BALTIC JOURNAL OF LAW & POLITICS
A Journal of Vytautas Magnus University
VOLUME 15, NUMBER 1 (2022)
ISSN 2029-0454

Cite: *Baltic Journal of Law & Politics* 15:1 (2022): 660-683
DOI: 10.2478/bjlp-2022-00045

The Impact of Corporate Governance on the Performance of Stock Broking Companies in Malaysia

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Received: November 8, 2021; reviews: 2; accepted: June 29, 2022.

Abstract

This study is conducted in order to examine the practice of good corporate governance by analyzing the board composition, ownership concentration, CEO duality and the board size concentrating in stock broking companies. Developed nations has been attracting investors through fairness and transparency in business through good corporate governance in the capital market industry. Thus, improving corporate governance is highly critical since globalization leads to increasing competition for capital, and investors consider corporate governance when making investment decisions. While the weak corporate governance has been recognized as one of the major sources of East Asia's vulnerabilities to the financial crisis, Malaysian Government realized the weaknesses of the local regulatory environment and that stronger regulations and adequate governance are required in order to protect the local capital market and to ensure market integrity is maintained in order to attract foreign and local investments. Some stock broking companies may prioritize revenue rather than adherence to good compliance and corporate governance practices. It is believed that a positive impact can contribute to the overall performance of the company as it can shield and protect itself and investors from unforeseen negative market conditions and support the longevity of the company's business. Thus, it is necessary to examine how the corporate governance correlated to firm performance, and identifying which areas of corporate governance is crucial. This study is examining the corporate governance variables using secondary data gathered from publicly published Annual Report. The data analysis consists of descriptive and inferential statistics, correlation and regression and was performed using SPSS. The result shows that variables OC, CD, BS are correlated with ROA,

while BC was not correlated with ROA. Multiple regression analysis concluded that only CD is statistically significant with firm performance.

Keywords

Board composition (BC), Ownership concentration (OC), CEO duality (CD), Board size (BS), Return on Assets (ROA) / firm performance

JEL Classifications: J11, F43

1. Introduction

The Malaysian Government under the Securities Commission Act of 1993, had established the Securities Commission of Malaysia ("SC") in 1993. The SC is directly responsible for developing and enforcing capital market rules, as well as guaranteeing long-term market progress and growth. It also oversees and monitor the capital market exchanges, clearing houses, licensed brokers, registered individuals, other licensed entities including other capital market activities that falls under the purview of the Capital Markets and Services (Wahab et al., 2007).The core mandates of the SC towards the Malaysian capital market investors are to protect them at all times including taking an initiative to raise their level of financial and investment literacy. Research findings by (Johnson et al., 2000) reveals the investor protection influences the level of exchange rate and stock markets collapse during the Asian Financial Crisis back in 1997 and 1998 in reaction to a loss of confidence.

The Malaysian capital market industry has gone through a tremendous development since its succession with Singapore in 1964. It has also withstood many obstacles and challenges in the past 25 years which had contributed to the continuous development of the Malaysian economy up to the present day. The biggest test for the SC was when the Asian Financial Crisis emerged between 1997 to 1998 which had devastated major Asian stock exchanges such as the Hang Seng of Hong Kong, SGX of Singapore and Nikkei of Japan including emerging markets of Malaysia, Thailand, Indonesia and other established exchanges around the Asia Pacific region which saw a significant reduction in their respective index points. Within a duration of three months, the Composite Index of Kuala Lumpur Stock Exchange (KLSE) plummeted from 1,077.3 points in June 1997 to 262.7 points by September 1, 1997, making the KLSE as the third worst performing stock exchange in the region after Tokyo and Hong Kong. (Ariff & Abubakar, 1999).

The purpose of this study is to determine the practice of good corporate governance, specifically by stock broking companies, which would affect the functioning and the performance of the firm by analyzing the board composition, ownership concentration, CEO duality and the board size.

1.1 Problem Statement

The implementation of good corporate governance in the capital market industry has been widely practiced by developed nations such as the United States of America, European Countries, Japan, Hong Kong etc. as they are aware of the high expectations of fairness and transparency by investors and its impact on the capital market as a whole. Since the Asian Financial Crisis of 1997, the Malaysian Government realized the weaknesses of the local regulatory environment and that stronger regulations and adequate governance are required in order to protect the local capital market and to ensure market integrity is maintained in order to attract foreign and local investments. Perwaja Steel Sdn Bhd is one of the well-known failures of corporate governance in Malaysia that reveals the company's alarming lack of an internal and misconduct of the directors (Norwani et al., 2011). The corporate governance controversy in Malaysia divulged a number of concerns that have played a significant impact in determining the enhancement process by the Government of Malaysia (Alnasser, 2012). Numerous prior researchers examined the weaknesses of corporate governance in Malaysia. According to (Sulaiman & Ahmad, 2017), Malaysia is relatively weak in law enforcement and (Heirany et al., 2013) had mentioned that if the corporate governance mechanism becomes weaker, the profit management becomes higher and this will ultimately affect the low earnings quality.

Some stock broking companies may prioritize revenue rather than adherence to good compliance and corporate governance practices. They may not realize that good compliance and corporate governance can lead to good business as it instills faith and confidence in investors' minds and also to the general community. (Commission, 1999) by the Securities Commission stated that improving corporate governance was highly critical since globalization leads to increasing competition for capital, and investors consider corporate governance when making investment decisions. This statement was also quoted by (Liew, 2007) on her paper to understand the roles of corporate governance reforms in Malaysia following the 1997/1998 Asian Financial Crisis from the perspectives of corporate managers. Investors would look into the practice of fairness of all shareholders, whose rights must be upheld at all times, the board of directors and management must be accountable, transparent or accurate financial and non-financial reporting, and responsibility to protect the interests of minority shareholders and other stakeholders when the business entity are being evaluated. Investors would evaluate the business entity by considering the practice of fairness to all shareholders whose rights must be upheld, clear accountability by the board of directors and management, transparent or accurate financial and non-

financial reporting and responsibility towards the interests of minority shareholders and other stakeholders.

The Malaysian regulatory bodies such as the SC and Bursa Malaysia has been promoting and encouraging the practice of good corporate governance especially within the stock broking companies. SC issued the Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives in 2008 that consist of 11 core principles as guidance for them to ensure the companies and licensed representatives have taken reasonable steps to organize and manage their business affairs responsibly. The stockbroking companies must also adhere to the Rules of Bursa Malaysia Securities at all times. Ultimately, it is believed that a positive impact can contribute to the overall performance of the company as it can shield and protect itself and investors from unforeseen negative market conditions and support the longevity of the company's business.

1.2 Objectives of the Study

The general purpose of this research is to examine how corporate governance practices by stock broking companies in Malaysia can influence its performance and profitability within the period of 2011 to 2020. The research has been conducted within the context of Malaysian stockbroking companies and with the following specific objectives:

i. To examine whether the board composition has an impact on the firm performance;

ii. To determine the impact of ownership concentration on the firm performance;

iii. To study the impact of CEO duality on the firm performance; and

iv. To investigate the impact of board size on the firm performance.

1.3 Research Questions

In reference to the above stated research objectives, there are four research questions that have been developed as revealed below:

RQ1: Is board composition significant to explain the performance of Malaysian stockbroking companies?

RQ2: Does ownership concentration has significant relationship with the performance of Malaysian stockbroking companies?

RQ3: Is CEO duality has significant relationship with the performance of Malaysian stockbroking companies?

RQ4: Does board size significantly influence the performance of Malaysian stockbroking companies?

1.4 Significance of Study

The first half of the1990's was considered as the 'golden era' of the Malaysian stock market. There were more than 60 stock broking firms established

during this particular era. The market was tremendously active where institutional and individual clients would heavily invest most of their funds in the stock market. Every investment in any stocks listed on the bourse yields high profit and at most times the trading activities would become frenzy when a new Initial Public Offering ('IPO') was listed on the main board of the KLSE. Those with careers as Engineers and Lawyers would quit their day jobs to become a full time remisiers (traders earning on commission) as they can earn more lucrative income with an average of RM 100,000 per month and employees of any stock broking firm were awarded between 12 to 24 months bonus. Aside from the predominantly male clients who made their presence felt at any stock broking firms while attentively monitoring the movement of their preferred counters, women or particularly house wives also made up a good portion of the attendees.

When the Asian Financial Crisis hit the local capital market, with disbelieve, every investor of the Kuala Lumpur Stock Exchange as it was known then, saw the composite index drop to the lowest of 260 points. The exchange rate for the Ringgit against the US Dollar ("USD") rose from the lowest of RM 2.40 per USD to a whopping RM 5.40 per USD. Substantial capital in the economy were wiped out in a short period of time, the smaller capitalized stock broking firms were under threat of foreclosure and widespread job redundancy was practiced by many financial institutions as well as other industrial categories.

A study was conducted by the relevant Malaysian authorities such as Bank Negara Malaysia, SC, Ministry of Finance etc. reveals that during the period running up to the Asian Financial Crisis of 1997, there were weaknesses in the regulatory regime, particularly with the corporate governance practices by capital market operators. Majority of stock broking firms were revenue driven and the importance of good corporate governance was set aside. The middle office, such as Compliance Department, Risk Management and Internal Audit was seen as a hindrance to the operational aspect of the company. There were no proper oversight and accountability by the Board of Directors, no proper segregation of duties among the different functions of the company, rules and regulations were ignored, constant breaches of internal policies and procedures etc.

The Governor of the Central Bank of Malaysia, Mr. Muhammad bin Ibrahim at Bank Negara Malaysia's Compliance Conference 2017, Kuala Lumpur on 18 May 2017 stated that:

"In 2015, we issued the compliance standard for financial institutions, which raised our expectations of boards and management to address the full breadth of structural, operational, resource and process issues that go into assuring compliance. We also issued strengthened corporate governance standards which reinforce the accountability of the boards in overseeing an effective compliance function."

At the end of the study, the importance of implementation and practice of good corporate governance will be seen as part of a good organization structure of a stock broking company. The data collected can be used by other industry

categories as good corporate governance can be applied across all businesses. In the long run, the good corporate governance practice will be seen as beneficial in order to sustain the capital market industry and the longevity of the business organization.

Chapter 2

2. Review of Literature

2.1 Historical Background

The SC had to revise their policies and regulations in order to prevent and better manage the risk exposure of such unprecedented crises in the future. The most pertinent regulatory framework developed for the purpose of shielding the Malaysian economy from a wholistic perspective by the Malaysian regulatory bodies was the introduction of the Corporate Governance Guideline, which was stringently adopted and implemented by the SC and Bursa Malaysia Berhad ("Bursa Malaysia") as the basis for stock broking firms, investment banks, fund managers and other market operators that falls under the jurisdiction of the SC to observe and comply when conducting their business activities. The Malaysian Corporate Governance Code (MCCG) which was implemented in 2000 was the critical tool for corporate governance reform in Malaysia. Subsequently, the MCCG was incorporated into Bursa Malaysia's listing requirements and it has been reviewed four times which was in 2007, 2012, 2017 and the latest one in 2021.

2.1 Review of Independent Variable

2.1.1 Board Composition

According to MCCG 2017, guidance 4.1, the composition of the board should be more than 50% of independent directors in order to provide effective management monitoring. The number of independent directors in large corporations should not be less than 50% plus one. This is similar to what Australia and the United Kingdom are practicing. In addition, the directors are allowed to be independent for a total of no more than 9 years. Individuals who hold a directorship for a cumulative term of more than 9 years are not deemed independent under the MCCG 2017 unless they offer justification and secure annual shareholders' approval. Due to rising stakeholder concerns about an independent director's extended tenure, the MCCG 2017 allows shareholders to vote under a two-tier voting process to keep an independent director for more than 12 years.

According to a higher number of independent directors is connected with higher corporate profitability. Companies under government control and those with lower information acquisition and monitoring costs are more likely to see a beneficial impact on their performance. Ameer, Ramli, and (Ameer et al., 2010)

examined 277 non-financial Malaysian listed firms from 2002 to 2007 and found that having a board with a higher ratio of outside directors has a significant favorable impact on the company's performance. In contrast, independent directors was found to have no contribution to financial performance (Uyar et al., 2021).

In terms of board independence, by using the agency theory, it is predicted that the outside directors will carry out their responsibilities to supervise top management since they are motivated to build reputations in decision-making (Fama & Jensen, 1983), and as a result, a higher proportion of outside directors on the board could reduce the likelihood of involvement and dispossessing of shareholder money by senior management, lowering agency costs (Fama & Jensen, 1983). Furthermore, prior research has shown that by having independent directors can improve the quality of financial reporting (Chen, 2008; Peasnell et al., 2005). Furthermore, prior research shows that outside-dominated boards are more likely to make better decisions than inside-dominated boards in a variety of situations, including replacing CEOs in the wake of poor performance (Weisbach, 1988), resisting demands for greenmail payments (Kosnik, 1990), and negotiating better acquisition deals (Byrd & Hickman, 1992) (McDonald & Westphal). However, the evidence on the link between board independence and business performance or value in developed markets (such as the United States and the United Kingdom) is still equivocal.

2.1.2 Ownership Concentration

The percentage of ordinary shares owned by stockholders who own at least 5% of the company's ordinary shares is known as ownership concentration (Nguyen et al., 2015). According to (Paniagua et al., 2018), one of the ownership-related aspects that can affect financial profitability is ownership concentration. Block-holders' ownership, institutional ownership, foreign ownership, and family ownership are all positively connected to business value, according to (Bonilla et al., 2010; Filatotchev et al., 2005; Maury, 2006).

One of the primary factors of corporate governance is the concentration of ownership (in the form of block-holder ownership). According to the literature, ownership concentration has a good or negative impact on company performance. On the other hand, because block-holders are entitled to a big share of the firm's revenues, they have a strong incentive to keep an eye on insiders in order to prevent agency problems (Demsetz & Lehn, 1985; Mak & Kusnadi, 2005; Shleifer & Vishny, 1986) found that in Malaysia and Singapore, there is a favorable association between block-holder ownership and business performance. (Haniffa & Hudaib, 2006) found a strong favorable impact of block-holder ownership on accounting performance using a sample of 347 Malaysian listed businesses between 1996 and 2000. In contrast, (Fama & Jensen, 1983), suggested that if ownership concentration rises to the point that it entrenches management and precludes takeovers, the company performance will suffer. Furthermore, significant shareholders that are obligated to vote with management, and find it advantageous

to engage with management, may result in poor business performance due to ineffective supervision and a high-risk exposure (Brickley et al., 1988; Pound, 1988). Results show that the ownership concentration in the finance and industrial sectors, respectively, have significant and positive impacts on firm performance in terms of ROA (Al Ani & Al Kathiri, 2019). Although empirical evidence on the effects of block-holder ownership on company performance are inconsistent, we assume that the more ownership concentration, and hence the better the result in monitoring function, will lead to higher firm performance.

The study found that the presence of both insiders and outsiders of the corporate board improved financial performance. Similarly, board size, frequency of board meetings and shareholder concentration/ownership structure generally had a positive impact on financial performance. However, the presence of board committees generally had a negative impact on financial performance while CEO duality had no impact on financial performance (Puni & Anlesinya, 2020).

2.1.3 CEO Duality

There are two divergent theories emerge from the literature on CEO duality consist of agency, where the theory advocates that a dual CEO negatively affects corporate performance because it compromises the monitoring and control of the CEO, whereas the stewardship theory suggests the contrary effect due to the unity of command it presents. When the chairman and CEO responsibilities are combined into one and then entrusted to one person, that person will have significant authority over the board. As a result, the company has a CEO duality factor (Muniandy, 2007). Aside from day-to-day operations, the CEO's responsibilities include establishing strategic plans and putting those plans into action. The chairman, on the other hand, is in charge of overseeing and evaluating the executive directors, including the CEO (Weir & Laing, 2001). Due to the fact that the CEO or Managing Director is usually in charge of strategy creation (Van der Walt et al., 2006), having CEO duality would enable better strategy roles.

One of the primary components of The (Code, 1992) that was underlined under paragraph 4.9 was the deconstruction of tasks in senior management, mainly emphasizing that no single person should occupy the positions of chairman and CEO. In line with The Cadbury Report, the MCCG 2017 paragraph 1.3 strongly advised listed firms to avoid combining the roles of chairman and CEO in order to enhance accountability and facilitate the division of responsibilities. The board charter can be used to list the different roles and responsibilities of the two positions.

The empirical data on the link between CEO duality and company performance has been inconclusive (Duru et al., 2016; Sarstedt & Mooi, 2014). In a review of seven important corporate governance studies, (Boyd, 1995) discovered that only two of them had a negative influence, while the other five showed favorable or minor results. Only three studies out of thirteen showed detrimental impacts, whereas ten showed either positive or no effects, according

to (Harris & Helfat, 1998). Furthermore, a vast body of research has shown that CEO duality has no bearing on firm performance (Benz & Frey, 2007; Daily & Dalton, 1992; D. Dalton & Daily, 1999).

The term "CEO Duality" refers to the fact that one person is in charge of both the management and the board of directors. According to agency theorists, CEO Duality produces an imbalance in corporate power distribution since management and control are concentrated in the hands of one-person, jeopardizing board effectiveness. Due to the lack of independence, the corporate board will find it difficult to offer sufficient monitoring or even impose punitive measures against the erring CEO. Due to asymmetry, the integrity of information available to the board is jeopardized by CEO duality, as the CEO selects what types of information are brought to the board's notice. As a result, agency theorists suggest that separating the two jobs will save agency costs while also increasing corporate openness and accountability.

There is also a dispute about the relationship between CEO duality and corporate success, however empirical studies on the topic yield contradictory results (Hussain & Hadi, 2017; Khan & Javid, 2011; Michelberger, 2016). According to (Bhagat & Black, 2001), the CEO–Chair separation is highly connected with the firm's operating performance. According to (Boyd, 1995), CEO duality actually promotes corporate performance. Separation of the CEO and chair positions was also supported, who found that companies that chose independent leadership outperformed those that relied on CEO duality. Some researchers found no substantial differences between companies with and without dual CEOs (Daily & Dalton, 1992; Dalton & Daily, 1999). In fact, according to (D. Dalton & Daily, 1999), separating the CEO and board chair responsibilities leads to wasted effort. The similar conclusion concluded where CEO' duality does not contribute significantly to financial performance (Blibech & Berraies, 2018). Additionally, CEOs with dual roles can harm firm performance (Pham & Pham, 2020; Uyar et al., 2021) concluded that CEO duality is bad for firm performance at maturing stage because it compromises the monitoring and controls the behavior of the CEO.

In each of the four organizations studied, there is a concentration of ownership. This means that each corporation has a large shareholder who owns a significant portion of its stock capital. These major owners control more than half of their respective companies' equity capital. The potential trade-off between monitoring and the expropriation effect of ownership concentration is at the heart of discussions over ownership concentration–performance relationships. The monitoring effect is used to make predictions about the favorable impact of ownership concentration on performance (Nanka-Bruce, 2011; Nuryanah & Islam, 2011; Uadiale, 2010; Warrad & Khaddam, 2020). As a result, because large shareholders can more easily supervise management, ownership concentration has a disciplinary effect on executives. Concentrated ownership, according to this line of research, may make it easier for controlling shareholders to reap private benefits at the expense of minority shareholders' wealth, hence increasing the expropriation

impact, which damages performance (Chen, 2008; Dalwai et al., 2015; Haque, 2015; Kowalewski, 2016; Muranda, 2006; Shahwan, 2015).

2.1.4 Board Size

In corporate governance, a smaller board size is promoted to improve company performance (Jensen, 1993). Larger boards are said to be ineffective in terms of coordination, communication, and speedy decision-making because reaching consensus is harder (Jensen, 1993; Lipton & Lorsch, 1992). According to (Lipton & Lorsch, 1992), larger boards are simpler for executive directors to oversee. It is also stated that having a larger board affects efficiency because it is more difficult to get consensus on decisions (Chiang & Chia, 2005). Larger boards, on the other hand, can result in superior business performance due to the diversity of skills, information, and expertise brought forward to the table for discussion (Belkhir, 2009; Chiang & Chia, 2005; C. M. Dalton & Dalton, 2005) believes that if the number of directors is minimal, "decision-making precision" is reduced since matters of concerns may not be thoroughly probed out. Conversely, (Uyar et al., 2021) concluded that larger board size can harm the firm performance.

As a result of these differing opinions, the MCCG of 2017, however, does not prescribe a preferred board size for Malaysian listed businesses. However, it recommends that each board to evaluate its size while considering the level of influence it commands based on the effectiveness of the numbers of its members. Previous empirical research on the relationship between board size and company success found conflicting results (Belkhir, 2009; Blibech & Berraies, 2018; Conyon & Peck, 1998; Dalton & Dalton, 2005; O'connell & Cramer, 2010; Yermack, 1996) found that the board size does not contribute to both innovation and financial performance the more the number of members of Board of directors is larger, the more the communication is likely to be difficult .

The MCCG does not define a preferred board size; rather, it recommends that each board evaluate its size while considering the influence of the number on its efficacy. Previous research has yielded varied results when it comes to the association between this board attribute and performance. (Yermack, 1996) discovered an inverse relationship between board size and company value in a study involving a sample of big U.S. industrial businesses conducted between 1984 and 1991. This supports the idea that small boards of directors are more successful. In contrast, there are few researchers (Nanka-Bruce, 2011; Noordin & Kassim, 2017; Nuryanah & Islam, 2011; Warrad & Khaddam, 2020; Wintoki et al., 2012) found board size has a positive and significant association with the firm. While some research found a negative relationship between board size and business performance (Mak & Kusnadi, 2005; O'connell & Cramer, 2010), others found a favourable relationship between company success and board size (Belkhir, 2009; Dalton & Dalton, 2005), where there is a positive relationship between BOD size and firm financial performance as BOD size has significant effect on boosting

financial performance (Ghazali, 2010; Qadorah & Fadzil, 2018) found no link between the two factors.

2.2 Review of Dependent Variable (ROA – Firm Performance)

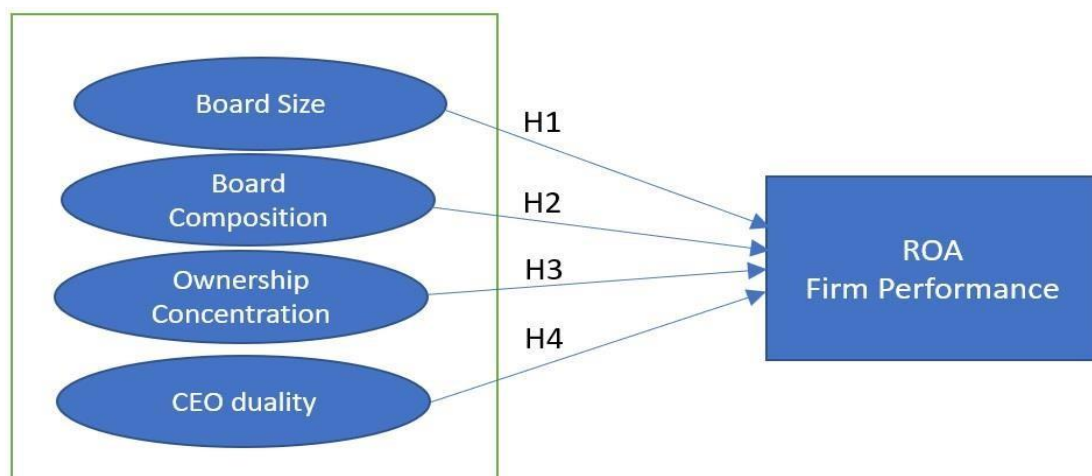
Return on Assets (ROA) is a measure of a company's profitability in relation to its total assets. ROA also indicates how effectively management uses its assets to create profits. ROA is commonly expressed as a percentage and is computed by dividing a company's annual earnings by its total assets. The term "return on investment" is sometimes used to refer to ROA. When performing this calculation, some investors add interest expenditure back into net income since they prefer to use operating returns before borrowing costs.

Prior to the Asian Financial Crisis of 1997, business entities with strong governance standards had better Tobin's Q and dividend payment ratios. During the financial crisis, however, business entities with greater corporate governance norms showed higher ROA than companies with poor corporate governance. Although the current study did not find that excellent governance increases Tobin's Q during the financial crisis, the results show that business entities with good governance have higher profitability, which is consistent with study conducted by (Bhagat & Black, 2001). As a result, the research shows that effective corporate governance is linked to improved firm performance, even during a crisis.

According to Rostamia, (Rostami et al., 2016), there is a considerable positive association between ownership concentration, Board independence, CEO duality, and CEO tenure and the ROA. However, institutional ownership and board size has a considerable negative impact on the business entities' ROA.

2.3 Conceptual Framework

2.3.1 The Conceptual Framework Model



The conceptual framework is developed to examine to what extent the board size, board composition, ownership concentration, and CEO duality have on the firm performance of the stock broking firm.

2.4 Hypothesis Development

For the purpose of this research study, there are four hypothesis that have been developed as revealed below:

The Relationship between Board Composition and the Firm Performance in a Malaysian Stockbroking Company.

H1 – There is a correlation between board composition and firm performance

The Relationship between Ownership Concentration and the Firm Performance in a Malaysian Stockbroking Company.

H2 – There is a correlation between ownership concentration and firm performance

The Relationship between CEO Duality and the Firm Performance in a Malaysian Stockbroking Company.

H3 – There is a correlation between CEO duality and firm performance

The Relationship between Board Size and the Firm Performance in a Malaysian Stockbroking Company.

H4 – There is a correlation between board size and firm performance

3. Methodology

3.1 Research Design

The purpose of this study is to determine the impact of corporate governance practices on the performance of stock broking companies in Malaysia by using the ROA during the period of 2011 to 2020. Since the MCCG was revamped in the year 2017, the selected period of study is able to illustrate the best practices recommended in the MCCG and how these best practices affect the stockbroking company performance. The corporate governance variables to examine the correlation with stockbroking company performance are bored composition, ownership concentration, CEO duality and board size.

The data collection techniques and data analysis procedure during research are often differentiated by either the quantitative or qualitative data (Saunders et al., 2019). Due to the fact that the sources for this study are numerical, this study is classified as quantitative research. In addition, in order to answer the research questions, descripto-explanatory and multiple regression research are used. According to Saunders et al. (2019), descripto-explanatory is defined as a study of both descriptive and explanatory purposes, where the description serving as a precursor to explanation. The descriptive research results will be the precursor of explanation, which can clarify the causal effect of the variables while the explanatory research analyze the data using a statistical test such as correlation in order to get a clearer view of the relationship (Saunders et al., 2019).

Multiple regression analysis is a set of statistical method used for the determination the values of a dependent variable based on the values of one or

more independent variables (Johnson et al., 2000). This methodology is used in this study to determine the degree to which numerous independent variables are related to a dependent variable.

3.2 Data Collection Method

In order to provide a comprehensive result of research in data collection, sources were gathered and reviewed at multiple perspectives. mentioned the researcher must guarantee that there is no bias in the data collection process. Alnasser (2012) emphasized that improper data collecting will invalidate the study's outcome. It is critical for a researcher to have data gathering strategies in place so that the data acquired is accurate and valid (Palinkas et al., 2015).

There is only one main data collection used in this study, and that is secondary data. Secondary data is information that was originally gathered for another purpose. They can be further analyzed to provide additional or different knowledge, interpretations or conclusions (Saunders et al., 2019). The information was taken from the annual reports of selected Malaysian stockbroking companies and the researcher also collected from respective stockbroking companies' websites from 2016 to 2020. As the annual report is audited and regulated by the relevant authorities in Malaysia, these data and information are capable of providing researchers with reliable and relevant information. Furthermore, journals are accessed via Internet, e-databases such ScienceDirect, Elsevier, Emerald Management eJournals Collection and ProQuest Ebook Central.

3.3. Data Instrument

Data used by the researcher for this study is gathered from the annual reports of the respective stockbroking public listed companies and also from their companies' website. All the data are readily available to be downloaded. As for the dependent variable, which is the ROA, the researcher will manually calculate the relevant extracted data by using Microsoft Excel. Sequentially, the independent and dependent variables are then keyed in into the Statistical Package for Social Science (SPSS) for descriptive analysis, inferential statistics, and multiple linear regression. Since this research aims to identify the causal relationship, the regression analysis method will be used. Similar analysis method was also applied in other past studies (CHEE-WOOI & GUAT-KHIM, 2017; Yousef, 2016).

3.4 Total Population

This research intends to investigate the relationship between corporate governance practices and the firm performance in the context of Malaysian stockbroking companies whereby the population of this study refers to the stockbroking companies listed on Bursa Malaysia. As of 31st December 2020, there are 30 stockbroking firms, both local and foreign companies in Malaysia, classified

as equities broker that were approved by the SC. Hence, the total of 30 stockbroking firms are representing the population of this study. The list of stockbroking companies listed in Malaysian stock exchange is accessible via Bursa Malaysia website at: https://www.bursamalaysia.com/trade/trading_resources/brokers_for_equities/list_of_participating_organisations?per_page=50&page=1. In this study, there are 10 stockbroking companies listed on Bursa Malaysia that represents the sample over the period between 2011 to 2020.

3.5 Sampling Size and Sampling Method

Theoretically, as opined, the sample size of a research should not be less than 30 and not larger than 500. also implied that the sample size obtained is determined by the type of research performed and the descriptive research should have a sample size of 10% of the population.

Industry	Total Number stockbroking Firms	Sample for number of stockbroking firm taken	Percentage (%)
Stockbroking	30	10	33.33

Source: Developed for the research

Based on the table above, a sample of 10 stockbroking companies was taken from a population of 30 public listed financial institutions. Thus, the sample size represents 33.33% of the population which is sufficient for this study.

4. Data Analysis

4.1 Multicollinearity Test

Since board composition was found not significantly correlated, the variable is excluded from regression analysis and thus the multicollinearity test was run for other three independent variables as shown in below Table 4.4.

Table 4. 1 Collinearity Analysis

	Collinearity Statistics	
	Tolerance	VIF
BS	.933	1.072
OC	.898	1.113
CD	.931	1.074

From the above collinearity result, the VIF for all three variables are less than 5 ($1<VIF<5$) which indicates that the variables are moderately correlated with each other. Therefore, all of the independent variables are not affected by multicollinearity and thus linear regression analysis can be proceed.

4.2 Multiple Linear Regression

The regression analysis can further explain on the influence of involved independent variables and dependent variables in this study. Earlier in Section

3.6.2 , there are four variables used to find the significant relationship between the dependent variable and the experimental variable consist of board size (BS), CEO duality (CD), ownership concentration (OC), and board composition (BC) which gives the model assumption as follows:

ROA = α + β1BC + β2OC + β3CEO + β4BS

However, one of the variables was found insignificant and therefore it is no longer relevant to be included in regression analysis. Therefore, multiple regression model is estimated as ROA as the dependent variable and only three (3) variables will be expressed as panel equation:

Table 4. 2 Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.801	.936		1.924	.057
	BS	-.093	.063	-.146	-1.464	.147
	OC	.321	.228	.143	1.406	.163
	CD	-.692	.334	-.207	-2.073	.041

a. Dependent variable: ROA

The above Table 4.8 shown the comparison between the relative contribution of each of the different variables using beta value under the unstandardized coefficients. Theoretically, the higher the beta value, the stronger its contribution. The highest beta value falls under social capital (Beta= -.692) makes the strongest unique contribution to explaining the dependent variable. The above results revealed that:

i. For every unit increase in CEO duality would lead to a 0.692 unit decrease on the firm performance (ROA) with a significant contribution.

ii. For every unit increase in board size would lead to a 0.093 unit decrease on the firm performance (ROA), however in this study with insignificant contribution.

iii. For every unit increase in ownership concentration would lead to a 0.321 unit increase on the firm performance (ROA), however in this study with insignificant contribution.

The statistical significance of each variable from the above coefficients in Table 4.8 resulted on board size (Sig. = .147) and ownership concentration (Sig. = .163) which are less effect to make any significant contribution (Sig<0.5). Whereas, CEO duality (Sig. = .041) are statistically significant for prediction on the firm performance. Therefore, this study does not have sufficient evidence to establish and support the assumption model.

5. Discussion and Conclusion

5.1 Summary of findings

Based on the correlation analysis in Chapter 4, the hypothesis established

in this study is therefore concluded as follows and further discussed in the following paragraphs:

Hypothesis	Result
H1: There is a correlation between board composition and firm performance	Rejected
H2: There is a correlation between ownership concentration and firm performance	Accepted
H3: There is a correlation between CEO duality and firm performance	Accepted
H4: There is a correlation between board size and firm performance	Accepted

5.2 Board Composition and Firm Performance

The first hypothesis established in this study was to answer the first research question whether the board composition has a significant impact on the firm performance. The dataset summarized that 90% of the company in this study have >50% of independent directors in their company given average of 63.52% of independent board composition among the stockbroking companies in Malaysia. Based on the correlation analysis, the independent variable of board composition was found to have very small negative effect on ROA (r= -0.001) which is very close to 0, and statistically insignificant (p>0.05). Therefore, it can be concluded that the board composition does not have a significant relationship with firm performance and there is insufficient evidence to conclude its effect on return on assets of stockbroking companies in Malaysia. This finding is similar to (Uyar et al., 2021) where among of the study was also found that independent directors have no contribution to financial performance, and no potential value added to the firm's economic performance (Afzalur et al., 2010). As explained in literature review, independent directors refers to outside directors chosen to supervise the firm, where they are expected to question the managers' decisions and thus to put an end to their discretion (Vieira & Neiva, 2019). According to (Rashid et al., 2010), the board composition do not influence the firm performance was possibly due to independent directors do not have any supervisory position in the board, they may have a close relationship with inside board members, and many of them may not have adequate qualification and expertise of the independent directors. Thus, the influence of board composition has a wider perspective to be investigated.

5.3 Ownership Concentration and Firm Performance

The second hypothesis was established to answer the second research question whether the ownership concentration has a significant impact on the firm performance. Based on the dataset, in average 30% of the companies have at least one shareholder who owns > 5% of the company's ordinary shares. The weightage is clearly seen that the stockbroking companies in Malaysia are less likely to have an ownership concentration. Based on correlation analysis, the ownership

concentration has a significant relationship ($p<0.05$) with firm performance at moderate level where $r=0.229$. The regression analysis shown a positive influence on firm performance with every increase on ownership concentration value, where an increasing number of ownership concentration in this study refers to 1=Yes, 2=No, which indicates that the company is having a better ROA without ownership concentration. The relationship in this study can be summarized as having >5% ownership concentration in a company will give a negative influence to the firm performance. However, the regression analysis findings were not significant to make a general conclusion in this study. Therefore, the finding of this study is consistent with previous research where it was found that ownership concentration has a negative and insignificant association with the firm performance (Ammar et al., 2013; Arora & Sharma, 2016; Lawal, 2012; Panasian et al., 2003; Part, 2010).

5.4 CEO Duality and Firm Performance

The third hypothesis was established to answer the third research question whether the CEO duality has a significant impact on the firm performance. The analysis shown that CEO duality has a significant negative relationship with firm performance where $r=-.264$ ($p<0.05$). The further analysis using regression resulted as a negative impact on firm performance with increment value on duality role, where every increment would lead to a 0.692 unit decrease on the firm performance (ROA) with a significant contribution. It has to be noted that this study coded 1=Yes, and 2=No, which in reverse indicates that implementing CEO duality has a positive influence on firm performance. This finding is in line with (Van der Walt et al., 2006) where having CEO duality would enable better strategy roles.

5.5 Board Size and Firm Performance

The fourth hypothesis was established to answer the fourth research question whether the ownership concentration has a significant impact on the firm performance. The analysis shown that board size has a significant negative relationship with firm performance where $r=-.212$ ($p<0.05$). The further analysis using regression resulted as with every increase on board size it will resulted on negative influence on firm performance, where every increment would lead to a 0.093 unit decrease on the firm performance (ROA) with a significant contribution. This finding is consistent with past study by (Lipton & Lorsch, 1992) and (Fama & Jensen, 1983), where larger boards are said to be ineffective in terms of coordination, communication, and speedy decision-making because reaching consensus is harder; while having a larger board affects efficiency because it is more difficult to get consensus on decisions (Chiang & Chia, 2005). Past studies have also proven that the larger the board of directors, the greater the potential for conflict of interest and miscommunication among board members. This would result in a worsening of corporate governance and, as a result, a decrease in firm performance. To guarantee that there are enough members to discharge tasks and

perform diverse functions, the optimal number of board members should be chosen by the entire board.

6. Contribution

This study reveals the importance of considering different aspects of corporate governance within stockbroking companies in Malaysia such as board composition, ownership concentration, CEO duality and board size. Likewise, the results focus on the CEO duality as it has a significant negative impact on the ROA performance in a stockbroking company, suggesting that stockbroking firms should incorporate experienced and highly qualified directors. The findings in this study may be useful for stockbroking firms in Malaysia to design the ideal boards, and can be a guideline for investors locally and internationally. Based on the findings of this study's analysis, investors, managers, board members, and policymakers in the financial services sector can consider some implications for improving corporate governance. The outcome in this study is also beneficial to broaden the information and reference for emerging research in business and financial management, specifically relating to corporate governance.

7. Recommendations

Based on the findings in this study, it is recommended that stockbroking companies in Malaysia to review the current structure and roles of the CEO and board chairperson. To the company with preference of duality role, it is highly important to get a highly capable person to act as a chairperson and CEO position taking into consideration of their background knowledge and experience, people skill and financial management ability to increase the effectiveness of corporate governance practice and to improve firm performance.

8. Conclusion

This study investigates the interrelationship between corporate governance and firm performance among stock broking companies in Malaysia. There are four variables representing corporate governance involved in this study as independent variables which are bored size, CEO duality, ownership concentration, and board composition, whereas ROA was used as a measure on firm performance. It is found in this study that there is a need to regulate the responsibilities, functions, and duties of the CEO and chairperson of the board of directors as it is proven to have a significant negative influence in this study. The outcome in this study concerning the relationship between corporate governance and firms' performance within stock broking companies are not consensual. Although some studies managed to find evidence of a positive relation between the two variables, there is no doubt that others find no relationship or correlation between variables of corporate governance. While the studies on corporate governance have been widely implemented around the world, there is not conclusive findings to establish the firm

model. This means that there may be other aspects that need to be investigated to fully understand their impact on the company's performance and profitability. Given the quick development and escalating scandalous practices, however, initiatives will be required to regain investor interest in the Malaysian capital market. As a result, it is unavoidable for firms to adopt a new attitude by adhering to global corporate governance norms to accomplish the desired economic progress.

9. Limitation and Suggestion for Future Research

This study was conducted with a limited size of data, therefore future researchers can overcome this hurdle, the sample size or time range of this study should be expanded to improve the accuracy of the empirical results. Apart from that, investigating the influence of corporate governance measures in a given industry of a single country would be more enlightening. If the sample is compared to the United Kingdom (UK), a country that adopted a code of corporate governance as early as the 1990s, the findings could be more penetrative in terms of the growth of best CG practices/ standards. This could aid in targeting the sector of a country that needs to be improved. To put it another way, comparing across sectors or industries can help you comprehend the long-term viability of a certain industry and uncover new trends.

Furthermore, it is advised that researchers investigate including additional important independent factors. It is suggested that more realistic and accurate indications be employed. Other boarder-specific criteria include audit quality, amount of disclosure, reporting timeliness, tenure of independent directors, compensation committee, family-controlled business, and governance index, among others. The more relevant the model is, the easier it is for policymakers and managers to refer to it and make decisions on risk management and corporate governance.

Moreover, while secondary data might provide information such as computed return on asset or return on equity, original data can also be used to supplement future study. Interviews with top management or board members could aid in the development of a more realistic model. Because it is objective and acquired directly from the original source, combining primary and secondary data helps improve the study's authenticity and dependability. Researchers should consider the viewpoint of small and medium-sized businesses, as they are the backbone of our economy. Future studies could interview small and medium business owners about the practical challenges of complying to the governance structure. In addition, future researchers could collect company secretaries' perspectives on the level of compliance in public and private organizations to better comprehend the qualitative component of the study.

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