ANALYSIS OF CORPORATE GOVERNANCE COMPLIANCE AND ITS IMPACT OVER RETURN ON ASSETS OF LISTED COMPANIES IN MALAYSIA

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ABSTRACT: *The aim of the study was to estimate the impact of compliance of corporate governance by the company over the return on assets of the companies listed at Bursa Malaysia. The authors have used the secondary data of 45 companies listed at Bursa Malaysia. The authors have applied regression analysis to identify the impact of significant variables over the return on assets of the company. The regression analysis has shown that frequency of board meetings, risk management committee members, foreign shareholders, and audit committee qualification regarding accounting and finance have a major impact over the return on assets. These variables are successful in explaining the relation up to 57 % variation in the returns on assets. The study has identified certain gaps in the literature which needs to be fulfilled according to the suggestions given for future research.*

Keywords: Corporate Governance, Return on Assets, Compliance with corporate governance, shareholders.

INTRODUCTION

There is no universal definition of Corporate Governance (CG) but in simple words, the term CG is defined as the policies and principles that are used to control the business activities along with managing actions in a corporation. Corporate governance is mainly the way organizations should carry out their activities on the basis of the pillars like trust, transparency, openness, accountability, and other factors.

From last few years, corporate accountability and financial reporting standards has gained attention at international level [1] due to increasing frauds. To overcome the problem of fraud, the government of different countries passed bills to make legislation. In USA, Congress passed Sarbanes-Oxley Act and it is considered as a legislative milestone in corporate governance history [2]. The basic reason behind developing the laws of CG was some major collapses. These collapses highlighted that CG has the potential to play a vital role in safeguarding and protecting money of investors. So it's the goal of corporate governance to educate investors enough that they know what their rights are and they should know company rules and regulations [3]. Corporate governance help them in knowing that how their investment is important and also in making investment decisions [4]. Recent corporate collapses affect the global markets and in response to this government departments all over the world made codes of corporate governance. These codes mainly focused on internal control system and investor protection. Investors also analyze the presence or absence of these codes in corporations.

Various studies have developed relationships between good governance with high investment rate and high profitability [5,6]. Thus, it would be right to say that the trust of investors and the performance of companies can be enhanced with the help of good corporate governance. The basic issue arises when the government impose restriction on the companies that codes of corporate governance should be applied but the companies fail to follow all the principles of corporate governance either because of negligence or because of fraudulent intentions. In Malaysia, there is a lack of research in the analysis of implementation of code of corporate governance in the listed companies due to which investor face lack of confidence while investing in the stock market. Therefore, the purpose of this study is to analyze the implementation of corporate governance code in the Malaysian listed companies. This study will help to develop an understanding regarding the implementation of corporate governance implementation and their advantages to the corporations and the investors.

LITERATURE REVIEW

With the increase in global competitiveness, business challenges also increases, due to which the need for corporate governance also increases [7]. Corporate governance practices can improve the investment climate and enhance the development of a private sector as well as capital market [8]. The interest in corporate governance is developing because of globalization. Investors are now establishing businesses in foreign states. They are depending on corporate governance compliance because it is helpful in building a strong and protected legal environment that ensures businesses to be accountable [9]. Because of corporate governance, the management of companies are becoming aware of the responsibility towards the company and nation [7]. Likewise, enhancing the role of board of directors is a strategic tool for sustainable business development to overcome problems responsibilities and issues related to sustainable development [10]. Effective corporate governance is becoming a very important tool for achieving success and beating the competition in emerging markets [11].

The ultimate target of corporate governance is to ensure the good of corporate practice in the economy as it ensures fairness and accountability [12]. Corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance [3]. Good management practices help in creation of credibility among lenders due to which cost of credit reduces. It also enhances the confidence of investors and expected partners to invest in or expand the company's operations [13].

On the other hand international financial landscape is changing rapidly; economies and financial systems are undergoing traumatic years [9]. The need for countries to have sound resilient capital markets with good Corporate Governance use competition to strengthen and upgrade their companies that will survive in an increasingly open environment [14]. International standards and guidelines on corporate governance have been established by many multilateral organizations including the OECD and the Basle Committee in the effort to ensure improved legal; institutional and regulatory framework for enhancing corporate governance in institutions such as banks and financial markets [15]. To understand corporate governance and financial performance variables in relation to corporations, the major corporate governance pillars including financial transparency, disclosure, and trust are dissected. Financial performance especially relating to corporate sector is also reviewed based on the performance dimensions comprising: capital adequacy, asset quality, earnings and liquidity [16].

Governance research in accounting highlights the role of accounting information as a credible source of information that support the existence of enforceable contracts. Governance research in accounting exploits the role of accounting information as a source of credible information that support the existence of enforceable contracts, such as compensation contracts with payoffs to managers contingent on realized measures of performance, the monitoring of managers by boards of directors and outside investors and regulators, and the exercise of investor rights granted by existing securities laws may ensure good governance [17]. Corporations work within a governance framework. The framework differs country to country, since it owes much to history and culture and it involves both rules and institutions [17]. Its effectiveness depends on its coherence and on the degree of reliance which can be placed on its constituent parts. However, the actions which corporations take to improve their internal governance cannot make up for deficiencies in the external framework, notably if an appropriate and enforceable legal system is lacking [18]. Corporate governance is a process, not a state. This led to the introduction of national codes of best practice [11]. One channel is that poor implementation of corporate governance can increase financial volatility [5].

On the other hand corporate governance reforms involve changes in control and power structures. As such, corporate governance reforms can depend on ownership structures [19]. In parts of Asia, for instance, where considerable corporate sector wealth is held by a small number of families, the degree to which corporate governance standards have been enhanced has been negatively correlated with the share of corporate sector wealth held by those families. Thus it would be right to say that implementation of corporate governance might have a major impact over performance of the companies.

RESEARCH METHODOLOGY

The sample of this study is all companies listed on the Main Market of Bursa Malaysia. A sample of 45 companies was taken for observations. These firms include large private companies operating in Malaysia. Data for companies was gathered from the official websites of the companies. Annual reports of the firms were downloaded. The regression model was used to analyze the data in this study. Initially, it was observed that the data was not normal, therefore, the dependent variable which has major issues according to the pp plot, therefore, the data was transformed by taking its natural log. After getting it normal the regression analysis was conducted to identify the variables that have a significant impact over performance of the company. As per the data downloaded, the results are as follows.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.7576	0.574	0.541	0.18902

In the above model summary it can be seen that because of stepwise regression the results have boosted a lot in the first model that contain only one variable the explained variation is 54.1%. But in the fourth model the results are very high. The explained variation has gone up to 57.4 % which is very high, increasing the sample size may reduce the value by giving the actual results.

The next table is ANOVA table which shows the goodness of the fit. The suggested value for a good model is considered as above 5 the value for first model is 23 which shows that the model is a good fit

.**ANOVA**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.854	1	.854	23.909	.000[c]
	Residual	.250	7	.036		
	Total	1.104	8			

The next table belongs to the coefficients. All the coefficients that were taken in the study only four variables have shown a significant result. The results are very high with high beta values. In this study one variable is taken as a controlled variable. That is board size.

Coefficients

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		Std. Error	Beta		
(Constant)	1.423	0.089		16.069	0.000
Frequency of Board	0.314	0.018	0.890	17.339	0.000
Risk Management Committee Members	0.090	0.017	0.432	5.204	0.006
Foreign Shareholders	0.316	0.063	0.374	4.986	0.008
Audit Committee Qualification in Accounting/Finance	0.339	0.120	0.299	2.822	0.048

On the basis of the analysis conducted the equation drawn is as follows:

Ln ROA = 0.890 FBM + 0.432 RMCM + 0.37 4FSH + 0.299 ACQAF

In the above equation

Ln ROA	= Natural log of return on assets
FBM	= Frequency of board meetings
RMCM	= Risk management committee members
FSH	= Foreign shareholders
ACQAF	= Audit Committee members qualification in Accounting / Finance

CONCLUSIONS

In the light of the above analysis it is suggested that Malaysian government should enforce corporate governance implementation in their corporate sector. In the current scenario the performance of the companies is not very bad but due to lack of corporate governance practices the trust of investor is weak. The analysis also shows that the issue of duality is high as a result it is not showing its role in performance majority of the companies are facing the issue of duality. Likewise, all the variables that have been excluded from the model are because of the reason that in the chosen companies, majority are not following corporate governance codes. By identifying the only things that are catered by the companies, it would be right to say that majority of the companies need to follow the rules of corporate governance.

Corporate governance in Malaysia has significantly improved over the past few years although its complete implementation remains to be done. The majority of corporations in Malaysia are family-controlled. Although there is a trend towards establishing good corporate governance, most of these corporations still prefer to retain their family structure that disfavors the minority investor.

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