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The Characteristics of Board of Directors, Audit Committee, Institutional and Companies Performance in Malaysia

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Abstract: This study explores the effect of internal corporate governance mechanism of Malaysian public listed companies towards companies' performance. This study attempts to determine by using recent available financial data of company's annual report listed in 2016 and 2017 whether the internal corporate governance mechanism is expected to be effective in enhancing companies' performance. The internal corporate governance investigate in this study are board of director characteristics, audit committee characteristic and institutional characteristics. This research that focuses on obtaining data through secondary data base on the annual report of companies and the Bursa Malaysia websites. All data related to independent variables were collected mainly from the annual reports. Descriptive and correlation analysis were used to examine the variables in this study. This study provides useful information for policy makers or regulations in improving the corporate governance policies in the future and helps in increasing understanding on the relationship between corporate governance and company's performance. Based on the research made from data analysis for a company that listed in bursa Malaysia, it can help to expand the scope of research. This research can be part of the empirical evidence that can explain the relation between corporate governance and companies' performance in Malaysia.

Keywords: *board of director's characteristics, audit committee characteristics and institutional characteristics.*

INTRODUCTION

Corporate governance is defined as the process and structure used to direct and manage the business and affairs of the company towards promoting business prosperity and corporate accountability with the ultimate objective of realizing with the long-term shareholder value while considering the interest of the other stakeholders.

Corporate governance provides a framework of control mechanism that support the company in achieving its goals, while preventing unwanted conflicts. The pillars of corporate governance such as ethical behaviour, accountability, transparency, and sustainability are important to the governance are important to the governance of companies and stewardship of investors' capital. Companies that embrace these principles are more likely to produce long-term value than those that are lacking in one or all.

Therefore, this study attempts to examine the relationship between selected corporate governance mechanisms and companies' performance based in current setting in Malaysia. This study would like to examine whether the presence of good corporate governance practices positively effect companies' performance. Thus, this study includes a set of corporate governance variables namely internal governance. The internal governance included in this study are directors' network, board of director characteristics, audit committee characteristics and institutional.

Difference with prior studies, this study examines the relationship between selected corporate governance mechanisms and companies' performance in Malaysia by using the recent available data from 2000 until 2017. The period is selected because it was the period, which MCCG has been revised for the fourth time. In 2017, the MCCG, which supersedes its earlier edition, takes on a new approach to promote greater internalisation of corporate governance culture. The revised MCCG 2017 also warrants this study to investigate whether the implementation of revised MCCG enhances companies' performance.

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Problem statement

The problems faced in a corporate governance are due to several factors that may affect the management of the company. This study is to find either corporate governance mechanism such as director's network, board of director characteristics, audit committee characteristics and institutional characteristics affect the company's performance thus re-evaluating the effectiveness of MCCG 2017.

1.1 Research Objective

i. To identify that the board of director characteristics factor have any relation with the company's performance.
ii. To identify that the audit committee characteristics factor has any relation with the company's performance.
iii. To identify that the institutional characteristics factor has any relation with the company's performance.

1.2 Research Question

i. Does the board of director characteristic factor have relationship and affecting companies' performance?
ii. Does the audit committee characteristics factor have relationship and affecting companies' performance?
iii. Does the institutional characteristics factor have relationship and affecting companies' performance?

LITERATURE REVIEW

Board independence

An independent board is a corporate board that has many outside directors who are not affiliated with the top executives of the companies and have minimal or no business dealings with the company to avoid potential conflicts of interests. Thus, this evidence suggests that the structure of the boards of directors in Malaysia is largely independent of management and the absence of any dominant personality. [1] Board independence and CEO duality are not associated with financial distressed status. The evidence also supports the contention that ownership by non-executive directors and outside block holders effectively increases their incentives to monitor management in ensuring their wealth in the companies is intact.

Using Italian data, Marra et al. [2] document that the presence of most independent directors decreases earnings management. This suggests that independent directors improve earnings quality by reducing earnings management. Companies with higher earnings quality are seen by investors as being more transparent.

Board size

Previous studies provide evidence that the larger the size of board of directors potentially escalate the conflict of interest among board members as well as communication issues. This would lead to the deterioration of corporate governance hence impair companies' performance. Jensen [3] argued that keeping boards small can increase the company's performance as when the board size goes beyond that people are less likely to function and it would then be difficult for the CEO to control.

However, boards with many directors can be a disadvantage and expensive for the companies to maintain. It would be difficult to manage a large board size properly.

Board Meeting

The importance of board meeting frequency is reflected in the Bursa Malaysia Listing Requirements, which stated that, "a director is automatically disqualified as a director if he/she is absent from more than 50 percent of the total board meetings held in a year" [4]. Therefore, emphasise on board meeting frequency indicates that more meetings could increase quality of financial reporting.

As stated by Lipton and Lorsch [5] and Jensen considered a measure of the monitoring power and effectiveness of the Board of Directors. The higher the frequency of Board of Director meetings throughout the year, the better the companies performs. Board activity and meeting are key indicators for the effectiveness of the board of directors [6].

In the Malaysian context, the MCCG 2000 and 2007 recommends that boards should meet regularly. Bursa Malaysia listing rules indirectly set the minimum number of board meeting to four times in a year by requiring a board meeting to approve the quarterly results. However, it is difficult to positively associates between the board monitoring of a company and board meeting less than four meetings a year.

Duality

Duality plays a role when an individual holds the two most dominant positions in the companies, the CEO, and the chairman of the board. In Malaysia, the role of duality is considered unusual [1][6]. The presence of any dominant personality may affect the quality of a company's financial reporting if the dominant decision is in the interests of the company's interests [7].

Dividing the role of duality is to ensure a balance of power between the two major positions in the companies. The presence of the role of duality will be a challenge to company's management [8]. According to Peng et al. [9] found that duality has a positive impact on company performance when doing their research on the relationship between duality and company performance in china.

In addition, the effectiveness of the board in carrying out its governance functions may be compromised because the CEO has the potential to regulate or influence board meetings, select agenda items, and influence board elections [10]. Therefore, from the literature review above, we recommend that the CEO's impact on companies' performance be unresolved, which requires research on the strong relationship between both CEO and companies' performance.

Diversity

Diversity means understanding that everyone is unique and recognizes our individual differences. Differences may occur in race, ethnicity, gender, sexual orientation, socioeconomic status, age, physical ability, religious beliefs, political beliefs, or other ideologies in this diversity, we describe about family companies, women director and Bumiputera director.

Claessens and Fan [11] confirm that most of the listed companies in East Asia are still family owned. This is in line with work by Haniffa and Cooke [10] and Porta, Lopez-De-Silanes, and Shleifer [12] who also found that companies operated or controlled by family members are common throughout the world and mostly in the Asia. Family-controlled companies have the potential to contribute specific information that creates a company's competitive advantage that can lead to positive performance for the companies [13].

The number of women in the boardroom is also considered low in all countries [14]. Previous studies by Tersejen, Sealy and Singh [15] show the importance of female directors in enhancing corporate governance and thus the quality of financial reporting. Studies show that women in the European company's boardroom have a positive effect on company performance [16].

In the Malaysian context, the formation of government-linked companies was later viewed as a direct result of the uncertainty of the Bumiputera business agenda and the unique social environment in Malaysia. For government-linked companies, one of the objectives of their formation is to help Bumiputera entrepreneurs become vendors (e.g., sellers of Proton's share) [17].

Audit Committee Independence

An audit committee is a selected number of members of a company's board of directors whose responsibilities include helping auditors remain independent of management. The audit committee is subcommittee of those charged with governance and is typically made up of most non-executive directors who are the shareholders' representatives in relation to the external audit. They are usually responsible for overseeing the audit and evaluating the independence and performance of the auditors. The audit committee is a committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, and receipt of audit results both internal and external. The committee assists the board of directors fulfil its corporate governance and overseeing responsibilities in relation to an entity's financial reporting, internal control system, risk management system and internal and external audit functions. These results suggest that boards structured to be more independent of the CEO are more effective in monitoring the corporate financial accounting process. [18].

The effectiveness of audit committee is based on the characteristics of independence, financial expertise, and diligence. Beasley [19] observed that the companies experiencing financial statement fraud had a lower percentage of outside directors on their boards. McMullen and Raghunandan [20] found that companies that had audit committee consists of outside directors have no financial reporting problems. Abbot et al. [21] observed that independent committee members who meet at least twice a year reported least fraudulent financial statements. Klein [18] found a negative relationship between independence and abnormal accruals of earnings.

Audit Committee Size

The size of the audit committee is another important feature that enhances its effectiveness. The size of the audit committee is used to indicate the number of resources available to it. Malaysia Bursa Securities Limited requires that any listed company should have an audit committee with no less than three members. This is to enable its member to make a majority decision which is impossible if the committee is made up of one or two members.

The consequences of corporate governance mechanisms on performance of a company whereby audit committee size was one of the mechanisms. The corporate governance regulators use them to ensure the management accountability and responsibility towards shareholders by ensuring that managers present true and fair view of the companies and avoid irregularities. Therefore, size, independence and meeting of the audit committee characteristics will serve as the blend of good corporate governance structure in creating company's performance. The size of the audit committee is considered as the first factor of audit committee characteristics. It is measured by the number of members serving on the audit committee of the companies. [22]. The size of an audit committee measured as a figure has a positive effect on the audit committee effectiveness. This is because the number of the audit committee members of sufficient size is better than a small committee size [23] [24].

This study also includes audit committee size as audit committee size is likely to have significant effect on companies' performance. Accordingly, the Malaysian Code of Corporate Governance [25] also requires the audit committee to be comprised of at least three members. Saleh et.al, [26] raised question whether larger audit committee can result effective monitoring or not.
However, it is likely that audit committee effectiveness may be experiencing problems if the committee becomes too large. As a large committee may generate more losses, process and workload distribution is immoderate. Therefore, the previous studies have shown that the right size of the audit committee will provide a high quality of monitoring financial reporting.

Audit committee meeting
Audit Committee Meeting suggest the timing, objectives, specific actions to be performed, and communications to be made to the board for certain audit committee meetings. The agendas were prepared assuming a two-or three-meeting schedule and are not intended to be all-inclusive. Rather, meetings should reflect the organization's specific circumstances and the audit committee's concerns.

Meetings typically begin with a discussion of matters of mutual interest among the audit committee, management, and external and internal auditors, if applicable. Material to be discussed at meetings should be clearly prepared and sent to the committee members in sufficient time for them to digest it, so the actual meeting time can be used most productively. While the audit committee's activities should be carefully planned, its operating structure should not be immutable. Even if the organization's business has not changed recently, the audit committee should re-examine its duties and performance level over the last year.

An audit committee is a selected number of members of a company's board of directors whose responsibilities include helping auditors remain independent of management. It provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. Studies of Kalbers and Fogarty [27] and DeZoort [23] show that the number of committee meetings influences audit committee effectiveness had a significantly positive relationship with financial reporting quality.

Previous studies also found that the frequency of meetings of audit committees is associated with increased quality of earnings [28]. Best practice stated that audit committee meeting should be held at least once a year without the presence of executive board members.

Audit Quality
The audit quality as measured by size of external auditors as an external governance characteristic of CG in Malaysia. Within the extant literature on the subject, size of audit companies has commonly viewed as a surrogate for audit quality. The impact of audit quality on financial performance of companies has been receiving attention from the researchers. The various changes in accounting, financial reporting and auditing were all designed to provide protection to investors. This is being achieved by imposing a duty of accountability upon the managers of a company [29]. The result indicates that audit committee has an important impact on the financial performance of companies as measured by return on assets and return on equity. DeAngelo [30] defined audit quality as the market-assessed joint probability that the auditor discovers an anomaly in the financial statement and reveals it this paper sought to empirically test the impact of audit quality on the financial performance of public listed companies in Malaysia.

Effective and perceived qualities (usually designed as apparent quality) are necessary for auditing to produce beneficial effects as a monitoring device. The perceived audit quality by financial statements users is at least as important as the effective audit quality. Agency theory recognizes auditing as one of the main monitoring mechanisms to regulate conflicts of interest and cut agency costs. Therefore, assuming a contracting equilibrium in the monitoring policy, a change in the intensity of agency conflicts should similarly involve a change in the acceptable quality of auditing.

Institutional Investor

According to Mallin [36], institutional investors have the choice of either directly expressing their dissatisfaction to management (the voice option) or by selling the shareholding (the exit option). However, the size and duration of their holding have increased to a point that they would not normally resort to selling off their investments in companies that had performed poorly [31]. Hence, consistent with the agency theory, institutional investors' activism is an important means of monitoring company management and preserving the value of their investments.

Three modes of involvements are commonly used by institutional investors in such monitoring. The first mode of intervention is by voting at investee companies' Annual General Meetings. The right to vote is arguably the most important right granted to institutional investors as it gives them explicit power, which is fundamental for them to exercise some element of control on the management of investee companies [36]. Nevertheless, voting at the AGM is a one-off affair and their influence may not extend beyond the matters raised at the meeting. Moreover, their rights may be susceptible to managerial interference [31].

Secondly, institutional investors do engage with the management of the investee companies in one-to-one meetings. Solomon, Solomon, Joseph, and Norton [32], argued that public disclosure of financial reporting information is viewed to insufficient. Institutional investors now turn to private disclosure channels leading to the development of the area discussed in such meetings pertains to the company's strategy. Quality of management and the effectiveness of corporate governance mechanisms. Similarly, Graves [31] [33] [34] [35], have found that the strategic initiative of the companies, and such strategic evaluations are conducted on an ongoing basis rather than at the point of entry.
Thirdly, institutional investors may decide to cooperate among themselves to create a representative group and present resolutions to the company management. This is an extreme form of institutional investor activism that is used more in the US than in the UK [32]. The measures may include public announcement in the business press to capture wide publicity [36]; and the filing of lawsuits against the board of negligence of its duties [37].

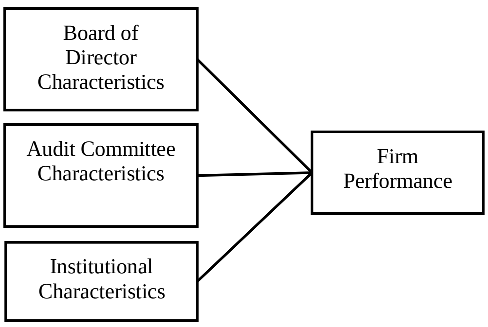
However, Romano [38] and Shleifer and Vishny [31], are of the opinion that institutional investors are not able to become active, value maximizing shareholders as depicted above. Ingley and van der Walt [39] supported the idea that institutional investors are unlikely to do much more than the minimum requirement of voting even though they could act more diligently through other means in tackling issues that directly affect the prices of the shares. David and Kocchar [36] provided evidence of barriers facing institutional investors in their attempt to be involved in corporate governance of investee companies. Firstly, the effectiveness of institutional investors' involvement may decrease due to barriers arising from extensive government regulations that constrain the activities of these investors. Secondly, although institutional investors possess more resources than small shareholders, they may still face limitations in processing pertinent information, as their holdings may be too large. Thirdly, institutional investors, especially financial institutions, may not be able to exert influence on their investee companies due to the existence of business relationships between the institutions and the companies in which they invest in. Other limitation includes the lack of the expertise to advise corporate management and maintain that activism detracts from their primary role of managing money for beneficiaries [40].

Return on Asset

Return on assets roa is an indicator of how profitable a company is relative to its total assets. Roa gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings.

For big company such as Tabung Haji, KWSP, Perkeso and Tabung Angkatan Tentera. Roa is used for controlling the company's management is operating as it should.

Framework



Hypothesis

i. There is significance difference between board characteristic is has positively relationship with companies' performance.
ii. There is significance difference between audit committee characteristic is has positively relationship with companies' performance.
iii. There is significance difference between institutional characteristic is has positively relationship with companies' performance.

DATA AND RESEARCH METHOD

Data Collection

The data on director's profiles obtained from companies' annual report downloaded from Bursa Malaysia Berhad official website. The sample consists of board of directors for public listed companies in 2016 to 2017. Table 1 describe the study population's breakdown.

Table 1: Sample Derivation

	2016	2017	Total
Number of companies listed at the financial year ended	802	802	1604
Less: Companies with missing financial data			49
			1555

The final sample observed was 1555 companies-years. The information provided in the company's annual reports includes board of director characteristics, audit committee characteristics and institutional characteristics. In some cases, the annual report also includes information of board of director network within different company.

Research Design

To examine the relationship between corporate governance mechanisms and companies' performance, this study employs the following panel least squares model:

CPERF = b0 + b1BCHARit + b2ACCHARit + b3INSTCHARit + µit + c

The main dependent variable (FPERF) is the Return on Assets (ROA). ROA is the net income scaled by total assets. These are dependent variable. As for independent variables, this study employs the total of directors in a company as (BSIZE). Next, this study utilizes the total number of board meetings in a financial year (BMEET). This study also employs a percentage of independent directors scaled by the companies' total directors (BIND). (DUALITY), which takes the value of zero if the companies separate the role of Chief Executive Officer (CEO) or equivalent with the company's chairperson of the board. This study also employs a percentage of independent directors in audit committee board (ACIND). This study utilizes the total number of audit committee meeting (ACMEET), audit committee size (ACSIZE), audit quality (AUDITQ). This study also employs the diversity of the board directors (DIVERSITY) such as family-companies (FAMFIRM) and women director in diversity. The institutional investors also on the watch for this research (INSTINV). The data of each variables is manually collected from company's annual report from 2016 until 2017.

RESULT AND ANALYSIS

Univariate analysis

Table 2: Univariate Analysis

	Mean	Median	Max.	Min.	Obs.
ACIND	0.85	1.00	1.00	0.00	1350
ACMEET	4.92	5.00	19.00	0.00	1350
ACSIZE	3.51	3.00	11.00	0.00	1350
AUDITQ	0.43	0.00	1.00	0.00	1350
BIND	0.49	0.50	1.00	0.00	1350
BMEET	5.38	5.00	21.00	0.00	1350
BSIZE	7.22	7.00	15.00	3.00	1350
BUMI	0.61	0.83	1.33	0.00	1350
DIVERSITY	0.13	0.13	1.00	0.00	1350
DUALITY	0.08	0.00	5.00	0.00	1350
FAMFIRMS	0.17	0.00	1.00	0.00	1350
INSTINV	0.81	0.00	75.32	0.00	1350
ROA	-0.36	0.03	79.73	-303.98	1350

Table 2 shows the descriptive statistics of each variables. In average, (ROA) is -0.36. As for (BIND), in average, about 49.0 percent from the total directors are independent directors. The average number of (BSIZE) is 7 members in a company. Average meeting (BMEET) for a company is 5. A director that has dual role in a company (DUALITY) represent 8.0 percent in average companies has not separated the role between CEO and chairperson of the companies. Independent director in audit committee is 85.0 percent with the average size of audit committee (ACSIZE) 4 members and the frequencies of audit committee meeting (ACMEET) 5 time annually. The average of the diversity of board director (DIVERSITY) is 13 percent this shows that 13.0 percent of all company have different types of board such as bumiputra (BUMI) which is 61.0 percent, family-companies by 17.0 percent. The institutional investors (INSTINV) show the average of 81.0 percent of all company that the institutional investors corporates with company in bursa Malaysia.

Bivariate analysis

The table shows the correlation statistics using Pearson rank order. One of the advantages of correlation is its ability to identify any multicollinearity issues. Based on ROA where the company's performance will be determined, there is 5 factors that have significance towards the company's performance and it is the FAMFIRM, BUMI, BIND, ACSIZE, ACIND. The is variance of positive and negative effects towards the company's performance which will be discussed on discussion.

DISCUSSIONS

From the full account of the public listed companies in Malaysia, this paper provides an insight into recent internal corporate governance mechanisms, which expectedly effects companies performance. Prior studies in discussing corporate governance effectiveness towards companies' performance emphasized the need for continuous debate about this matter. With the revised and improved version of MCCG in Malaysia warrants this study to investigate whether the recent changes of corporate governance mechanisms do enhance companies' performance. In this study, we find that 5 of the other factors studied are significant to the company's performance. The factor also gave a positive and negative effects toward company's performance. Where the board of director independent is negative, this is because the directors of the company is not willing to focus or penetrate their effort towards one company only instead, they divide their time with another company. This will clearly decrease the ROA.

The other 4 of the factors that is significance show positive relation. FAMFIRM, shows positive effect towards companies' performance is because the working environment will likely be enjoyed by family ties and healthy competition will appear among boards. BUMI, shows positive effect towards companies' performance is because if the boards are bumiputra the chance of getting support from the government is high because the government is likely to support a bumiputra business. ACSIZE and ACIND, shows positive effects because the size of the audit committee members will make the work of audit more quality and end up increasing companies' performance while the audit committee independence is because of the members of audit committee willing to focus and penetrate their effort towards one company only instead of joining another association.

Table 3: Correlation

	ROA	INSTINV	FAMFIRMS	DUALITY	DIVERSITY	BUMI	BSIZE	BMEET	BIND	AUDITQ	ACSIZE	ACMEET	ACIND
ROA	1.00												
INSTINV	0.01	1.00											
FAMFIRMS	0.05***	-0.05***	1.00										
DUALITY	0.01	-0.02	0.00	1.00									
DIVERSITY	-0.01	0.09***	0.10***	0.00	1.00								
BUMI	0.04**	0.07***	0.06***	-0.19***	-0.07***	1.00							
BSIZE	0.02	0.02	0.08***	-0.04**	0.09***	0.04**	1.00						
BMEET	0.00	0.06***	-0.10***	0.00***	0.07***	0.00	0.10***	1.00					
BIND	-0.04**	0.03	-0.23***	-0.05**	-0.04*	-0.01	-0.36***	0.07***	1.00				
AUDITQ	-0.01	0.12***	-0.04**	-0.04**	0.10***	0.00	0.19***	0.09***	-0.04**	1.00			
ACSIZE	-0.06***	0.06***	-0.07***	-0.08***	0.07***	-0.06***	0.38***	0.20***	0.15***	0.15***	1.00		
ACMEET	0.00	0.04**	-0.10***	0.05***	0.01	0.05***	0.08***	0.47***	0.07***	0.09***	0.14***	1.00	
ACIND	0.04**	-0.12***	0.04**	-0.01	0.01	0.11***	-0.03	-0.10***	0.20***	-0.06***	-0.23***	0.08***	1.00

CONCLUSION

In conclusion, overall, of this study looks at the importance of the ROA performance, therefore the company needs to look at all these factors to determine whether it can increase ROA or even drop ROA because without giving a big concern toward these factors, the company may not be well managed. For example, board independence should be focused and trained to increase the ROA. It can be an indicator that the company has a problem. Furthermore, those 5 factors that is significance towards companies' performance should be focused on by every company listed in bursa Malaysia for a greater performance.

We also must consider that there are other possible factors, of which other variables we did not include in this study. In fact, there are many factors that can show the company's performance, not just this. Only in our study, we are satisfied that it is adequate and consistent with other decisions. Among other factors that we did not include in this study is directors' network. In fact, these factors can be suggested to future researchers. The suggestion to the researcher who wishes to do this research is that the researcher should conduct a study over a long period of time. It is possible that researchers will be able to see an increase in ROA. Finally, the researcher should also carry out a study of more than two years, then it will show different values.

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