The Relationship Between Corporate Governance Mechanisms and Firm's Performance

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Introduction

Corporate governance has encouraged transparency and accountability. This can be seen from the issuance of the Malaysian Code of Corporate Governance (MCCG) 2000, where all the listed companies in Bursa Malaysia are required to disclose the corporate governance practices in the annual report by virtue of paragraph 15.26 of the KLSE Listing Requirements. The roles and function of corporate governance is essential in setting up the good corporate governance framework for an organization. This is due to the fact that good corporate governance framework provides mechanisms and recommendations to ensure a more effective board of directors which indirectly enhance the company's performance. The separation of ownership (principal) and management control (agent) leads to agency problem (Jensen & Meckling, 1976). Thus, in order to minimize the conflict of interest between the principal and agent, there were various mechanisms being implemented to control the agency cost. Corporate governance, which is consisting of internal and external governance mechanisms, is suggested to curb the agency problem. Due to the major corporate collapses in UK, USA and Malaysia, the establishment of corporate governance guideline is seen as an important effort to enhance the efficacy of corporate governance structures.

Due to its apparent importance for the economic health and the public interest in general, Malaysia's authorities have established the corporate reform on rules and regulation. The first reform starts with the establishment of the Finance Committee in 1998 to conduct a detailed study on corporate governance. Then, the Malaysian Code of Corporate Governance (MCCG) in 2000 was established, followed by the KLSE

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Listing Requirements issued in 2001, which introduced a new section on corporate governance reporting. Consequently, MCCG 2007 and MCCG Blueprint 2011 were established. Then, the latest one known as MCCG 2012, which strengthen on the board structure and composition and recognize the roles and responsibilities of the board of directors, has shown that Malaysia had taken the corporate governance reform as a serious matter.

The efforts of Malaysian authorities in improving the corporate governance guideline have received a remarkable achievement when Malaysia was placed at top ten for 'ease of doing business' in the world. In a survey conducted by the World Bank *Doing Business,* Malaysia has ranked at 6th place out of 189 countries in 2014 which shows a jump up to the top ten positions compared to 2013 at the 12th place. This indicates Malaysia has improved its regulatory framework and the processes for investors to start a business and dealing with the authority.

The effectiveness of corporate governance mechanisms influence on the firm performance varies from one study to another. The poor corporate governance practice has impacted on the firm performance. The institutional investors in Malaysia particularly are willing to pay premium of more than 22% for well-governed companies (Abdul Wahab, How, & Verhoeven, 2007). Corporate governance is an essential practice because it reflects how efficient the firm in utilizing the resources, assisting the firms and the economy in attracting capital investment, improving investors and creditors confidence and increasing the firm awareness on the social needs and expectation, which indirectly enhance long-term performance of the firm (Gregory & Simms, 1999).

Besides the financial crisis, Transmile Group Berhad and Megan Media Bhd cases have been labelled as Malaysian mini-Enron financial scandal due to the big amount and the involvement of the company's top management in financial statement fraudulent (Abdul Hamid, Shafie, Othman, Wan Hussin, & Fadzil, 2013). The failure of big-name organizations, such as Enron, WorldCom and Xerox, has shown as lack of corporate governance which unfavourably affect the country's market the public confidence on the integrity of financial reporting (Che Haat, Abdul Rahman, & Mahenthiran, 2008). Poor corporate governance leads to companies' suffering from leverage (Fraser, Zhang, & Derashid, 2006), lack of transparency, financial disclosure and accountability (Mitton, 2002) and poor protection on minority shareholder (Claessens, Djankov, Fan, & Lang, 1999).

Thus, this study aims to examine the relationship between the corporate governance mechanisms with firm performance. The existence of corporate governance mechanisms aims to overcome the agency problem faced by one organization. The agency costs occur when the interest of the manager and the shareholders is misaligned (Jensen & Meckling, 1976), and the managers may misappropriate the resources supplied by the shareholders for their own benefits. It is advanced here that good practice among directors may increase the value of the firm and as well indirectly enhance the shareholders' wealth.

Board of directors is regarded as a team of individuals who have three fiduciary duties: the duty of care, the duty of obedience and the duty of loyalty with the main objective to ensure the shareholders' interest is protected. Due to its monitoring role

in the firm, board of directors may protect the firm from harmful behaviour and fraud which might otherwise be committed by the top management. To determine the effectiveness of the board in safeguarding the shareholders' wealth and enhance firm's performance, this study will provide another empirical evidence by extending the study by Abdullah (2004). The difference between this study and previous study is the addition of two variables to be tested: (1) board size and (2) board of directors' remuneration and using data taken from annual reports for the year 2013, following the MCCG 2012. Furthermore, previous study used the financial ratio to measure the firm performances while this study uses both accounting and market measures. Therefore, examining the strength of the board of director's functions and characteristics is significant to this study and may contribute to the existing body of knowledge on corporate governance.

Corporate Governance and Firm Performance

The existence of corporate governance mechanisms is to make sure the investor will receive returns from their investments (Shleifer & Vishny, 1997). The failure of Malaysian companies, for example Transmile Group Berhad and Megan Media Bhd, has been considered as a wake-up call to the needs of a better framework and guidelines to promote transparency and accountability among Malaysian companies. There is various literature on corporate governance and firm performance. A literature review from previous studies has indicated corporate governance characteristics, such as board size (Amran & Che Ahmad, 2011; Coles, Daniel, & Naveen, 2008; Germain, Galy, & Lee, 2014), CEO duality (Abdullah, 2004; Daily & Dalton, 1993; Rechner & Dalton, 1991), directors' compensation (Conyon, 1995; Conyon & Peck, 1998; Ghosh & Aggarwal, 2011), composition of independent directors (Crespí-Cladera & Pascual-Fuster, 2014; Petra, 2005; Rosenstein & Wyatt, 1990) has significant relationship with firm performance. Firm performance can be measured by accounting measures and market-based measures.

Underpinning Theory: Agency Theory

Agency theory is the possible solution to resolve conflict that arises between the principals and agent due to asymmetric information (Eisenhardt, 1985). Agency theory concern is to resolve two problems which occur in any agency relationship. One is when the desire of the principal is conflicting with the agent and the second one is the difficulty or expensive cost for the principal to verify what actually the agent is doing (Eisenhardt, 1989). The separation of ownership and control leads to agency cost where the managers fulfil own interest without having consideration of the shareholders' wealth (Jensen and Meckling, 1976). The agency cost occurs when the interest of the agent is not aligned with the principal. Furthermore, it is believed that

the separation between the decision control and decision management may reduce the agency costs and lead to higher performance. Thus, the presence of board of directors is to monitor the management and protect the shareholders' wealth. Higher level of executive compensation, adoption of poison pills, payment of green mails and awarding golden parachutes are among agency problems encountered when the agent fulfils their own interest (Boyd, 1994; Kosnik, 1987). From the agency theory perspective, independent directors will promote better firm performance. The theory assumes that the independent directors are individualistic, opportunistic and self-serving (Ramdani & Witteloostuijn, 2010). Weisbach (1988) stated that independent directors are not affiliated with the management. The independent director is expected not to pursue private interest.

In relation to the leadership structure, agency theory suggests that CEO and chairman positions should be held by different person to differentiate between the operational responsibility and control responsibility. The separation between CEO and chairman responsibility may develop effective monitoring roles by the board. There will be a check and balance to control the management, and this leads to better performance. By having the CEO as the chairman of the board, it is likely to give opportunities for the CEO to take control of the board's decision. By giving the CEO, the power to initiate his own strategies reflects on weak decision control by the board, which, in turn, leads to less performing firm.

Directors' compensation package could be derived from salaries, fees, bonuses and equity-based. Financial incentives have never failed to attract directors to pursue the management monitoring decisions. Financial incentives are one of the internal control mechanisms to align the interest of shareholders and the management (Ghosh & Aggarwal, 2011). From the perspective of agency theory, compensation could be used to reduce the agency conflict (Haron & Akhtaruddin, 2003). Jensen and Meckling (1976) further stated in their research, direct ownership is the most powerful link between directors' rewards and corporate performance.

Research Framework

A research framework could form a basis for the development of hypotheses in any research. This study employed the following research framework (see Fig. 1) as translated from past studies and theoretical arguments:

Hypothesis Development

In this section, the hypotheses on several corporate governance mechanisms—board of directors' characteristics, such as board independence, CEO duality, board size and board of directors' remuneration—are tested on the firm's performance of public listed companies in Malaysia using agency theory.

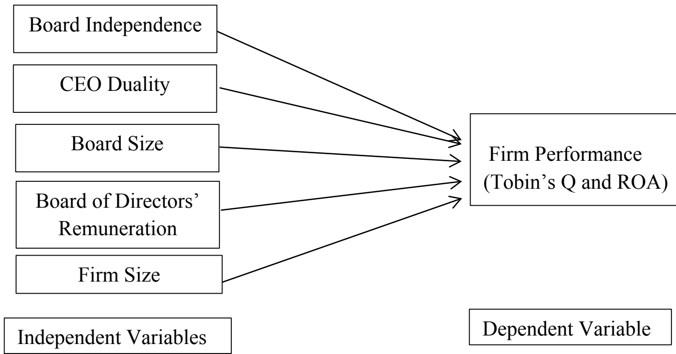

Fig. 1 Research framework

Board Independence

Bursa Malaysia Revamp Listing Requirement required one-third of the board members to be independent directors. Abdul Rahman and Mohamed Ali (2006) found on average, Malaysian companies have complied with the requirement. Agency theory predicts that the effectiveness of independent director may reduce the agency problem. Thus, the agency theory suggests that the board of directors should be dominated by independent directors. This is because, the independent directors could add value to the firm by lending experience and monitoring service (Fama & Jensen, 1983). The outside directors are also more objective, independent and able to influence the boards' decision (Kosnik, 1987) which promotes better firm's performance. On the other hand, inside directors are better informed and know the companies very well, which, in turn, is able to make decision effectively compared to independent directors (Ramdani & Witteloostuijn, 2010) from the perspective of stewardship theory.

Even though agency theory suggests the independent directors should dominate the board composition to enable effective monitoring, there is a drawback of having high independent directors on the board. There is an argument that the independent directors can create stifling strategic actions (Goodstein, Gautam, & Boeker, 1994). Petra (2005) found the presence of independent directors is not affecting the firm performance. The US study by Bhagat and Black (2002) found a negative relationship between the proportion of outside directors and corporate performance (Hermalin & Weisbach, 1991; Petra, 2005). In firm's family ownership scenario, Ibrahim and Samad's (2011) study shows a significant negative relationship between the composition of outside directors and firm performance when measured by Return on Assets (ROA). Amran and Che Ahmad (2011) found similar findings, i.e. lesser number of independent directors to enhance the family's firm performance.

However, there is a positive significant relationship between the compositions of outside directors with firm performance based on Tobin's Q and ROA. Similar to Zahra and Pearce (1992) findings on the 450 firms from *Fortune 500*, there is a positive

significant relationship between the proportion of outside directors and firm performance using accounting measures. The positive significant relationship between the proportion of independent directors and firm performance implies that the involvement of independent directors is needed in the process of preparing financial reports (Beasley, 1996). Based on the arguments, it is hypothesized that:

H1: There is a positive relationship between board independence and firm performance.

CEO Duality

The MCCG 2012 states that the position of CEO and chairman should be held by different individuals. From the agency theory perspective, when the same individuals hold two positions, CEO and chairman, there will be an opportunity for the CEO to dominantly influence the board's decision. The CEO duality is argued to weaken the board's independence and monitoring function; that is, the management becomes ineffective which leads to less performing firm. Abels and Martelli (2013) uncover the combination of CEO and chairman position of top 500 companies in the USA which had fallen to third place in 2010 compared to 2008. This is because, the companies desire to enhance the corporate transparency and independence which is consistent with the agency theory.

However, there is evidence that companies with CEO duality perform better (Donaldson & Davis, 1991; Ramdani & Witteloostuijn, 2010) in an average-performing firm. This is because, average-performing firm needs strong leadership and unity of command. In addition, the power held by one person in top position leads to better decisions and improvement. Using data of 141 companies of Fortune 500, Rechner and Dalton (1991) found the accounting measures are correlated with CEO.

Contrarily, Krause and Semadeni (2013) had introduced three different types of separation, and the separation types give different effect to the firm performance. The study focused on the 'when' and 'how' the separation should take place rather than 'whether'. The study found that the separation of CEO and the chairman positively impacts the future firm performance when the current performance is weak. The study supports the agency theory which suggests the separation of the CEO and chairman positions leading to a better firm performance.

Agency theory further tested in Amran and Che Ahmad (2009); the study of 896 public listed companies in Malaysia found that CEO duality is not significantly related to the firm's family value. Using market and accounting measures, Haniffa and Hudaib (2006) found there is no significant relationship between duality and firm performance measured by market indicator and, however, found there is a significant relationship related to accounting measure in a negative direction. Abdullah (2004) found that CEO duality is not related to firm performance in Malaysia. Rao, Baliga and Moyer (1996) found there is no significanct difference in the firm performance

which practises duality or separation leadership. Therefore, based on the above arguments, the second hypothesis is derived:

H2: There is a negative relationship between CEO duality and firm performance.

Board Size

Board size refers to the number of directors on the board. Evidence on the relationship between board size and firm performance is mixed. There are two perceptions on the effect of board size on firm performance. Those who are in favour of smaller board argue these boards perform better due to faster collective decision and more efficient (Waqar, Rashid, & Jadoon 2014). The proponents of larger board size argue that diversified boards would help the company to secure resources and indirectly perform better (Zahra & Pearce, 1992).

Small firms are performing better (Yermack, 1996). Board with more than seven or eight directors is less likely to perform effectively due to communication and coordination problems, which consequently enable the CEO to take control (Jensen, 1993). Amran and Che Ahmad (2011) found the average size of the board is around eight people per board which supports the study by Jensen (1993). Another study by Kumar and Singh (2013) in India found that smaller board is associated with firm performance.

On the other hand, larger board is claimed to have a strong indication to the firm performance due to the available capabilities and skills; more resources provide more strategies solutions and enhance problem-solving capabilities (Haleblian & Finkelstein, 1993; Zahra & Pearce, 1989). The agency theory attracts the best possible solution to align the interest between the principal and agent. Thus, by putting diversified business field of board members on board in one company could contribute to fruitful discussion and high-quality decision-making which will benefit the shareholders (Coles, Daniel, & Naveen, 2008). The separation of ownership and control would be difficult for the principal to verify and monitor what the agent is actually doing. Lack of information and uncertainty could be solved with having larger board. Germain et al. (2014) identify the determinants for board structure in Malaysia and found that board size is correlated with the operation level of the firm. The larger complex firms required larger board members to provide more advice and access to information and resources. In relation to firm performance, the study found a negative relationship between board size and market to book value.

Coles et al. (2008) found there is a positive significant relationship between the board size on Tobin's Q for diversified, large and debt financing firms. Cheng (2008) further examines the association between the larger board size and the corporate performance. The study found that larger board is less extreme and takes times to reach consensus. The effect of agency problem is that larger board size allows CEO to influence and control the board's decisions (Jensen, 1993). Hence, it is expected

that larger board size will enhance the firm performance of public listed companies in Malaysia, and therefore, the third hypothesis is derived:

H3: There is a positive relationship between the board size and firm performance.

Board of Directors' Remuneration

To avoid agency cost, the directors should be rewarded based on their performance, which is suggested by agency theory. There is an argument that the directors are paid excessively and not related to firm performance (Andjelkovic, Boyle, & McNoe, 2001). Haron and Akhtaruddin (2003) found that the larger the firm, the more lucrative will be the remuneration package received by the board of directors. Studies by Conyon and Peck (1998) and Ghosh and Aggarwal (2011) found that director remuneration does not have any significant relationship with the firm's profitability. Similarly, a study by Veliyath (1999) found that the firm performance is not a significant determinant of executive pay. Abdullah (2006) investigates the roles of firm performance in determining director's remuneration focusing on the distressed companies and healthy companies. The study found that profitability (as measured by ROA) is not associated with director's remuneration. However, the firm's growth and the size positively influence the level of director's remuneration.

Crespi and Gispert (1998) empirically analysed Spanish listed companies' financial statements during the period from 1990 to 1995 and found that there is a positive relationship between board remuneration and company performance. The changes in company performance lead to changes in board remuneration. Agency relationship is when the principals engage the agent to perform service on behalf of the principals, which involve delegating some decision-making authority to the agent. However, the agent is not always acting in the best interest of the principal. In order to limit the disappearance of the principal's interest, the establishment of appropriate incentives for the agent could deter the aberrant activities (Jensen & Meckling, 1976). Hence, this study proposes the fourth hypothesis:

H4: There is a negative relationship between director's remuneration and firm performance.

Research Methodology

The 100 companies' annual reports were randomly selected from the Bursa Malaysia website for the financial year ending 31 December 2013, following the introduction of MCCG 2012.

Measurement and Variables

The dependent variable employed in this study is firm performance. There are two measurements considered in this study as a proxy for firm performance: market return and accounting return. The measurements are Tobin's Q and Return on Assets (ROA). Tobin's Q (market return proxy) is derived from market value of the ordinary shares plus book value of the liability divided by total assets of the company. The higher the value of Q means the corporate governance mechanisms are effective for the firm (Weir, Laing, & McKnight, 2002). Previous study used Tobin's Q as the measurement of firm performance (Amran & Che Ahmad, 2011; Che Haat, Rahman, & Mahenthiran, 2008; Haniffa & Hudaib, 2006; Kumar & Singh, 2013; Yermack, 1996). Furthermore, Tobin's Q is able to explain the role of share market in economy and show the natural company's value as reflected by the share price of the company (Gunawan & Budiarjo, 2014).

Accounting return measure, such as ROA, is used in this study to measure the firm performance. ROA is used in this study because ROA is related to management's ability to utilize the company's resources efficiently, which belongs to shareholders. ROA derived from net income is divided by total assets. The higher the ROA shows the company is effective in utilizing the company's assets in serving the shareholders' interest. Previous studies used this performance indicator on firm performance (Abdullah, 2004; Coles et al., 2008; Daily & Dalton, 1992; Haron & Akhtaruddin, 2003; Ujunwa, 2012).

This study measures the board independence composition by the number of independent or outside directors on the board (Abdullah, 2004; Amran & Che Ahmad, 2011; Coles et al., 2008). CEO duality is where the CEO also serves as the chairman of the board. CEO duality is measured by binary variable (Abdullah, 2004). If a CEO is also chairman of the board, the indicator equals to one, and zero, if otherwise. Board size is defined as a number of directors on the board. Board size is measured by the number of board members on the board consistent with several past studies (Amran & Che Ahmad, 2009, 2011; Coles et al., 2008; Ibrahim & Samad, 2009). The remuneration in this study is defined as salaries, allowance, fees, bonus and benefit in kind (Conyon & Peck, 1998; Haron & Akhtaruddin, 2003; Main, Bruce, & Buck, 1996). This study includes a control variable, i.e., the firm size, which is expected to influence the firm performance. Prior studies (Haron & Akhtaruddin, 2003; Kumar & Singh, 2013) use total assets to measure the firm's size. This study measures the size by using total assets of the firm.

Results and Discussion

A multiple regression analysis was performed on the firm performance and all its explanatory variables. Several diagnostic tests were performed prior to the multiple regression analysis. This analysis was carried out to examine the relationship between

Table 1 Multiple regression result based on normal scores (transformed)

Variables	Tobin's Q			ROA		
	Coefficient (Beta)	*t*-statistics	*p*-value	Coefficient (Beta)	*t*-statistics	*p*-value
Intercept		3.838	0.000		0.146	0.884
BIND	−0.001	−0.012	0.991	0.175	1.517	0.133
CEODUAL	0.227	2.310	**0.023***	−0.028	−0.286	0.775
BSIZE	−0.041	−0.323	0.747	0.175	1.350	0.180
lgDREM	−0.250	−2.298	**0.024***	0.012	0.111	0.912
FSIZE	0.039	0.393	0.695	−0.170	−1.717	**0.089****
R^2	0.126			0.110		
Adj. R^2	0.080			0.062		
F-statistics (*p*-value)	2.711 (0.025)*			2.313 (0.050)*		
Df	(5, 94)			(5, 94)		
N	100			100		

Note *Significant at 0.05 level, **Significant at 0.10 level

corporate governance mechanisms and firm performance measures by Tobin's Q and ROA. The summary of the multiple regression results is presented in Table 1.

Regression Results Based on Market Measure

Table 1 presents the multiple regression results. The results reveal that CEO duality is positively significant with Tobin's Q at 5% significant level ($p = 0.023$). This result supports findings by Ramdani and Witteloostuijn (2010) and Sridharan and Marsinko (1997), where there is a significant positive relationship between CEO duality and firm performance. This is because CEO has all the information to be disclosed to the members of the boards, and CEO duality prevents the conflict of interest with having a strong consistent leadership. Hence, Hypothesis 2 which predicts negative relationship between CEO duality and firm performance is not supported. Thus, this result does not support the agency theory that suggests the separation between the CEO and the chairman to reduce the agency problem and consequently promote the effective monitoring.

This result may be due to the fact that about 70% of the firm is family-owned in Malaysia (Claessens, Djankov, & Lang, 2000). The CEO of the company, who is also holding the chairman position, is perceived to manage the company better than non-family firm, lower agency costs, mitigate the agency problem and duality leadership lead to higher performance (Amran & Che Ahmad, 2011; Ibrahim & Samad, 2011). Thus, this result possibly supports the stewardship theory where the

theory predicts that CEO duality performs better than firms without duality (Ramdani & Witteloostuijn, 2010). In Dalton, Daily, Ellstrand, and Johnson's (1998) study, when referring to stewardship theory, the desired objectives are often hard to achieve when the roles of the CEO and the chairman are performed by different people.

However, this result contradicts with Haniffa and Hudaib (2006), Ibrahim and Samad (2011) and Schmid and Zimmermann (2010) where the studies found there was insignificant relationship between CEO duality and market-based measures. The possible interpretation was the agency costs associated with a combined function are mitigated by a higher incentive alignment of the CEO/Chairman through an adequate level of managerial shareholding (Schmid & Zimmermann, 2010). Furthermore, the CEO duality has no impact on the market performance due to the varying impact of CEO duality across industries (Elsayed, 2007).

Besides that, board of directors' remuneration also has an inverse significant relationship with Tobin's Q. The significant level is at 5% with ($p = 0.024$). This result contradicts with findings by Main et al. (1996) using the market measure—share performance to examine the executive package which can affect an alignment of interest between management and the shareholders. Strong positive significant relationship was found between CEO remuneration package with the share performance but not in the directors' remuneration package.

However, this result supports findings by Jensen and Murphy (1990) where the study found a significant relationship (positive) between directors' remuneration and stock return, as a proxy for firm performance. Ghosh (2003) also found the directors' remuneration is significant and gives effect to the firm performance. The control variable, i.e. firm's size (FSIZE), is found to be insignificant and not correlated with the market measure Tobin's Q. Hence, this result supports the predicted relationship in Hypothesis 4, where there is a negative relationship between the board of directors' remuneration and firm performance. Hypothesis 4 is supported.

The board independence (BIND) in this study is found to be not significantly related with the Tobin's Q ($p = 0.991$), and the result supports the findings of Amran and Che Ahmad (2011), Cheng (2008) and Petra (2005). The similar result is also found in Miwa and Ramsayer's (2005) study where the findings suggest that the discretionary role of the outside directors (independent directors) in controlling the opportunistic managerial behaviour was unclear. Independent directors seem to be independent in form rather than in substance (Mak & Kusnadi, 2005). This result does not in line with the agency theory perspective on the larger proportion of independent directors that will promote better firm performance through effective monitoring.

The board size (BSIZE) is not significantly related with the market measurement (Tobin's Q) where the p-value is 0.747. This result is contrary to the findings by Amran and Che Ahmad (2009), Haniffa and Hudaib (2006) and Coles et al. (2008). The insignificant relationship is probably due to high compensation cost and incentives for the directors to discharge director's roles. However, this result supports the findings by Amran and Che Ahmad (2011), Mak and Kusnadi (2005) and Yermack (1996). The studies suggest that the market perceives larger boards which are less effective than smaller group in making decision and tend to be symbolic rather than being part of the operation process and one size of the board does not seem to fit in enhancing the

firm performance. Thus, the monitoring ability by the board of directors as suggested by agency theory is not parallel with this result. Hence, Hypothesis 3 is not supported.

Regression Results Based on Accounting Measure

The accounting measure by ROA result shows board independence (BIND), CEO duality (CEODUAL), board size (BSIZE) and board of directors' remuneration (LgDREM) are not significantly related with the proxy for firm performance—ROA. The result reveals only the firm size (FSIZE) is significantly related with ROA.

Firm size is found to be moderately significant with ROA at 10% significant level ($p = 0.089$) however not significant with Tobin's Q ($p = 0.695$). This result is consistent with findings by Amran and Che Ahmad (2011) and Ibrahim and Samad (2011). This may be due to the fact that the larger firms are facing less difficulty in getting access to credit for investment, and this was depicted in the firm's financial report, qualified human capital and more diversified (Yang and Chen, 2009). However, larger firms which are under the manager's control may pursue self-interest goal, and therefore, profit maximization could be exploited by the managers for their own benefits, such as better pay and stock options (Jónsson, 2007).

The board independent (BIND) is found to be not significantly ($p = 0.133$) related to accounting performance measure—ROA. The result supports findings by Abdullah (2004), Amran and Che Ahmad (2011), Cheng (2008) and Haniffa and Hudaib (2006) using accounting measure found that the composition of independent directors on the board is not significantly related. Perhaps, the use of accounting measurement might only measure the short-term performance of the firms (Abdullah, 2004; Fosberg, 1989). This result also does not support the findings as suggested by Zahra and Pearce (1992), in which the proportion of independent directors on the board is more capable, highly experienced and having broader external relationship that could assist the companies to secure resources.

Consequently, this result does not support the agency theory which suggests that the independent director is a key to influence the manager to pursue the shareholders interest rather than self-interest. Additionally, this result is not supported by agency theory where the board of directors is dominated by independent directors, which suggest that the independent directors could manage to monitor and control the management effectively in order to reduce the agency problem (Fama & Jensen, 1983; Jensen & Meckling, 1976). However, this result is in line with stewardship theory, in which the board should be dominated by the insider due to better informed and effective decision. Hence, this result does not support the predicted relationship in Hypothesis 1.

Unlike market performance, CEO duality (CEODUAL) is found to be having insignificant ($p = 0.775$) relationship with accounting performance. This result supports findings by Abdullah (2004), Carty and Weiss (2012) and does not support findings by Haniffa and Hudaib (2006).

The relationship between board size and ROA is found to be not significant ($p = 0.180$) which is similar to results when measured by market indicator—Tobin's Q. This result may indicate that larger board is less effective due to free-riding problem and difficult to finalize decisions (Cheng, 2008; Jensen, 1993). On the other hand, this result is contrary to findings by Haleblian and Finkelstein (1993) where the company is benefited from the larger board size due to more suggestions on strategic solutions and problem-solving. This result is not in line with agency theory which suggests that diversified business field of board members on board could lead to fruitful discussion, high-quality decision-making, more capabilities and resources and enhance problem-solving (Coles et al., 2008; Zahra & Pearce, 1989). Directors' remuneration (DREM) is found to be insignificant and not associated with ROA ($p = 0.912$). This result is consistent with findings by Abdullah (2006), Conyon and Peck (1998) and Ghosh and Aggarwal (2011).

Conclusion and the Implications of Study

The main objective of this study is to examine the relationship between corporate governance mechanisms and firm performance, which is measured by market and accounting measures with reference to the MCCG2012. The result from the multiple regression analysis reveals that CEO duality (positively) and directors' remuneration (negatively) were significantly relating to Tobin's Q, while only the firm size is found to be having a significant negative relationship to firm performance using ROA. The result proves that the corporate governance mechanisms influence the firm performance. Additionally, the agency theory is able to support this study and it can be assured that the market indicator is a better proxy for firm performance compared to accounting measure.

This study could assist the High-Level Finance Committee, Bursa Malaysia, and other regulatory bodies to improve on the guidelines on corporate governance in order to improve the performance of Malaysia's public listed companies besides to enhance the capital market. A good corporate governance practice among public listed companies in Malaysia could help to prevent financial fraud and takeovers. Indirectly, the good practices of corporate governance also lead to a transparency reporting.

This study reveals the result which indicates that market indicator using Tobin's Q contributes favourable result compared to accounting measure. This result may contribute to another relevant literature which may consider using market indicator to measure the firm performance. This is because, market indicator is creating value and growth opportunities for future firm performance and less bias compared to ROA, while the ROA is directly related to management's ability to utilize the firm's assets efficiently, which the assets ultimately belong to shareholders. Agency theory perceived that the managers are likely to squander profits, misappropriate earnings and distribute less return for the shareholders. Furthermore, ROA provides information from the past in regard to the company's performance and does not add value.

Limitation of Study

This study is subject to several limitations and weaknesses. First, in regard to the sample selection, this study only employed a total of 100 companies of public listed in Malaysia which is randomly selected from Bursa Malaysia website for the financial year ending 2013. The result derived from this study could not be generalized to the overall performance of public listed companies in Malaysia when compared to the total number of public listed companies on Bursa Malaysia.

The variables used in this study were more focused on the structure of the corporate governance and the impact on the firm performance. To be effective in monitoring, the corporate governance practices are very important. Thus, the data could be supported by interviews or questionnaires to gain insights on the real practices among public listed companies in Malaysia. Furthermore, this study is unable to address the issue on the fairness amount of remuneration since there is an absent of fair remuneration guideline. This study is using total remuneration of directors which had stated in the annual reports, in which the result reveals that board of directors' remuneration is negatively significantly related with firm performance. The results indicate that either the minimum remuneration or maximum remuneration is being tested, and both give effect on firm performance.

Apart from that, the proxies to represent the firm performance were varied across studies. This study had employed different method of measurement for the variables when compared to previous studies. Thus, it is difficult to make comparisons in terms of results.

Recommendation of Future Research

For future research, it is suggested to increase the number of years under study to examine the impact on firm performance. The results may differ across different years if multiple years are considered in this study. Furthermore, in regard to data selected, larger data are required to enhance the result and the understanding of the corporate governance mechanisms. The companies could be categorized into three categories, namely small, medium and large companies to have a more clear picture on which category of companies has the most corporate governance practices and understands the impact on the corporate performance.

Besides that, other variables should be considered to test the impact of corporate governance on firm performance, such as managerial and institutional ownership, the nominating committee, director's qualification and others. Future research also may consider the external corporate governance mechanisms impact on the firm performance.

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