

**THE DISCLOSURE OF CORPORATE GOVERNANCE
COMPLIANCE AND ITS EFFECTS TO THE FIRM'S
PERFORMANCE: EVIDENCE FROM PUBLIC LISTED COMPANIES
IN MALAYSIA**

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Abstract

This study investigates the level of corporate governance compliance among the board of directors (BOD) of public-listed companies in Malaysia and the effects to firm's performance. To analyze the level of corporate governance compliance among companies, secondary data is used, which are gathered from the analysis of companies' annual report taken from a sample of 131 companies represent four industries: (i) consumer products (ii) Industrial products (iii) trading and services and (iv) plantation in the Main Board of Bursa Malaysia Security Berhad over the period between 2001 and 2005 were randomly selected. Throughout, this study uses Regression Analysis to run the entire dependent (DV): Return on Assets (ROA), Return on Equity (ROE) and Net Profit Margin (NPM) and independent variables (IV): Board Meeting (BM), Board Composition (BC), Board Training (BT) and Board Remuneration (BR). The result found that most of the company has complied well with the code of corporate governance in Malaysia. This study also had found the evidence that there is a relationship between corporate governance practices with the firm's performance. Overall, the company with good corporate governance compliance can maximize the shareholders wealth by maximizing their profitability performance.

Keywords: Corporate governance, Compliance, Board of Directors facets, Shareholders wealth

1. Introduction

The enforcement of Code of Best Practices by Malaysian Institute of Corporate Governance (henceforth, MICG) to public listed companies in 2001 was an effective measure in the wake of the mid-1997 Asian crisis. As one of major element of the corporate governance, Board of Directors provides additional provisions to the shareholders as well as other investors of the firms because it serves as an effective monitoring mechanism to reduce the agency conflict. It imposes more stringent monitoring by shareholders by increasing involvement and the power of the Board of Directors in the firm's decision making. To the extent that corporate governance is not binding, firms' decision to adopt the Code of Best Practices must be supported by prudent justification. In the High Level Finance Committee Report on Corporate Governance (1999), corporate governance is defined as, "... *the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, ...*". The definition implies that investors of companies that adopt the Best Practices will be able to enjoy higher returns from their investment.

The recent surge of studies (Bai, Liu, Lu, Song, & Zhang 2003; Bauer, Günster, & Otten 2005; Black, Jang, & Kim 2005; Chiang 2005; Drobetz, Schillhofer, & Zimmermann 2003; Gugler, Mueller, & Yurtoglu 2003; Nandelstandh & Rosenberg 2003; Wan & Ong 2005) on the relationship between corporate compliance and performance signal market (and public) awareness about corporate governance such that firms no longer can ignore the importance of and implication of neglecting corporate governance. In other words, return on investment (ROI) and net profit margin (NPM) of non-complying firms would suffer because market will penalize the firms for decisions that do not allow them to realize greater value. Nonetheless, the facts that there are substantial variations in corporate compliance across firms within the same country (Mohamad Ishak, Hartini, and Noriza (2004), Klapper and Love (2004) suggest that some firms are not yet convinced about the incentive from adopting the corporate governance. In attempt to find evidence that can convince these non-complying firms, this study will determine whether or not firms with higher level of corporate compliance significantly perform better in their firm's performance than those non-complying firms. Consistent with the ultimate objective of corporate governance to realize "long-term shareholder value", this study uses firm's ROA, ROE and NPM to measure performance.

2. Research Objectives

- The study attempts to identify the degree of compliance level among listed company in Bursa Malaysia to MICG Code of Best Practices, in term of, board meeting, board composition, board training and board remuneration.

- To identify the effect of corporate governance compliance among BOD to firm's performance. In this study, it will show there are any relationship between BOD facets and firm's performance among public listed companies in Malaysia.

3. Significant of the study

- To provide shareholders, potential investors as well as the other stakeholders of a firm with the information on the current level of corporate compliance to MICG Code of Best Practices among public listed firms in Malaysia.
- To increase the awareness among policy makers and investors of the firms about the importance of corporate compliance by providing evidence on the effects of such compliance to the firm's performance.
- To provide guidelines with respect to specific practices that would require more attention by the firms (and also MICG) in order to optimize firm's ROA, ROE and NPM.

4. Problem Statement

The survival of the company especially in Malaysia after economic crisis should be maintained in era borderless world. The evidence on the empirical failure of the Enron Corporation has brought attention to the roles and responsibility played by the BOD and other executives in corporations. It failure also produced discussion of further regulations that will, it is hoped, can prevent another company collapse that similar to the Enron. To avoid similar situation happen to the company in Malaysia, our government especially the regulator had introduce the corporate governance code of best practice in order to ensure the company in Malaysia will perform better in their business started in 2001. In this code of best practice, it was highlight that the company should comply with the code such as the company should have at least 4 times board meeting during the financial year to make sure the interest of the company and the goal can be achieved. The BOD also must comply with all the roles and responsibility in order to make company in efficiency enough. One-third of their board director must be independent director and all the director has to attend the Mandatory Accreditation Program (MAP) that organized by Bursa Malaysia as part of their training. In the company annual report, they must disclose the level of remuneration received for each of the directors. Besides, also disclose the number of BOD have in the company.

5. Literature Review

Even though there are multiple components in corporate governance, this study emphasizes on Board of Directors (BOD) because it is one (if not the only) of the most important mechanisms of corporate governance. As part of its listing requirement, Bursa Malaysia (in Chapter 15 of the Listing Requirement Handbook) requires that companies comply with and disclose in

their annual reports certain areas concerning BOD including the BOD composition and rights, and directors training. The extent that all directors (as part of the listing requirement and also pursuant to Practice Note No. 5/2001) are required to undergo a Mandatory Accreditation Programme (MAP) which to be followed up by annual Continuing Education Programme (CEP) for instance, asserts the policymakers belief that BOD is an effective vehicle of corporate governance. As the elected representatives of the firm shareholders, directors serve as the primary overseers in the company, monitoring management to ensure that its decisions is always (i) endeavoring to maximize corporate value in the long term for the shareholders, and (ii) prepared to be accountable for its actions to all the stakeholders and in particular to the shareholders (Corporate Governance Committee, 1997). With economies become increasingly global, companies especially those in the emerging capital markets are under constant pressure to improve their corporate governance infrastructure (mainly those concerning the board of directors) (Nikomborirak, 2001) in order to compete efficiently with their competitors for external capital in the global equity market.

5.1 Current Status of Corporate Compliance in Malaysia

Through a survey on annual reports of 556 public listed companies in Bursa Malaysia, formerly known as Kuala Lumpur Stock Exchange, in 2002, Mohamad Ibrahim, Hartini, Noriza (2004) found the level of corporate compliance to the Code of Best Practice in these firms is very high. Furthermore, the level of corporate compliance is consistently high for all corporate governance mechanisms or practices concerning Board of Directors (henceforth, BOD) that include: (i) BOD composition; (ii) BOD responsibilities i.e. division of power between the Chairman and the CEO; (iii) BOD meeting; (iv) board committees; (v) remuneration of directors; and (iv) BOD training. Their finding is consistent with the score of Governance (GOV) index introduced by Klapper and Love (2004). In their study involving 13 other emerging countries, Malaysia's mean score (54.44) in the Index puts it at the sixth place after South Africa (66.53), Singapore (65.34), Chile (61.63), Hong Kong (58.27), and Brazil (57.26). Focusing the scope to Pacific Basin countries, the results suggest that Malaysia has performed well relative to the other countries in the region because the results also imply that Malaysia stands at the third place after Hong Kong and Singapore. This is beside the fact that in term of economic development, those countries are more established and advanced than Malaysia.

Mardjono (2005) found that both Enron and HIH did not fail because they were in a bad business. They failed because they assaulted the key principles of good corporate governance. In this respect, violation does not merely mean there was no implementation for the best practices, but more because of the inappropriate implementation of such a framework according to their own version of financial benefits. The study also reflects lessons to learn for other firms. There is no need to repeat then pain of the history created by Enron and HIH. What had happened to these companies indicated that the

implementation of good corporate governance practices is a prerequisite to sustain. The outcome has been severe from these two cases, which had made public innocent stakeholders suffer, resulted from conflicting interests and stimulation of private choice from certain parties within the firms, and ultimately becoming public burdens. As years go by, so long as the principles of good corporate governance are advocated and properly implemented, stakeholders would be able to expect to secure a sustainable future for firms. Had Enron and HIH not departed from good governance frameworks, taking into account their resources and the traits of the industries in which they are in, these giants may have remained to be equipped to sustain.

5.2 Definitions of Corporate Governance

The Malaysian High Level Finance Committee (1999, p. 10) defines corporate governance as the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value whilst taking into account the interest of other stakeholders. According to Mathiesen (2002), corporate governance is a field in economics that investigates how to secure or motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return.

Shleifer and Vishny (1997) defined that the corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Maw *et al.* (1994) had defined some commentators take too narrow a view, and say it (corporate governance) is the fancy term for the way in which directors and auditors handle their responsibilities towards shareholders. Larcker, Richardson and Tuna (2005) defined that the corporate governance generally refers to the set of mechanisms that influence the decisions made by managers when there is a separation of ownership and control. Some of these monitoring mechanisms are the board of directors, institutional shareholders, and operation of the market for corporate control.

Another definition that can be include in this literature that made by Cornelius and Kogut (2003), a system of corporate governance consists of those formal and informal institutions, laws, values, and rules that generate the menu of legal and organizational forms available in a country and which in turn determine the distribution of power – how ownership is assigned, managerial decisions are made and monitored, information is audited and released, and profits and benefits allocated and distributed.

According to a definition of Shleifer and Vishny (1997), corporate governance deal with the way in which suppliers of finance to corporations assure

themselves of getting the return on their investment. Consequently, corporate governance will only be necessary in situation where the suppliers of finance (the shareholders and the owner of the company) do not run the company themselves but hire a management that is responsible for the daily activities of the company. This entails the separation between ownership and management. Although the concept widely used, different model of corporate governance can be distinguished.

5.3 Corporate Compliance and Firm's Performance

Based on the empirical studies that we manage to review in this study, mostly suggest that corporate governance does have significant effect on corporate performance. While most studies suggest positive effects, Vafeas (1999) is one of the few who finds that board meeting frequency is inversely related to firm value. Nonetheless, further examination on the finding reveals that the case is due to the fact that BOD meets more frequently when the companies are facing bad times. Intuitively, the finding implies that BOD, recognizing the significance and effectiveness of their meetings, conduct meetings more frequently in order to improve the companies' performance. Thus, this result is still consistent with the theoretical prediction of corporate governance.

Furthermore, Denis and Sarin (1999) examine the ownership structure and board composition and the results suggest that firms experience substantial changes in ownership and board structure. These changes are correlated with one another; changes in ownership and board structure are strongly related to top executive turnover, prior stock price performance and corporate control threats. Most of the studies that we review provide evidence that supports the positive influence that corporate governance has on corporate performance or at least the existence of significant relationship between corporate governance and corporate performance. Using public listed companies in the two stock markets in China, Chong et al. (2003) finds that firm's corporate governance practice has a positive effect on its market value. Similar results are obtained from a study on Finland companies for the period of 1990 to 2000 (Nandelstandh & Rosenberg 2003). These authors found a positive association between corporate governance attributes and firm performance.

Chiang (2005) argues that the positive effects of corporate governance are driven by the signal that investors receive from companies' transparency regarding corporate governance. Because only performing companies "dare" to become transparent, disclosure of compliance with corporate governance signals management belief about their future performance. Accordingly, market reacts favorably to such disclosure by correcting share prices. A comprehensive and integrative review of the corporate governance contribution to the company performance research suggests a tendency, amongst scholars, to search for universal associations between board attributes, board roles, and company performance (Zahra and Pearce, 1989). By reviewing 22 empirical studies in their construction of an integrative model of a literature review identifying variables of board attributes and board roles

in relation to firm's performance, identify a number of shortcomings in previous research and urge cautious interpretation of results on board roles and attributes. Using the same constructs of board roles and attributes for measuring impact on firm's performance, Maassen (1999) empirical study of the USA, UK, and The Netherlands listed companies came to similar conclusions.

In previous studies made by Shamsul Nahar Abdullah (2004), his study found that both independence and the CEO duality, either singly or jointly is not related to firm performance. Nonetheless, as it was argued, the use of financial ratios may not be able to capture the board and leadership role in establishing a firm's value. Rather, using long-term measures, such as firm's growth and share price, might have been able to capture the roles of both the board independence and the CEO duality. Rashidah Abdul Rahman and Roszaini Mohd Haniffa (2005) explore the extent CEO duality influence corporate performance in Malaysia. The findings indicate that companies with CEOs role duality seemed not to perform as well as their counterparts with separate board leadership based on accounting performance measurements, ROE and ROA.

As pointed out by Chang Aik Leng, A. (2004), he found that with regard to significant corporate governance structures affecting return on equity, the results for the proportion of institutional investors conform to the hypothesis and the existing literature. The increased level of participation by institutional investors appears to lead to a greater monitoring role of these investors, ensuring a higher chance of improved financial performance by the firm.

According to the research done by Shamsul Nahar Abdullah. (2006), the study attempts to investigate factors that are associated with the level of directors' remuneration in Malaysia with a focus on distressed companies. Thus, it can be concluding that first; profitability is not an important factor in determining directors' remuneration. Second, firm's growth and size are important in deciding director's remuneration and the association is found to be positive. Third, board independence and non-executive director's interests effectively constrain the level of director's remuneration. In terms of board composition, Hermalin, E.B. & Weisbach, M.S.(2003), argued that board composition is not related to corporate performance, while board size is negatively related to corporate performance. In addition, Bonna, I. et. Al. (2004), examined the effects of board structure on firm performance in Japanese and Australian firms. They found that board size was negatively associated with both MB ratio and ROA for Japanese firms. This finding supports the view that large boards are less cohesive, more difficult to coordinate and tend to be less involved in strategic decision-making. In contrast to Japanese firms, we found that outside directors of Australian firms have a significant impact on firm performance. The finding that the ratio of outside directors was positively associated with ROA is consistent with theory, and suggests that the independence of directors is an important indicator of board effectiveness. One reason that we could not find consistent findings between MB ratio and

ROA is that they are negatively correlated for the Australian sample, possibly because several sample firms, which are small and venture-type firms, have large negative ROA yet very high market valuations.

According to Bauer R et. al. (2004), this paper analyzed the relationship between different governance standards and stock returns, firm value and operating performance for most firms. When the evidence on the relationship between corporate governance and firm value as well as equity return is combined, substantial differences are found between UK market and the Eurozone market. While economically large excess returns to a zero-investment corporate governance strategy in the UK were found, no evidence was found of the relationship between governance and firm valuation. This result indicates that the UK market is still adjusting. In the long run, the excess return to corporate governance should translate into a higher firm valuation and better-governed firms. This result is in line with prior empirical research discussed above, which also demonstrated that the lower the governance standards, the stronger the relationship between governance and firm value.

According to Dogan, E. & Smyth, R. (2002), most existing studies examine executive compensation in the United Kingdom or United States. The study contributes to the literature through examining the determinants of executive compensation in Malaysia, where ownership is usually much more concentrated than in either of these countries. In addition, while most studies use the remuneration of the CEO or highest paid director, they use board remuneration which is more justifiable in terms of principal-agent theory because it is the board as a whole rather than the highest paid director that can be best regarded as the shareholders' agent. Their results provide support for two of the four hypotheses. They found evidence of a statistically significant positive relationship between board remuneration and sales turnover and a statistically significant negative relationship between board remuneration and ownership concentration. Molinari C. et. al. (1992) found the results from the multiple regressions indicate that board training is significant in explaining various hospital financing viability outcomes, thus suggesting that trained boards may be more informed and better decision-making and governing bodies than untrained boards. However, the cross-sectional design of this study precludes ruling out an alternative explanation that hospitals better off financially have the resources to pay for external educational programs for board members. Thus, this relationship between board training and financial ratios need longitude examination to identify the sequencing of these relationships.

6. Methodology

6.1 Operational Definition of Facets of BOD based on Malaysian Code on Corporate Governance

Board meeting

The board should meet regularly, with due notice of issues to be discussed and should record its conclusions in discharging its duties and responsibilities. The board should disclose the number of board meetings held a year and the details of attendance of each individual director in respect of meetings held.

Board composition

The board should include a balance of executive directors and non-executive directors (including independent non-executives) such that no individual or small group of individuals can dominate the board's decision making.

Board training

Each company should provide an orientation and education program for new recruits to the board.

Board remuneration

Board remuneration is an important aspect of effective corporate governance. The remuneration of directors should be appreciable and should reflect the responsibility and commitment which goes with board membership. This applies to both executive as well as non-executive directors. If directors are paid a token amount there maybe a tendency to think that the job is not important. On the other hand, if remuneration is excessive, the director may lose his or her independence. He or she will be perceived as someone who cannot afford to put his or her director's position on the line.

6.2 Determinants of variables

There are two main variables in this study, dependent and independent, and the proxies that represent the both variables as shown in table 1(Appendix). The main objective of the present study is to examine the relationship between corporate governance compliance and firm performance. To measure firm's performance, this study follows for instance Andres et al. (2005), Chiang (2005), and Klapper and Love (2004) in using return of assets (ROA). The return on equity (ROE) is also used following for instance Bauer et al. (2003), Chiang (2005), Drobetz et al. (2003), and Laitinen and Ruuhela (1998). This study also used net profit margin (NPM) to measure firm's performance. These measures are calculated using the following equations;

$$ROA_i = \frac{NI_i}{TA_i} \quad (1)$$

$$ROE_i = \frac{NI_i}{TE_i} \quad (2)$$

$$NPM_i = \frac{NP_i}{Sales_i} \quad (3)$$

Where NI_i = Net income of the i th company for each year,
 TA_i = Total assets of the i th company for each year,
 TE_i = Total shareholder's equity of the i th company for each year,
 NP_i = Net profit of the i th company for each year, and
 $Sales_i$ = Sales of the i th company for each year.

Next, the relationship between the BOD facets and firms' performance will be estimated using the following regression equations:

$$ROA_i = \alpha + \beta_1(BM_1) + \beta_2(BC_2) + \beta_3(BR_3) + \beta_4(BT_4) + \varepsilon_i \quad (4)$$

$$ROE_i = \alpha + \beta_1(BM_1) + \beta_2(BC_2) + \beta_3(BR_3) + \beta_4(BT_4) + \varepsilon_i \quad (5)$$

$$NPM_i = \alpha + \beta_1(BM_1) + \beta_2(BC_2) + \beta_3(BR_3) + \beta_4(BT_4) + \varepsilon_i \quad (6)$$

Where α = the constant term,

β = the slope or coefficient estimates of the explanatory variables,

BM_i = the BOD meeting of the i th company,

BC_i = the BOD committees of the i th company,

BR_i = the BOD remuneration of the i th company,

BT_i = the BOD training of the i th company,

ROA_i = the return on total assets of the i th company,

ROE_i = the return on total shareholders' equity of the i th company, and

NPM_i = the net profit margin of the i th company.

6.3 Sampling and Data Collection

The sample consist the public-listed companies in the Main Board of the Bursa Malaysia for a five conservative years period, 2001 to 2005. Financial institutions are excluded because they are governed by special rules. For the purpose of collecting information on the BOD, this study will use the companies' annual reports. Annual reports are sufficient for gathering such data considering listed companies must abide to Securities Exchange Commission's requirement of such disclosure. The sample of the companies covered four sectors: (i) consumer products, (ii) industrial products, (iii) trading/services, and (iv) plantations. For more precise result, the number of companies will represent at least 30 percent of each sector as shown in table 2 (Appendix).

6.4 Hypothesis

To find evidence on the relationship between dependent and independent variables, the null hypothesis of the study are developed to outfit for the pooling regression model. The hypothesis is stated below:

H1o = There will be no relationship between ROA and the independent variables.

H2o = There will be no relationship between ROE and the independent variables.

H3o = There will be no relationship between NPM and the independent variables.

*Notes:

The decision rules is to accept Ho if (1) $P > 0.1 @ 10\%$ and reject Ho if $P < 0.1 @ 10\%$.

Coefficient Correlation: The association between dependent and independent variables ($> 60\%$ = strong).

R^2 : How much dependent variables can be explained by all independent variables (.50% = strong)

7. Results and discussions

7.1 Analysis of the Corporate Governance Compliance among BOD in Malaysia

7.1.1 Descriptive results for the compliance level of BOD with the number of board meeting

Descriptive result (Figure 1 in appendix) shows that, majority of the companies complied very well with the practice, which conducted a meeting more than 4 times in a year. For year 2001, over half of the selected company has complied with the code which several companies still held their board meeting less than 4 times a year while majority of the company (39.2%) conducted 4 to 5 meetings in a year. As we can see, the percentage of company that conducted meeting less than 4 is very close (28.60%) to the percentage of company that conducted meetings at the range of 4 to 5 times. This indicates that in 2001, there are companies who still did not comply. For year 2002, there were improvements from the previous year. Majority of the company (55.6%) conducted 4 to 5 meetings during the financial year. For year 2003, again there were improvements compared to year 2002, which the majority number of board meeting conducted by company is still at the range of 4-5 meetings (60.1%). In year 2004, like the previous year most of the selected companies (59.5%) conducted 4 to 5 meetings. For year 2005, it was found that majority of the companies (64.1%) tend to conduct their meetings 4 to 5 times a year and it also can shows that the company which conduct meetings less than 4 times a year was decreasing from 7.80% in 2001 to 1.30% in year 2005.

7.1.2 Descriptive results for the compliance level of BOD with the Board Composition

In the study (Figure 2 in appendix), the largest percentage of board of directors is from the executive and non-executive director in every year. For year 2001, majority of the company give the result of highest total amount of non-executive director (37.26%) compared to other directors even though the amount is not far from the others. From year 2002, the total number of non-executive director still at the first ranking (34.45%), continue to year 2003 (32.01%), (30.88%) in 2004 and (30.77%) in 2005. From the graph above, it also can be found that the total amount of director, non-executive director, and

independent non-executive director seems to be consistent every year. As stated in the code, independence directors supposed 1/3 of the number of the directors in the company.

7.1.3 Descriptive results for the compliance level of BOD with the Board Training

In order to have good directors in their rank, all the companies listed in Bursa Malaysia have to send their directors to the Mandatory Accreditation Program (MAP) conducted by the Research Institute of Investment Analysts Malaysia (RIIAM). Pursuant to the Listing Requirement of Bursa Malaysia Securities Berhad (BMSB), all the directors are required to attend this training programme from time to time. Besides, to keep absent of current developments, the directors also required to attend the Continuing Education Programme (CEP). In the analysis (Figure 3 in appendix), for the year 2001 majority of the companies (69.90%) does not send their directors to the MAP for their formal orientation program instead only (23.5%) of the companies did send their directors to the MAP. This circumstance happened because the Malaysian Code on Corporate Governance was scheduled to come into full force for listed issuers with financial year ending after 30 June 2001. But for year 2002 after the corporate governance was incorporated in Bursa Malaysia Listing Requirement, majority of the companies (50.98%) sent their directors to the MAP despite the fact that remaining (49.02%) did not sent their directors to the MAP conducted by RIIAM. For year 2003, there were improvement of the company in sending their directors to the MAP and the results were continue to improve to the following two years (2004 and 2005), which the amount of (68.63%) and (73.20%). Based on the figure 7.3, majority of companies sent their directors to the MAP instead of did not pursue them to attend the program in the purpose of educating the director as to the environment of the business, the company's current issues and the corporate strategy, the prospect of the company with reference to input from director and the common responsibilities of directors.

7.1.4 Descriptive results for the compliance level of BOD with the Directors' Remuneration

The Malaysian Code on Corporate Governance declared that the level of remuneration should be adequate to attract and hold the directors needed to run the company successfully. The objective of the Committee is to recommend to the Board the remuneration of all Directors. The Committee shall ensure that the Company attracts and retains the Directors needed to run the Group successfully. The Committee will examine the existing remuneration scheme with the performance, experience and scope of responsibility of the Directors. Presently the remuneration of Directors, including Non-Executive Directors, is endorsed by the Board for approval by the shareholders of the company at the Annual General Meeting. Apart from that code also recommends that the company's annual report should contain

details of the remuneration of each director. The remuneration of directors was categorized by components, including fees, salaries, bonus & allowances. But, this study only investigates the range of remuneration fees of executive and non-executive director. Based on the figure 4 in appendix, it was found that in 2001 majority of the company (41.18%) have spent the total of remuneration below RM50,000 a year followed by the range of total remuneration above RM150,001 to attract and retain the directors needed to run the company successfully. In the analysis also, starting from 2002 to 2005, the aggregate remuneration spent by majority of the company is above RM150,001, which tell us that the directors give their full commitment and excellent performance to make sure their company is one of the most competitive organization listed in main board. According to the research done by Shamsul Nahar Abdullah (2006), thus, it can be concluding that first; profitability is not an important factor in determining directors' remuneration. Second, firm's growth and size are important in deciding director's remuneration and the association is found to be positive, board independence and non-executive director's interests effectively constrain the level of director's remuneration

7.2 Analysis of the Relationship between all Dependent and Independent Variables

7.2.1 Relationship between all Dependent and Independent Variables (2001)

Based on table 3 (appendix), it can be shows that none of the independent variables has significant relationship with ROE and NPM except with ROA. There is only a relationship between ROA and ED. Therefore, the null hypothesis will be rejected at this level. ED have positively related to ROA with 0.075 significant level with their T-Ratio value is 1.794. But when we look to the value of R Square, this indicates only 3.8% for ROA and ROE, while 1.9% for NPM. So, the small amount of R Square indicates the variation in ROA, ROE and NPM is explained by the corporate governance. As we can see from the table, since corporate governance was scheduled to come into full force for listed issuers with financial year ending after 30 June 2001, the results shown below also affected from the compliance of the corporate governance. From the previous researcher of Bonna, I., Yoshikawab, T., & Phan, H. P. (2004), they found that board size was negatively associated with both MB ratio and ROA for Japanese firms.

7.2.2 Relationship between all Dependent and Independent Variables (2002)

Based on table 4 (appendix), all the independent variables have significant relationship with ROA, ROE and NPM in this year. There is a relationship between ROA and BM, ED and BT. Therefore, the null hypothesis will be rejected at this level. BM have positively related to ROA with 0.034 significant level with their T-Ratio value is 2.14, while ED, the P-value is 0.056 with their T-Ratio is 1.928. The P-value for BT is 0.071 with the T-Ratio

value is 1.819. For ROE, the null hypothesis can be rejected for the independent variables of ED, 0.048 which less than 0.1 significant levels For NPM, there is a relationship between NPM and IND with the level of significant level of and 0.032. Therefore, accept H_1 . Overall, almost all the independent variables have strong relationship with ROA, ROE and NPM for this year.

7.2.3 Relationship between all Dependent and Independent Variables (2003)

Based on table 5 (appendix), ROA is positively related to ED with the significant level of 0.053 and the T-Ratio indicates 1.947. It also found that NPM is positively related to IND with 0.026 significant levels and 2.254 is the T-Ratio value. So, the null hypothesis can be rejected at this level (ED and IND only). It's mean that the good corporate governance can help the company to increase their profit and achieve their organizational goals. But when we look to the value of R Square, this indicates only 5.8% for ROA, 2.7% for ROE, while 5.2% for NPM. So, the small amount of R Square indicates the variation in ROA, ROE and NPM is explained by the corporate governance. Overall, there are only a strong relationship between ROA and NPM and the independent variable of BC because the level of significant is below than 0.10 or 10%. It was proven by study done Hermalin, E.B. & Weisbach, M.S (2003) that board composition is not related to corporate performance, while board size is negatively related to corporate performance.

7.2.4 Relationship between all Dependent and Independent Variables (2004)

Based on table 6 (appendix), all the independent variables have significant relationship except ED and Others. Thus, the null hypothesis is accepted. ROA have relationship with BM (0.027) with the T-Ratio value is 2.235 and BT (0.084) with 1.738 of T-Ratio. NPM have positively related to the ND (0.061) with the T-Ratio is 1.887, IND (0.033) with the T-Ratio value of 2.152 and BR (0.045) with -2.021 of T-Ratio. So, the null hypothesis will be rejected because of the P-Value has value less than 0.10 significant levels. But when we look to the value of R Square, this indicates only 7.3% for ROA, 2.4% for ROE, while 8.3% for NPM. So, the small amount of R Square indicates the variation in ROA, ROE and NPM is explained by the corporate governance. Based on study done by Shamsul Nahar Abdullah (2006), he found that profitability is not an important factor in determining directors' remuneration.

7.2.5 Relationship between all Dependent and Independent Variables (2005)

Based on table 7 (appendix), there is relationship between ROA and BM and BR and the relationship is significant 0.004 levels (BM) and 0.06 levels (BR) the T-Ratio value indicates -2.891 (BM) and 1.894 (BR). Therefore, the null hypothesis can be rejected. Another two dependent variables that have a

relationship with independent variables is ROE and NPM. ROA have relationship with BM (0.014), ND (0.091) and BT (0.001). So, we can reject the null hypothesis. NPM have relationship with ND (0.099), IND (0.089) and Others (0.055). But when we look to the value of R Square, this indicates only 10.7% for ROA, 13.7% for ROE, while 9.0% for NPM. So, the small amount of R Square indicates the variation in ROA, ROE and NPM is explained by the in the corporate governance. For this year, the figure of R Square is the highest compared to the previous year. This tells us that the performance of the companies is getting better in every year. Overall, ROA, ROE, and NPM have positively related to every single of independent variables, BM, BC, BT and BR.

8. Conclusions and Recommendations

8.1 Conclusions

Based on the first objective, in terms of board meeting, after the compliance in 2001, most of the company doing well in their organization because they have an effective board structures and procedures which consist of more than 4-5 times of board meeting a year. Next, in terms of board composition, it also can be found that the total amount of director, non-executive director, and independent non-executive director seems to be consistent every year. The result tell us that the consistency of the board composition in a such organization give a better impact in their performance in order to achieve their own mission and goals. For board training, majority of companies sent their directors to the MAP instead of did not pursue them to attend the program in the purpose of educating the director as to the environment of the business, the company's current issues and the corporate strategy, the prospect of the company with reference to input from director and the common responsibilities of directors. In the analysis of board remuneration, starting from 2002 to 2005, the aggregate remuneration spent by majority of the company is above RM150,001 which tell us that the directors give their full commitment and excellent performance to make sure their company is one of the most competitive organization listed in main board.

According to second objective, It can summarize that in 2001, since corporate governance was scheduled to come into full force for listed issuers with financial year ending after 30 June 2001, the results shown below also affected from the compliance of the corporate governance. From the previous researcher of Bonna, I.et al. (2004), they found that board size was negatively associated with both MB ratio and ROA for Japanese firms. For year 2002, almost all the independent variables have strong relationship with ROA, ROE and NPM for this year. From the previous researcher of Bonna, I.et al. (2004), they made an argument that board size was negatively associated with both MB ratio and ROA for Japanese firms. Next, in 2003, there are only a strong relationship between ROA and NPM and the independent variable of BC because the level of significant is below than 0.10 or 10%. However, Hermalin, E.B. & Weisbach, and M.S (2003) argued that board composition is

not related to corporate performance, while board size is negatively related to corporate performance. For 2004, only ROE have no relationship with independent variables. Overall, there are only a strong relationship between ROA and NPM and the independent variable of BC because the level of significant is below than 0.10 or 10%. In 2005, ROA, ROE, and NPM have positively related to every single of independent variables. Overall, the performance of the companies became excellence from one year to another because they have best practices the corporate governance that make the DVs have positive and strong relationship with IVs.

8.2 Recommendations

The study has found that most of the companies did not sure whether they have board training or not. So, the companies should take initiative to concern more about their company and they do not heavily depends on the MAP that organized by RIIAM only, but they need to organized their own program. From those activities, it can help the BOD to cooperate well in their organization and develop their own leadership skills among them. Majority of the companies did not held any board meeting on that year. This will give some bad implication for their future development of organization. The board meetings can be held at least quarterly a year. Lastly, the company that did not comply with the code of corporate governance they should follow the footsteps of the company that comply with the practice. It's because in this study, it's found that the corporate governance had a relationship with the every dependent variables, which is ROA, ROE and NPM.

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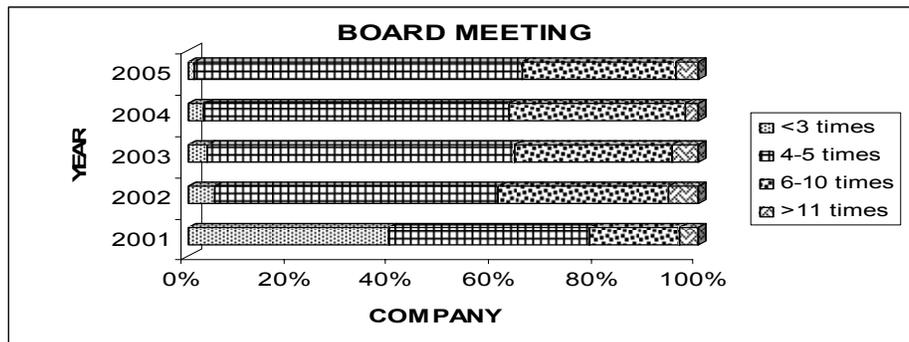
APPENDIX

Table 1: Dependent and Independent Variables and Proxies for each Variable

Variables	Proxies
Dependent	Return on Assets (ROA)
	Return on Equity (ROE)
	Net Profit Margin (NPM)
Independent	Board Meeting (BM)
	Board Composition (BC)
	Board Training (BT)
	Board Remuneration (BR)

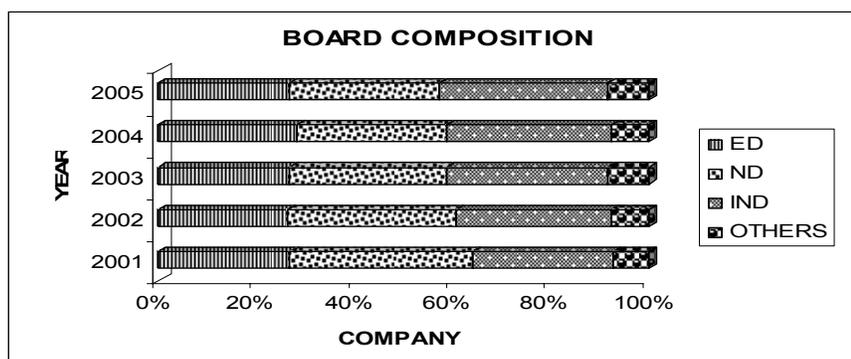
Table 2: Number of Company within Industry

Sector	Sample Size	Total No. of company in the Sector	Percentage
Consumer Products	26	86	30%
Industrial Products	48	159	30%
Trading/Services	43	143	30%
Plantations	14	45	30%



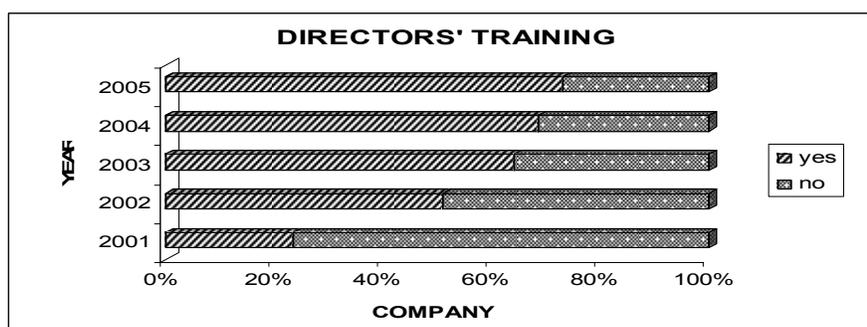
	2001	2002	2003	2004	2005
<3 times	39.20%	5.20%	3.90%	3.30%	1.30%
4-5 times	39.20%	55.60%	60.10%	59.50%	64.10%
6-10 times	17.60%	33.30%	30.70%	34.60%	30.10%
>11 times	3.90%	5.90%	5.20%	2.60%	4.60%

Figure 1 Number of board meeting



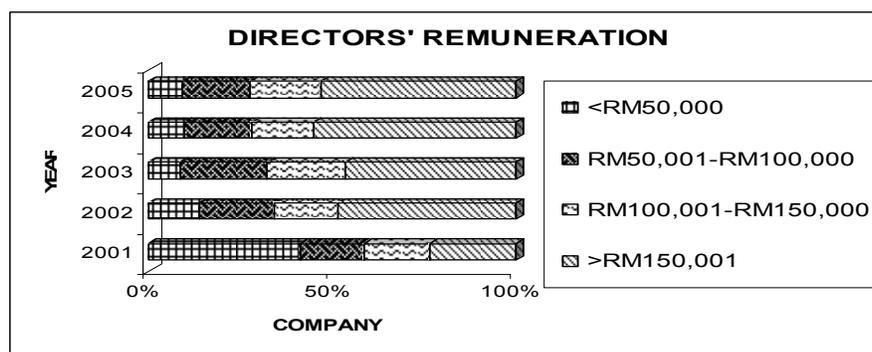
	2001	2002	2003	2004	2005
ED	26.89%	26.23%	26.64%	28.07%	26.65%
ND	37.26%	34.45%	32.01%	30.88%	30.77%
IND	28.62%	31.81%	33.14%	33.69%	34.19%
OTHERS	7.24%	7.51%	8.20%	7.36%	8.39%

Figure 2 Composition of the board



	2001	2002	2003	2004	2005
yes	23.50%	50.98%	64.05%	68.63%	73.20%
no	76.40%	49.02%	35.95%	31.37%	26.80%

Figure 3 Board's Training



	2001	2002	2003	2004	2005
<RM50,000	41.18%	13.73%	8.50%	9.80%	9.15%
RM50,001-RM100,000	17.65%	20.26%	23.53%	18.30%	18.30%
RM100,001-RM150,000	17.65%	17.65%	21.57%	16.99%	19.61%
>RM150,001	23.53%	48.37%	46.41%	54.90%	52.94%

Figure 4 Level of Boards' Remuneration

Table 3: Regression Analysis of ROA, ROE, NPM and All Independent Variables (2001)

Model	Dependent Variable								
	ROA			ROE			NPM		
	T-Ratio	P-Value	Std. Co.	T-Ratio	P-Value	Std. Co.	T-Ratio	P-Value	Std. Co.
Constant	1.765	0.08		0.051	0.96		0.162	0.871	
Ind. Var.									
BM	0.377	0.707	0.053	0.636	0.526	0.089	0.763	0.477	0.108
BC:									
ED	1.794	0.075*	0.181	1.248	0.214	0.126	1.145	0.254	0.117
ND	0.627	0.532	0.07	0.722	0.471	0.08	-0.923	0.357	-0.104
IND	-0.127	0.272	-0.127	-0.968	0.335	-0.111	-0.354	0.724	-0.041
Others	1.374	0.171	0.137	0.677	0.499	0.067	-0.059	0.953	-0.006
BT	-0.241	0.81	-0.025	0.712	0.478	0.073	0.245	0.807	0.025
BR	-0.651	0.516	-0.083	-0.533	0.595	-0.68	-0.47	0.639	-0.06

*Significant level at 0.1 (10%) ; R Square: ROA= 0.038, ROE= 0.038, NPM= 0.01

Table 4: Regression Analysis of ROA, ROE, NPM and All Independent Variables (2002)

Model	Dependent Variable								
	ROA			ROE			NPM		
	T-Ratio	P-Value	Std. Co.	T-Ratio	P-Value	Std. Co.	T-Ratio	P-Value	Std. Co.
Constant	-3.312	0.001		-2.863	0.005		-1.844	0.067	
Ind. Var.									
BM	2.14	0.034*	0.173	0.673	0.502	0.055	0.205	0.838	0.017
BC:									
ED	1.928	0.056*	0.17	1.994	0.048*	0.178	0.559	0.577	0.05
ND	0.051	0.959	0.005	1.305	0.194	0.126	-0.545	0.587	-0.053
IND	1.372	0.172	0.111	0.806	0.421	0.066	2.171	0.032*	0.179
Others	0.701	0.485	0.071	1.574	0.118	0.16	-0.559	0.577	-0.057
BT	1.819	0.071*	0.146	1.035	0.302	0.084	1.441	0.152	0.118
BR	0.824	0.411	0.07	1.148	0.253	0.099	0.778	0.438	0.068

*Significant level at 0.1 (10%); R Square: ROA= 0.093, ROE= 0.071, NPM= 0.056

Table 5: Regression Analysis of ROA, ROE, NPM and All Independent Variables (2003)

Model	Dependent Variable								
	ROA			ROE			NPM		
	T-Ratio	P-Value	Std. Co.	T-Ratio	P-Value	Std. Co.	T-Ratio	P-Value	Std. Co.
Constant	-0.007	0.994		-1.342	0.182		-0.298	0.766	
Ind. Var.									
BM	-1.034	0.303	-0.086	0.273	0.785	0.023	-1.067	0.288	-0.089
BC:									
ED	1.947	0.053*	0.182	0.5	0.618	0.048	0.312	0.755	0.029
ND	1.326	0.187	0.143	0.085	0.932	0.009	-0.651	0.516	-0.07
IND	1.2	0.232	0.103	0.598	0.55	0.052	2.254	0.026*	0.194
Others	1.647	0.102	0.179	0.392	0.695	0.043	0.004	0.997	0
BT	0.876	0.382	0.073	1.107	0.27	0.093	0.287	0.774	0.024
BR	-1.001	0.319	-0.092	0.75	0.455	0.07	0.237	0.813	0.022

*Significant level at 0.1 (10%); R Square: ROA= 0.058, ROE= 0.027, NPM= 0.052

Table 6: Regression Analysis of ROA, ROE, NPM and All Independent Variables (2004)

Model	Dependent Variable								
	ROA			ROE			NPM		
	T-Ratio	P-Value	Std. Co.	T-Ratio	P-Value	Std. Co.	T-Ratio	P-Value	Std. Co.
Constant	-2.064	0.041		-0.009	0.993		-1.39	0.617	
Ind. Var.									
BM	2.235	0.027*	0.185	0.861	0.39	0.073	1.154	0.25	0.095
BC:									
ED	1.396	0.165	0.121	0.092	0.927	0.008	0.308	0.758	0.027
ND	0.913	0.363	0.089	-0.291	0.772	-0.029	1.887	0.061*	0.183
IND	1.065	0.289	0.087	-0.137	0.891	-0.012	2.152	0.033*	0.176
Others	1.515	0.132	0.154	0.138	0.891	0.014	1.577	0.117	0.159
BT	1.738	0.084*	0.141	1.368	0.174	0.114	1.219	0.226	0.098
BR	-1.369	0.173	-0.115	-1.131	0.26	-0.98	-2.021	0.045*	-0.17

*Significant level at 0.1 (10%); R Square: ROA= 0.073, ROE= 0.024, NPM= 0.083

Table 7: Regression Analysis of ROA, ROE, NPM and All Independent Variables (2005)

Model	Dependent Variable								
	ROA			ROE			NPM		
	T-Ratio	P-Value	Std. Co.	T-Ratio	P-Value	Std. Co.	T-Ratio	P-Value	Std. Co.
Constant	1.311	0.192		-0.063	0.949		0.283	0.777	
Ind. Var.									
BM	-2.891	0.004*	-0.237	-2.494	0.014*	-0.201	-1.498	0.136	-0.124
BC:									
ED	0.266	0.791	0.023	0.536	0.593	0.045	0.109	0.913	0.009
ND	1.126	0.262	1.07	1.7	0.091*	0.159	1.659	0.099*	0.16
IND	0.773	0.441	-0.064	-0.463	0.644	-0.038	-1.71	0.089*	-0.143
Others	1.532	0.128	0.148	1.188	0.237	0.113	1.934	0.055*	0.189
BT	1.249	0.214	0.1	3.509	0.001*	0.277	1.291	0.199	0.105
BR	1.894	0.06*	0.159	1.114	0.267	0.092	1.471	0.144	0.125

*Significant level at 0.1 (10%) ;R Square: ROA= 0.107, ROE= 0.137, NPM= 0.090