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CORPORATE GOVERNANCE AND FIRM PERFORMANCE IN MALAYSIAN PUBLIC LISTED COMPANIES

Relationship Between Board Diversity & Directors Remuneration with Firm Performance

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OVERVIEW

This study aims to analyse the relationship between corporate governance practices (board diversity & directors remuneration) and firm performance (NPM & ROA) among Malaysian public listed companies.

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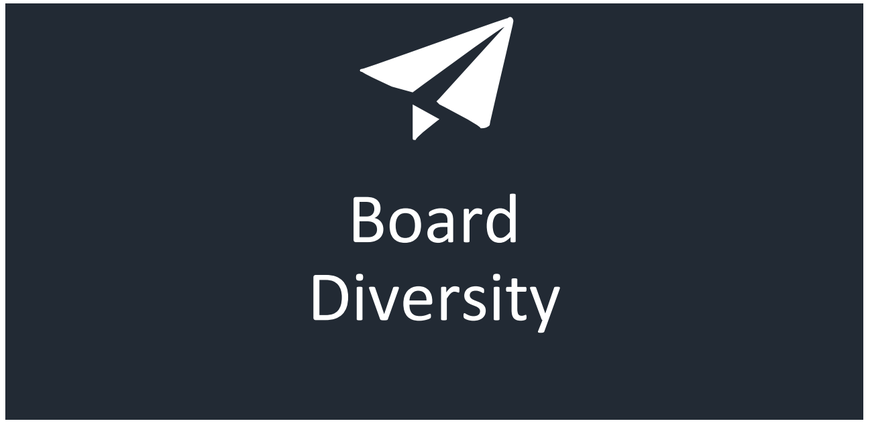
INTRODUCTION



MCCG 2012 (Recommendation 2.2) – BOD should establish a policy that promotes boardroom diversity and ensure women are being sought as part of its recruitment exercise. BOD should explicitly disclose in the annual report its gender diversity policies and targets and the measures taken to meet those targets.

MCCG 2017 - companies openly disclose their policies for appointing more women to the board, as well as set targets and measures towards meeting those targets. Large companies are expected **to appoint at least 30 per cent women into their boards**.

INTRODUCTION

MCCG 2012 - board should establish formal and transparent remuneration policies to attract and retain directors.

MCCG 2017 - fair remuneration is critical to attract, retain and motivate directors and senior management, taking into account the complexity of the company's business and the individual's responsibility. Companies are also encouraged to make full disclosure by detailing the remuneration of each individual directors as well as member of senior management. This is to ensure that stakeholders are able to assess whether the remuneration of directors and senior management commensurate with their individual performance, taking into consideration the company's performance.

LITERATURE REVIEW

CORPORATE GOVERNANCE

Mohan et al (2018) - CEO duality and board size – negative impact on firm performance

Velnampy et al (2012) - Positive relationship between corporate governance & firm performance

Brown & Caylor (2005) - Relationship between corporate governance & firm performance is not significant

Akdogan, Yunus Emre & Boyaciuglu, Melek (2014) – Significant and positive relationship between CG practices and firm performance

BOARD DIVERSITY

Korn Ferry (2016) – companies with at least 10% female directors performed better in ROA

Carter et al (2013) – board which consist of female and minorities has positive relationship with firm value

McKinsey (2015) companies practicing gender diversity perform better in financial returns above national industry median

Gonzalez, M. Guzman, A. Pablo et al (2020) – companies with external female directors - positive effect on firm performance

Sudir & Aditya – impact of female directors on firm performance is inconclusive

DIRECTORS REMUNERATION

Razali et al (2018) – positive relationship between remuneration and form performance

Ntim et al (2015) & Sheikh et al (2018) – strong relationship between remuneration and performance

Rampling (2011) – high correlation between remuneration with firm performance

LITERATURE REVIEW

NET PROFIT MARGIN

Al-Matari et al (2014) – great significance between corporate governance and performance measurement

Borhan, Naina Mohamed, & Azmi (2014) – studies using multiple regression found positive relationship with financial performance

Yasser, Entebang and Mansor (2011) – positive relationship between ROE and NPM with CG elements

ROA

Al-Matari et al. (2014), it was noted that performance measurements such as ROA is widely used to measure firm performance

Brown and Caylor (2005) also used ROA to measure financial performance for their analysis. In addition, Jackling and Johl also used ROA in analysing firm's performance.

Lassala, Apetrei and Sapina (2017) in their studies on the relationship between social and environmental performance and financial performance in companies found that ROA serves as a major measurement of sustainability albeit in specific industries

RESEARCH METHODOLOGY

RESEARCH METHOD

Quantitative analysis method; data collected manually through AR of listed companies

Descriptive analysis, correlation and regression analysis are applied on the gathered data

POPULATION & SAMPLE SIZE

Top 100 listed companies excluding banks and financial institutions

Among 100, only the top 50 were analysed and out of 50, only 43 have complete data.

Observation between 2013-2017

DATA COLLECTION METHOD

Observation through collection of company's annual report

RESEARCH METHODOLOGY

VARIABLES & MEASURES

Variables

Directors Composition, Directors Remuneration and their links to firm performance which is calculated based on Net Profit Margin (NPM) and Return on Asset (ROA).

PROPOSED DATA ANALYSIS TECHNIQUE

Firm Performance (FP) = f (Director remuneration, firm size, female director)

$FP_{i,t} = \alpha + \beta 1DREM_{i,t} + \beta 2FIRMS_{i,t} + \beta 3FEMDIR_{i,t} + \epsilon_{i,t}$

Dependent variable

ROA = the firm's return on asset

ROE = the firm's return on equity

Independent variable

DREM = director remuneration for the firm i at year t

FEMDIR = female director for the firm i at year t

FIRMS = the firm's size for the firm i at year t

DATA COLLECTION METHOD

Observation through collection of company's annual report

HYPOTHESES DEVELOPMENT

H1a: There is a significant relationship between female board of directors and firms ROA

H1b: There is a significant relationship between female board of directors and firms NPM

H2a: There is a significant positive relationship between directors' remuneration and firms ROA

H2b: There is a relationship between directors' remuneration and firms NPM

RESULTS AND DISCUSSIONS

Descriptive Analysis

	%FemBod	LGDirFee	Size	NPM	ROA
Mean	0.137133332	13.48613134	22.21903269	0.94162457	0.201031453
Median	0.125	13.50762578	22.57791215	0.824122131	0.08335844
Standard Deviation	0.109981195	0.809097114	1.479689142	5.719249052	0.367646806
Kurtosis	-0.161430508	0.620824689	-0.981277215	136.5849921	20.06365048
Skewness	0.541658592	-0.464441762	-0.172219463	8.311662469	4.182728246
Minimum	0	10.87804719	18.50945193	-38.62320154	-0.091970617
Maximum	0.428571429	15.11023773	25.45296867	74.09315738	2.592263078
Sum	29.48366633	2899.518239	4777.092029	202.4492825	43.22176234
Count	215	215	215	215	215

Table 4.1 : Descriptive Analysis with Outliers

RESULTS AND DISCUSSIONS

Descriptive Analysis

	%FemBod	LGDirFee	Size	NPM	ROA
Mean	0.137133332	13.48613134	22.21903269	0.785457796	0.201031453
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Kurtosis	-0.161430508	0.620824689	-0.981277215	11.20894208	20.06365048
Skewness	0.541658592	-0.464441762	-0.172219463	2.48894029	4.182728246
Minimum	0	10.87804719	18.50945193	0.001157	-0.091970617
Maximum	0.428571429	15.11023773	25.45296867	3.90808721	2.592263078
Sum	29.48366633	2899.518239	4777.092029	168.8734261	43.22176234
Count	215	215	215	215	215

Table 4.2: Descriptive Statistics after Winsorized

RESULTS AND DISCUSSIONS

Correlation Coefficient

	%FemBod	*LGDirFee*	*Size*	*NPM*	*ROA*
%FemBod	1				
LGDirFee	-0.17237	1			
Size	0.041756	0.497035	1		
NPM	0.032958	0.019436	-0.18548	1	
ROA	0.256384	-0.42213	-0.42786	0.172772	1

Table 4.3 : Correlation Analysis

RESULTS AND DISCUSSIONS

Multiple Regression Analysis - NPM

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.236680847
R Square	0.056017823
Adjusted R Square	0.042596276
Standard Error	0.563157916
Observations	215

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	3.97104929	1.323683097	4.173723128	0.006752457
Residual	211	66.917983	0.317146839		
Total	214	70.88903229			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	1.477690246	0.718522327	2.056568309	0.040958127	0.061288275	2.894092217	0.061288275	2.894092217
%FemBod	0.382441754	0.359364375	1.064217213	0.288446671	-0.32596269	1.090846197	-0.32596269	1.090846197
LGDirFee	0.118790868	0.056245676	2.111999983	0.035862711	0.007915417	0.229666319	0.007915417	0.229666319
Size	-0.105616983	0.030321374	-3.483251945	0.000602178	-0.165388617	-0.04584535	-0.165388617	-0.04584535

RESULTS AND DISCUSSIONS

Multiple Regression Analysis - ROA

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.5409
R Square	0.2926
Adjusted R Square	0.2825
Standard Error	0.3114
Observations	215

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	8.463529664	2.82117	29.0919	8.77385E-16
Residual	211	20.46160355	0.096974424		
Total	214	28.92513321			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	3.249806155	0.397318401	8.179349723	2.65196E-14	2.466584054	4.033028257	2.466584054	4.033028257
%FemBod	0.777013861	0.198716273	3.910167236	0.000124313	0.385290304	1.168737417	0.385290304	1.168737417
LGDirFee	-0.099320748	0.031101945	-3.193393414	0.001621202	-0.1606311	-0.038010396	-0.1606311	-0.038010396
Size	-0.081726175	0.016766688	-4.874318347	2.14437E-06	-0.114777855	-0.048674495	-0.114777855	-0.048674495

INFLUENCE OF INSTITUTIONAL INVESTOR

Name of Institutional Investor	Companies	Percentage
Employees Provident Fund = EPF	Axiata, Digi, Dialog Group, Fraser & Neave, Gamuda, Genting Plantation, Hartalega, IHH Healthcare, TNB, Petronas Chemicals, Maxis, IOI Corporation, MAHB, Kuala Lumpur Kepong, MISC, Petronas Gas, Nestle, PPB Group, Petronas Dagangan, Top Glove, Telekom Malaysia, Sime Darby Bhd, YTL Corp, Kossan, IJM Corporation (25 companies)	25/43 = 58%
Retirement Fund (Incorporated) = KWAP	Digi, Gamuda, TNB, Petronas Gas, Nestle, Top Glove, Sime Darby Bhd, IJM Corporation, Time Dot Com, IGB REIT (10 companies)	10/43 = 23%
Amanah Saham Bumiputera	Axiata, Digi, Fraser & Neave, Gamuda, TNB, MAHB, Kuala Lumpur Kepong, MISC, Telekom Malaysia, Sime Darby Berhad, IJM Corporation Berhad (11 companies)	11/43 = 26%
Khazanah Nasional	Axiata, TNB, MAHB, Telekom Malaysia, Time Dot Com (5 companies)	5/43 = 12%

FEMALE DIRECTORS

Percentage of Companies Without Female Directors for X Number of Years
5 YEARS 4/43 x 100% = 9.3%
4 YEARS 6/43 x 100% = 14%
3 YEARS 3/43 x 100% = 7%

SUMMARY OF RESULTS

- Female Directors – Positive correlation with NPM and ROA
- Directors Remuneration – Positive correlation with NPM; negative correlation with ROA.
- Firm Size – Negative correlation with both NPM and ROA.
- director remuneration and firm size - p-value of less than 0.05; strong evidence that higher remuneration and bigger firm size may result in better firm performance.
- Apart from that, female directors have a weak evidence of the hypotheses where the higher percentage of female directors may lead to better performance as the p-value is larger than 0.05 .
- Correlation for ROA - female directors recorded a positive coefficient (higher percentage of female director leads to better performance)
- Director remuneration and firm size - negative relationship with ROA. P-value of the independent variables is less than 5% indicating that there is strong evidence against the null hypotheses.

LIMITATIONS

- The study was limited to Top 100 Malaysian PLC from 2013-2017 and excludes financial institutions.
- Not all company annual report are available in the Bursa Malaysia website. Some are not updated both in Bursa website as well as the company's own website.
- Timeframe of study is only 5 years.
- Adoption of MCCG was not mandatory prior to 2017 and not many companies fully adopts the recommendations in MCCG.
- More variables should be used and to increase the number of observations.

RECOMMENDATIONS

- To study more independent and dependent variables to have a better picture of the relationship.
- To increase samples/observations and increase years of observation from 5 to 10 years.
- To analyse types of decision made by female directors and its impact towards performance of company.
- To study on the range of remuneration between directors in the same industry; clear distinction according to size of company (market cap.) and types of industries.
- To analyse involvement of institutional investor and its relationship with corporate governance practices and impact on firm performance.

IMPORTANCE OF STUDY AND IMPLICATIONS TOWARDS GOVERNMENT POLICY

- The study can be applied to government linked companies.
- To look at how women directors can improve the performance of GLC.
- To strengthen Dasar Wanita Negara.
- To strengthen the policy on having at least 30% women at decision making level.
- To improve on the MCCG, to review Companies Act 2016, Bursa Malaysia requirement, to make policy mandatory where necessary or where Gov't sees fit.
- Institutional Investor controlled by Gov't can lead the way in terms of acting on policy call by the Gov't – on remuneration quantum and women directors.

THANK YOU