger board. They discovered that smaller boards are more productive than bigger ones and show a coherent and constructive interaction (Gulzar, Haque & Khan, 2020). In addition, various researches have reported that there is no relationship, that there is a relationship, or that there is a positive relationship between board sizes with firm performance (Shao, 2019). According to Wang et al (2020), demonstrate how a large board reduces the value of the company since it can be expensive to settle disputes and manage the decisions and communication of a large number of people. According to their findings, smaller boards improve company performance by better representing the interests of shareholders.
H3: Board size is significantly associated with firm performance**.**

Board Meeting

Reveals that a high level of earnings management is correlated with a high frequency of meetings. Additionally, studies show that a high frequency of meetings is positively correlated with the likelihood of fraud, which is likely to limit the growth of earnings per share (Wang et al, 2020). According to Gulzar, Haque & Khan (2020), investigated a sample of 169 South African companies and discovered a positive and significant correlation between board meetings and firm performance. They came to the conclusion that when board meetings increase in frequency, they eventually tend to produce larger profits. Hence, discovered importance in the beneficial effect of board meetings on business success, since more meetings add value to companies. In addition, founds that regular board meetings give directors the opportunity to evaluate and improve senior management performance and existing initiatives, as long as decisions made there successfully lower agency costs and conflicts of interest (Puni & Anlesinya, 2020). The success of the company is positively impacted by board meetings since all directors participate in collective accountability, and regular board meetings can improve firm performance. On the other hand, frequent board meetings could give investors the impression that companies are having performance issues that need the board of directors' full attention (Rou & Kassim, 2022).

H4: Board meeting is significantly associated with firm performance**.**

Audit Committee Size

The usefulness of auditing while keeping an eye on management operations to enhance a company's financial performance is demonstrated by the audit committee size, a subcommittee that is essential to successful CG (Ullah, 2022). Research indicates that more independent audit committee are better at monitoring financial reporting, which lowers agency expenses and improves business performance. Independent audit committee have been shown to improve corporate performance in times of crisis, as the COVID-19 epidemic. Larger audit committee are also seen to improve oversight, monitoring, and eventually business performance (Alshdaifat, 2024). It also contributes significantly to the "capital markets' investor protection framework" by supervising the audit engagement and financial reporting process, which has a debatable impact on corporate performance (Puni & Anlesinya, 2020). Additionally, according to Hermuningsih, Kusuma & Cahyarifida (2020), since an audit committee keeps an eye on the financial reporting process, it has an impact on the performance of the organisation. They claimed that the financial performance of a corporation is influenced by the size of its audit committee. Furthermore, according to reports, however, an audit committee size may experience process losses and responsibility dissemination if it grows too big. Argued that an audit committee size with more directors results in governance that is ineffective (Shrivastav, 2022). However, on the other hand the researchers found no correlation between operational success and the size of the audit committee (Al-ahdal & Hashim, 2022).

H5: Audit committee size is significantly associated with firm performance**.**

Methodology

Data and Sample

This research project is aimed at examining the effect and relationship between corporate governance and firm performance. Firm performance in this project is a dependent variable measured by return on assets (ROA); the independent variable is corporate governance, represented and measured by 5 variables, which are CEO duality, board independence, board size, board meeting, and audit committee size. Additionally, for this project, the sample will be picked from a pool of 100 listed firms in Malaysia between 2022 and 2023, but after excluding the banking sector firms, only 85 listed firms in Malaysia between 2022 and 2023 have been selected. Furthermore, this project decided to use existing data from secondary sources for measurement; the dependent variable and independent variable will be measured by data from the Bursa Malaysia annual report and corporate governance report. One company will consists 2 years report, for this project sample 85 listed firm in Malaysia is included for the measurement so 85 listed firm times 2 total is 170 annual and corporate governance report will be used. Besides, the model that will be used to examine or test the relationship between corporate governance and firm performance results is ordinary least square regression (OLS); it is one of the simple but useful tools in testing one or more variables in research. The OLS method will be carried out by using EViews 13, which is the latest version, to make sure the measurement process is efficient and smooth.

Variable Descriptions and Measurements

This study includes two types of variables in the analysis: the dependent variable and independent variables characterized as firm financial performance and corporate governance attributes.

Dependent Variable

Firm performance is the dependent variable in this research, one essential component for developing countries is successful businesses. A lot of economists think of them as an engine that determines their political, social, and economic development. Every company should function under performance-based standards in order to thrive in a cutthroat business environment. Firm performance is now a commonly utilised dependent variable and a pertinent notion in research. Despite being a widely accepted concept in academic literature, there is relatively little agreement over its definition and measurement (Taouab & Issor, 2019). Additionally, for examine the relationship between corporate governance and firm performance many previous study uses return on assets (ROA) as dependent variables (Ciftci et al, 2019).

ROA as a stand-alone indicator of financial performance. The sole purpose of ROA is to gauge a company's capacity for profit-making (Hermuningsih, Kusuma & Cahyarifida, 2020). In addition, a measure of accounting performance, ROA is the proportion of net income to total assets. As a proportion of total assets, the ROA displays a company's operational performance over a given time period, usually one year (Ciftci et al, 2019). Based from the past studies ROA indicated as one of the popular variable to measure the firm performance, the ROA can be calculate as operating income divided by total assets (Bhagat & Bolton, 2019). Furthermore, higher ROA is better for a company financial performance and the nearly negative ROA for firm performance shows that Malaysian listed corporations have been doing terribly (Khatib & Nour, 2021).

Independent Variable

A system of contractual connection between the management of a better-performing corporation and its shareholders is what is commonly understood to be corporate governance. Corporate governance is a technique used to guide and manage a company. The boards of directors are ultimately in charge of managing their institutions. Choosing directors and auditors and making sure the proper governance framework is in place are among the responsibilities of shareholders. The administrators' responsibilities include monitoring business operations, helping management achieve the firm owner's strategic goals, implementing those goals, and delivering the supervisory report to shareholders (Dawood, 2023). Hence, the five independent variable that will use to measure the corporate governance are CEO duality, board independence, board size, board meeting, and audit committee size.

A person is said to have the chief executive officer (CEO) duality if they also hold the chair position on the board of directors. When someone holds both jobs at the same time, plans may be developed to boost their own wealth and profits at the expense of businesses and shareholders (Alodat, 2022). CEO duality, which is a board leadership structure in which the CEO also serves as the board chair, is said to promote dominance tendencies, impede accountability and transparency, and ultimately result in subpar performance and growth. Demonstrated how a CEO's dual role, which results in a lack of checks and balances, makes it easy for them to act in their own self-interest at the expense of stakeholders and shareholders (Puni & Anlesinya, 2020). According to Rejeb & Missaoui (2019), CEO duality can be measure if the CEO serves as the board chairman, the value is one; if not, it is zero.

Boards that are characterised as independent and successful contain a majority of independent outside directors who have no substantive connections to management, including familial links, financial relationships, jobs, professional services, or interlocking directorships. Most people agree that outside directors, sometimes referred to as independent or non-executive directors, are professionals who can help the company succeed by contributing their knowledge, skills, and experience to the board and having a favourable impact on corporate governance results. Moreover, greater levels of voluntary disclosure are encouraged by the involvement of independent directors (Puni & Anlesinya, 2020). Additionally, board independence measurement is the proportion of independent non-executive directors or independent directors to the overall number of directors on the board (Arayssi & Jizi, 2019; Khatib & Nour, 2021).

The number of directors on a company's board, including independent outside and within directors, is known as the board size (Puni & Anlesinya, 2020). An important factor in raising a company's management effectiveness is the number of directors on the board (Shao, 2019). For instance, a board size is made up of directors chosen by the company's shareholders to manage its operations. These managers make financial decisions, oversee day-to-day operations, and operate the business in accordance with company policies (Alabdullah, Ahmed & Kanaan-Jebna, 2022). Moreover, companies may gain from having a large board because the knowledge and abilities of large members can be leveraged to enhance company performance, but it may also be expensive to settle disputes. Conversely, smaller boards have been shown to improve company performance by better representing the interests of shareholders (Wang, 2020). This variable can be measure through the total number of board members (Khatib & Nour, 2021).

Through strategic guidance regarding investment prospects, board meetings have an impact on the performance of the company. According to certain research, holding board meetings frequently increases the likelihood of mergers and acquisitions as well as growth prospects.

Mention how board meetings are educational business gatherings that may result in well-informed trading by causing notable shifts in the bid ask spread (Wang, 2020). Furthermore, according to Khatib & Nour (2021), board meeting also known as over the course of the fiscal year, the board held several meetings. Moreover, the directors can assess and enhance present strategies and executive management performance by holding frequent board meetings. They have also stated that infrequent board meetings may not give members enough opportunity to discuss important topics that require attention (Puni & Anlesinya, 2020). Board meeting data can be measure through the quantity of meetings held by boards (Wang, 2020).

The board, the internal monitoring system, and the external auditor all formally share information through an audit committee (AC). Actually, in order to safeguard shareholders and the public, the audit committee (AC) oversees management's actions on auditing, financial reporting, internal control, and risk management in firms. Reducing information asymmetry, safeguarding investors, and upholding the calibre of financial information disclosure and control systems are all under the purview of the audit committee (AC) (Puni & Anlesinya, 2020). Thus, one of the most important variables in assessing how well supervisory obligations are implemented on management behaviour is the audit committee sizes in relation to business needs. In conclusion, the performance of the company can be improved by a large audit committee size as opposed to one that is small. In addition, audit committee size data can be obtain through total number of the audit committee in the firm (Zarefar & Narsa, 2023).

Table1
Measurement of variables

Variables	**Acronym**	**Measurement**
Dependent Variable: Firm Performance measuring it using ROA (Return on Assets)	ROA	How well a financial institution performs. ROA = $\frac{\text{EBIT}}{\text{Average Total Assets}}$
Independent Variables: CEO Duality	CEOD	duality can be measure if the CEO serves as the board chairman, the value is 1; if not, it is 0.
Board Independence	BIND	otal number of independent non-executive director/independent director
Board Size	BSIZ	The total number of board directors
Board Meeting	BM	Annual frequency of board meetings
Audit Committee Size	ACS	The size of the audit committee

Research Methods

The empirical model that will apply and carry in this research to test the relationship and effect between corporate governance and firm performance is ordinary least square regression (OLS). Some previous studies always use OLS model in their research to examine the relationship between one or more variable, according to Khatib & Nour (2021), demonstrating that OLS is an appropriate estimation method for the data. Additionally, this is one of the traditional statistic model usually is used for test the relationship and effect between corporate governance and firm performance (Khan, Al-Jabri & Saif, 2021). Furthermore, according to Wodajo (2023), the study analyses the short and long-term impacts of variables on economic growth using the Ordinary Least Squares approach. Since the model is more suited to examine the endogenous link between independent and dependent variables as well as between co-integrated and integrated variables in varying orders. The following is the expression of the regression model used to examine the relationship and effect between corporate governance and firm performance:

$$FP_{it} = \beta_0 + \beta_1 CEOD_{it} + \beta_2 BIND_{it} + \beta_3 BSIZ_{it} + \beta_4 BM_{it} + \beta_5 ACS_{it} + \varepsilon_{it}$$

Where:

FP = Firm performance is measure by indicators such as ROA= return on assets β_0 = Intercept
CEOD= CEO duality
BIND = Board independence BSIZ = Board size
BM = Board meeting
ACS = Audit committee size
ε_{it} = Error term
i = Cross-sectional index (firm).
t = Time index (year)

Empirical Findings and Discussion

Descriptive Analysis

Table 2

Descriptive statistics

	ROA	CEOD	BIND	BSIZ	BM	ACS
Mean	0.179698	0.011765	4.705882	9.129412	7.211765	3.735294
Median	0.169311	0.000000	4.000000	9.000000	6.000000	3.000000
Maximum	0.767231	1.000000	10.00000	14.00000	30.00000	7.000000
Minimum	0.090900	0.000000	2.000000	5.000000	3.000000	3.000000
Std. Dev.	0.103757	0.108144	1.412736	1.876597	3.858731	0.932923
Skewness	1.792341	9.056042	1.035432	0.000514	2.305628	1.249534
Kurtosis	9.392453	83.01190	5.000470	2.302707	10.45982	4.253680
Jarque-Bera	380.4699	47670.50	58.72334	3.444050	544.7974	55.37083
Probability	0.000000	0.000000	0.000000	0.178704	0.000000	0.000000
Sum	30.54869	2.000000	800.0000	1552.000	1226.000	635.0000

Sum Sq. Dev.	1.819373	1.976471	337.2941	595.1529	2516.376	147.0882
Observations	170	170	170	170	170	170

The above table represents descriptive results; according to the above results, the ROA mean is 17.96%, which means that the overall company average can achieve 17.96% ROA, and the median is 16.93%, showing that each company's central tendency of ROA will be 16.93%. The highest number of ROA a company can reach is 76.7%, where the minimum will be 9.09%. However, CEO duality of 0.011765 means that the company average chairperson sits for the CEO only 1 or 2 times; the median of CEO duality shows that the central tendency is 0, meaning the majority of the company chairpersons do not sit for the CEO. The highest number of CEO duality for the overall company is 1, and the minimum is 0. Furthermore, the board independence mean is 4.705882, representing an overall company average of 4 or 5 people who will be independent directors on the board. The median of board independence is 4, indicating that the company's central tendency is 4 persons who will be independent directors in the company. The company's maximum number of board independence is 10 people, while the minimum is 2 people.

Additionally, the company board size mean is 9.129412, representing the company average board size as 9 persons or more. The median is 9; the mean overall company central tendency of board size is 9. The company's maximum board size is 14 persons, and the minimum is 5 persons. Moreover, the company board meeting mean is 7.211765, showing that the company average frequency of meetings is 7 times or more, and the company board meeting central tendency is 6, indicating that of the company board of directors will conduct 6 meetings. The company's maximum times of meeting are 30 times, and the minimum frequency of meeting will be 3 times. Lastly, the audit committee size means 3.735294; prove that the company average audit committee size is 3 or 4 persons. The company audit committee size median is 3, which means that overall company central tendency is 3 persons in the audit committee. The maximum number of company audit committee size is 7, while the minimum is 3 persons in the committee.

Correlation Analysis

Table 3

Pearson correlation matrix of variables

	ROA	**CEOD**	**BIND**	**BSIZ**	**BM**	**ACS**
ROA	1.000000	0.104295	-0.216580	-0.242943	-0.193655	-0.106566
CEOD	0.104295	1.000000	-0.170869	-0.211644	-0.062724	-0.086250
BIND	-0.216580	-0.170869	1.000000	0.675094	0.380544	0.232402
BSIZ	-0.242943	-0.211644	0.0675094	1.000000	0.278924	0.259652
BM	-0.193655	-0.062724	0.380544	0.278924	1.000000	0.106067
ACS	-0.106566	-0.086250	0.232402	0.259652	0.106067	1.000000

The phrase "correlation," sometimes known as "correlation analysis," refers to the relationship or association between two or more quantitative variables. The underlying premise of this research is that the quantitative variables have a linear, or straight-line, relationship. It assesses the "strength" or "extent" of an association between the variables as well as its direction, much like the measures of association for binary variables (Gogtay & Thatte, 2017). After a correlation analysis, a correlation coefficient with values between -1 and +1 is the final product. In a positive [linear] manner, two variables are perfectly related when the correlation coefficient is +1; in a negative [linear] manner, two variables are perfectly related when the correlation coefficient is -1; and in the case of zero, there is no linear relationship between the two variables under study (Senthilnathan, 2019).

There is a weak positive association between CEO Duality and ROA, as indicated by the correlation coefficient of 0.104. This implies that company performance (as determined by ROA) may marginally improve when the CEO also holds the position of board chair. This relationship's weak strength, however, suggests that CEO duality by itself has a slight impact on company success rather than a significant one. According to Almarayeh et al. (2023), Din et al. (2024), Dixit, Manna & Singh (2024), La Rocca et al. (2024) and Le et al. (2023), CEO duality has a positive effect on firm performance. CEO duality can improve corporate performance by limiting the board's supervisory role in deciding the CEO's interests. However, CEO-chair leadership can optimise a company's resources and contribute to better performance, reducing the need for additional leadership and speeding up decision-making. As a result, based on the findings and previous support, it is possible to conclude that CEO Duality has a weak positive association with firm financial performance, and that as CEO Duality increases, firm performance will somewhat improve.

The correlation between ROA and board independence is -0.217, suggesting a weakly negative link. This implies that companies with a larger percentage of independent directors on their boards typically have a somewhat lower return on assets (ROA). This may indicate that independent boards are more risk-averse or cautious, which could limit aggressive profit-making tactics. According to Al-Absy & AlMahari (2023), Al-Absy & Hasan (2023), Amin & Cumming (2023), Asare et al. (2023) and Mishra (2023), shows that board independence and company performance, as determined by ROA, are negatively correlated. Therefore, board independence has no positive impact on company performance. The results imply that independent directors may not fully engage in the firm operations or have insufficient experience to oversee and supervise the managers. This implies that the managers may not have given the independent directors enough information about the firm's operations, or they may not have performed their duties efficiently. They might not have had a positive impact on firm performance because of this. This finding supports the idea that increasing board independence will have the opposite effect of improving a company's financial performance.

Furthermore, there is a weakly negative link between ROA and board size, as seen by the correlation of -0.243. Accordingly, there is a modest correlation between larger boards and poorer firm performance. Coordination issues or slower decision-making on larger boards could be the cause of this. According to Alabdullah & Churiyah (2023), Alabdullah & Naseer (2023), Dixit, Manna & Singh (2024), Le et al. (2023) and Jenter, Schmid & Urban (2023), expects that board size (B SIZE) and company success are negatively correlated. Increasing the size of the board of directors causes coordination issues and makes the board more insider-dominant and ineffectual, which worsens firm performance. It is generally agreed that smaller boards are better at monitoring because smaller groups are more cohesive, productive, and capable of effectively monitoring the company. The findings indicate negative impacts of board size with firm performance, board size increase can decrease firm performance.

In addition, board meeting and ROA have a weakly negative correlation of -0.194. Businesses that have board meetings more frequently typically have slightly lower ROA. This could indicate a reactive governance style or imply that many meetings might be held in reaction to performance concerns. Frequency of board meetings is supposed to improve performance, yet the results show a negative correlation with the financial performance of the company. Previous research shows that the board spends little time discussing strategy and most of his time working on the management report and other standard board procedures. As a result, external stakeholders have limited chances to exert substantial control on management. Furthermore, prior research indicates that boards convene more frequently when operational quality is poor, which may have an effect on firm performance by eroding investor and shareholder trust. Additionally, board meetings come with costs, including directors' and travel expenses as well as managerial time costs, which may have a detrimental effect on output and return (Almarayeh et al., 2023; Bettinelli, 2023; Hossain & Oon, 2022; Vafeas & Vlittis, 2024).

Lastly, a slight negative association of -0.107 is found between ROA and Audit Committee Size. Larger audit committees may place a greater emphasis on control and compliance, which may have little to do with financial agility. But since the association is weak, it shouldn't be taken too seriously as a direct effect on performance. The findings demonstrated the negative relationship of the audit committee on the financial performance of the company, suggesting that the audit committee lack the technological know-how to keep an eye on the knowledge component of the company's assets and that the audit committee has little bearing on the profitability of businesses. These results demonstrate the audit committee's failure to fulfil its duties and responsibilities, helping the board of directors keep an eye out for opportunistic activities and make the required recommendations to guarantee the efficacy of internal controls and lower potential risks (Abdullah & Tursoy, 2023; Ahmed, Hassan & Magar, 2024; AL- Hashimi, AL-Toobi & Ahmed, 2023; Hazzaa, Abdullah & Sadaa, 2024; Singhania & Panda, 2024).

Ordinary Least Squares (OLS) Test

Table 4

Ordinary Least Squares (OLS) Test Results

Dependent Variable	Return on assets (ROA)			
Method	Least Squares			
Sample	170			
Included Observations	170			
Variable	Coefficient	Std. Error	t-Statistic	Probability
CEOD	0.157774	0.081318	1.940202	0.0541
BIND	-0.005579	0.008780	-0.635413	0.5260
BSIZ	0.012883	0.005410	2.381283	0.0184
BM	-0.002140	0.002455	-0.871628	0.3847
ACS	0.024867	0.008542	2.911252	0.0041

For OLS test the significant and insignificant level is depend the each independent variable probability value. A p value, which is the result of testing hypotheses using different statistical tests, is typically regarded as significant when it is 0.05 or below. The significance threshold of 0.05 is purely arbitrary; statisticians merely say that this is the cut-off level. The researchers have the ability to and frequently do vary the p value that is deemed significant (Marshall & Jonker, 2011). Thus, the independent variable will indicate significant relationship with dependent variable if the probability value lower or equate to 0.05 or 5%, on the other hand independent variable will indicate have insignificant relationship with dependent variable if the probability value over 0.05 or 5%.

CEO Duality impact on ROA is statistically insignificant, as indicated by its p-value of 0.0541, which is marginally above the 5% significance level. Given the positive correlation indicated by the coefficient of 0.157774, the presence of CEO Duality may result in an approximate 15.78% improvement in ROA. H1 is not supported, though, because of the lack of statistical significance. According to this, CEO duality does not consistently or reliably affect firm financial performance (ROA) among Malaysian listed firms, even if it may improve decision-making through increased control and information integration.

According to Abdullah & Tursoy (2023), Guluma (2021), Gulzar, Haque & Khan (2020) and Shao (2019), all empirical result prove that CEO duality are not statistically significant effect with both accounting-based measure of performance and market-based measure of performance. Therefore, this result supports why hypothesis 1 is rejected, which proposed there is an insignificant relationship between CEO duality and firm performance.

Additionally, board independence has a statistically insignificant effect on ROA, as indicated by its p- value of 0.5260, which is significantly higher than the 5% significance level. The coefficient, which is - 0.005579, indicates a negative correlation, ROA somewhat declines as Board Independence rises. The effect is not dependable or definitive despite this negative coefficient because it lacks statistical significance. H2 is therefore not supported. This finding suggests that, in the Malaysian context, a larger percentage of independent directors has no discernible impact on a company's return on assets (ROA).

However, according to Alabdullah, Ahmed & Kanaan-Jebna (2022), Diriba & Basumatary (2019), Guluma (2021) and Gulzar, Haque & Khan (2020), hypothesis 2 suggested that there is a positive and substantial association between independent board and firm performance, which is not supported by the bulk of previous studies' results, which show that the independent variable board independence and ROA are not significantly associated. These findings suggest that adding more independent directors to a company's board may not always benefit shareholders and may not have a substantial impact on the financial performance of the company (Mishra, 2023).

Furthermore, board size has a statistically significant effect on ROA, as indicated by the p-value of 0.0184, which is less than the 5% significance level. The coefficient, which is -0.012883, indicates a negative correlation, ROA tends to decline as board size rises. This implies that a larger board can be linked to worse financial results for the company. One view is that larger boards may result in delayed decision-making, diminished accountability, or coordination issues, all of which could have a detrimental impact on the productivity and profitability of the company.

According to Almashhadani & Almashhadani (2023), Gulzar, Haque & Khan (2020), Haron et al. (2020) and Mertzanis, Basuony & Mohamed (2019), board size and company performance are statistically significantly correlated with return on assets. This finding suggests that some corporate governance mechanism do have a major effect on firm performance, and that Agency Theory appears to be the main theory guiding Malaysian enterprises' corporate governance structures. Consequently, the results show that board size significantly lowers ROA for Malaysian listed companies, supporting H3.

Moreover, the impact of board meeting on ROA is not statistically significant, as indicated by the p- value of 0.3847, which is higher than the 5% significance level. The coefficient, which is -0.010366, indicates a negative correlation, implying that a modest decline in ROA is linked to an increase in the frequency of board meetings. However, as the link is not statistically significant, this result is not strong enough to support H4. It suggests that more frequent board meetings may not always translate into improved financial performance and may even be a sign of reactive governance or inefficiency in Malaysian public companies.

According to Boshnak (2021), Miao et al. (2023) and Rou & Kassim (2022), the number of board meetings has insignificant impact on the success of businesses. The results thus refute the premise and run counter to Agency Theory, which argue that holding more meetings might greatly enhance business performance. Consequently, more board meeting frequency does not always translate into better company success. Thus, a higher meeting frequency could not always yield the intended outcomes and could even lead to poorer corporate performance (Al-Absy & Hasan, 2023).

Last but not least, the p-value for Audit Committee Size is 0.0041, which is much lower than the 5% significance level, showing a statistically significant impact on ROA. The coefficient is 0.024867, indicating a positive relationship: as the size of the audit committee increases, so does the ROA. According to Abdullah & Tursoy (2023), Altin (2024), Boshnak (2021), Miao et al. (2023) and Singhania & Panda (2024), discover a statistically significant relationship between the size of the audit committee and ROA, it indicates that a larger audit committee has a wider range of knowledge and more room for expertise division, external connections, and networks, leading to a more focused attention on various audit committee functions and improving the financial performance of the company. Hypothesis H5 and Agency Theory are somewhat supported by these findings. Therefore, audit committee size and firm performance are often related. This finding suggests that a larger audit committee could lead to greater oversight, financial control, and company performance. As a result, H5 is supported, and the data show that audit committee size has a considerable favourable effect on financial performance among Malaysian listed companies.

In conclusion, according to the regression analysis, the only factors that significantly affect a company's financial performance (ROA) are the size of the board and the audit committee size. While the size of the audit committee has a favourable impact on ROA, the size of the board has a negative one. CEO duality, board independence and board meetings all exhibit insignificant relationship with ROA, suggesting that they do not consistently or significantly impact the financial success of Malaysian listed companies.

Significance of the Study

This study is very useful for the company, especially for company management; they will truly and clearly understand how to improve the company operation and financial performance. In this report the OLS results prove that board size and audit committee size have significant association with ROA (firm performance); this supports that any changes, like an increase or decrease in the number of board of director and audit committee members, can directly influence and impact the company's financial result. Hence, based on this result, company management can directly focus on the most important part and make effective decisions for the company's future development and movement.

This study also provides advantages to investors and can help investors make an informed decision when deciding on an investment decision. This research supports the idea that the audit committee size has a significant relationship with ROA (firm performance); this result proves that the larger the audit committee size, the greater the firm's financial performance. On the other hand, if a company only consists of a minority number of audit committee members, it will significantly impact the firm's financial performance because it will reduce transparency and accountability. Hence, a larger audit committee size can prove a company has good corporate governance that will build and increase investor trust and confidence, and investors are more willing to invest in a company that has a large audit committee size rather than a smaller one.

This study is focused on corporate governance and firm performance in Malaysia and has already provided a clear, latest 2-year result to future researchers. Additionally, this study's independent variable only consists of five, which are CEO duality, board independence, board size, board meetings and audit committee size. After the OLS test, only board size and audit committee size have a significant relationship with ROA; all the others have an insignificant association with ROA. The result already clearly states which independent variables have an impact on ROA (firm performance). All the results and analyses are valuable and useful for future researchers because they can continuously conduct this research but focus on other independent variables that may have a strong relationship and significant effect with firm performance, which can help future researchers conduct this research topic in a correct and more meaningful direction.

Conclusion, Limitation and Recommendation

In conclusion, this research topic is the effect of corporate governance on firm performance in Malaysia, aiming to investigate and identify the impact and relationship between corporate governance and firm performance in Malaysia. According to the correlation analysis, the result proves that only CEO duality has a positive relationship with ROA (firm performance), and other independent variables like board independence, board size, board meetings and audit committee size all have a negative relationship with ROA (firm performance). Additionally, based on the summary OLS probability result; the result shows that CEO duality, board independence and board meeting probability are 0.0541, 0.5260 and 0.3847, all of which are bigger than 0.05. Hence, these variables are insignificantly associated with ROA. Board size and audit committee probability are 0.0184 and 0.0041, lower than 0.05; it proves that these two variables have a significant relationship with ROA. Furthermore, this research hypothesis development indicates CEO duality, board independence, board size, board meetings and audit committee size all have significant relationships with ROA, but according to OLS test results, only board size and audit committee size are significantly associated with ROA; CEO duality, board independence and board meetings are insignificantly associated with ROA. Hence, only H3 and H5 are supported; H1, H2 and H4 are not supported. Based on all the analysis and tests, all the objectives are achieved.

This study is very useful for the company, especially for company management; they will truly and clearly understand how to improve the company operation and financial performance. Additionally, also provides advantages to investors and can help investors make an informed decision when deciding on an investment decision and has already provided a clear, latest 2-year result to future researchers, which can help future researchers conduct this research topic in a correct and more meaningful direction. Even though the research was completed successfully, there are still some limitations in this study. Firstly, for this study timeline, only focus on the years 2022 until 2023, because the aim is to focus on the latest 2-year trends. Which is focused on the short term rather than other studies that focus on the long term, like 10 or 20 years. Second, this research focuses on one country only, which is Malaysia, because even though this topic is very popular and important, in Malaysia problems still occur, like minority researchers focusing on this topic. This is the reason why this report will focus on Malaysia to hopefully provide significant benefits to different parties like future researchers, companies and more. Lastly, this only focuses on Bursa Malaysia's 85 companies but excludes financial institutions because this report aims to focus on common companies only.

The first recommendation strongly suggested for future researchers is to extend the timeline because this research only focuses on 2 years, so future researchers can conduct a long-term research timeline to observe more and get more accurate results. Moreover, future researchers can conduct research in different countries, not only focusing on Malaysia but also conducting research in different countries like Thailand, Indonesia, Singapore and more. To observe the difference between Malaysia and foreign countries, Malaysia can study and gain benefits from other research. Last but not least, future researchers can expand the sample. This study sample only included Bursa Malaysia 85 companies but excluded financial institution firms. Future researchers can increase the sample size to 200 companies and also can include the financial institution firms to observe big and wide-ranging industry results.

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