Global Business and Management Research: An International Journal
Vol. 14, No. 3s (2022)

Board Characteristics and Company Performance: A Study of Shariah- Compliant Public Listed Companies in Malaysia

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Abstract
Purpose: This study attempts to explore the association between board of director's characteristics and the performance of Shariah- compliant public listed companies in Malaysia.
Design/methodology/approach: Using the data of 1612 observations of Shariah- compliant public listed companies in Bursa Malaysia from 2013 to 2015, this study attempts to examines the effectiveness of selected structure and recommendation in MCCG 2012, just before the inception of MCCG 2017, using full cycle of 3 years data. The board characteristics investigated in this study are size of board director, frequencies of board meeting, board independence, duality, the proportion of women director appointment and a company ownership structure.
Findings: This study finds various result associated to board characteristics and Shariah-compliant companies' performance. The result implies the frequencies of board meeting is negatively significant connection with Shariah- compliant companies' performance while for the women directors in a board resulting inconsistent direction. Other variable of corporate governance mechanism discovered to be a positive connection with companies' performance in this research.
Originality/value: This study provide contribution to the recent studies related to Shariah-compliant public listed companies in Malaysia. The finding of this study is robust for different measures of performance.

Keywords: Shariah- compliant, Board characteristics, Company performance

Introduction

The Asian Financial Crisis 1997 (AFC) has been the major focus to recover the investor confidence and eventually capital market of each affected most country in Asia. Several initiatives were taken by affected countries to remain the stability of their capital market (Finance Committee on Corporate Governance, 2012; Larcker & Tayan, 2011). Malaysia, is no exception, also taken several immediate remedial actions to minimise the negative impact of AFC. One of the initiatives, the issuance of the Malaysian Code of Corporate Governance (MCCG) in 2000 was the beginning to ensure Malaysian capital market practice good governance as well as promoting strong culture of good corporate governance practices among Malaysian public listed companies.

Recently, the vast exposure on corporate governance studies for conventional capital market perspective, is now consistently expanding into the context of Shariah-compliant capital market (Hassan Musse et al., 2021; Shahrier et al., 2020). The Shariah-compliant companies' performance is expected and believed to record a better financial performance. Prior studies argued that Shariah-compliant companies were resistant to negative effect of financial crisis (Kolsi & Grassa, 2016). The Shariah-compliant companies tend to report better performance as a result from the Islamic values nurtured within the company by the company's directors and management (Buallay, 2019; Wan Ismail et al., 2015).

Company's directors with a proper Islamic value understanding and practice could have better or ethical conduct in their company thus enhance transparency in the financial reporting and managerial conduct (Khan & Zahid, 2020; Larcker & Tayan, 2011). These moral saliences most likely act as catalyst or enforcement tool for directors of Shariah-compliant companies along with corporate governance best practice to optimise company strategic direction which eventually improve company performance (Biddle et al., 2009; Sloane-White, 2011).

In contrast with the existing corporate governance practices, the fundamental application of Aqedah or Tauhid of Allah is crucial element which requires the key player in corporate governance practices to comprehend as well as utilise it for the company decision making process (Sakti et al., 2021). The embeddedness of Tauhid in corporate governance framework most appropriate applies in the Islamic economic system. The implementation of Shariah concept in business environment would create a chain effect to the business environment such as reducing transaction costs within or outside the company thus making the business decision relevant aligned with the company objectives. In Islam, this approach is known as Maqasid Shariah (Choudhury & Hoque, 2006; Mohamed Ibrahim et al., 2006).

In accordance with the concept of Shariah, Islamic corporate governance encompasses a wide range of direction, responsibilities and accountability from various stakeholders in the business environment including from suppliers, customers, employees, competitors along with Islamic spiritual leaders and contemporary Shariah scholars (Lewis, 2005; Sulaiman et al., 2015). This clearly shows that Shariah governance is a duty and accountability not only for companies, but it is unique to increase shareholder value. (Abu-Tapanjeh, 2009; Jan et al., 2021; Mohamed Ibrahim et al., 2006), kept of typical point of interpretation (Lewis, 2005), for attaining environment also the community. Ghayad (2008) and Sulaiman et al. (2015) state that Islamic corporate governance is a determinant to justice for the relevant parties. This is because of most conventional corporate governance proponents reluctant to acknowledge the needs for proper monitoring role by the superior or authorities by restricting the government objectives to the management and control of the organization to obtain sustained values.

The main differences between Islamic and conventional perceptions of governance are in terms of theoretical and ethical aspects, which include company objectives, types of contracts required, and key groups in corporate governance practices, as well as relationships between players. From a point of view of Islamic corporate management, the process of corporate governance will be directly linked to the dedication, responsibility, and obligation of Muslims to the creator. (Kasri, 2009). In effect, this would result in an implicit agreement with God and an explicit agreement with the company's shareholders and key stakeholders. In the long run, Islam and Allah are considered major stakeholders in corporate governance practices. This contrasts with the traditional perspective which focuses on the visible component of authority.

Islamic elements in the practice of corporate governance are implicitly expected to improve the company's management affairs. Currently, both Shariah-compliant and non-Shariah-compliant may not conduct their business management affairs according to Islamic principles. Therefore, Kasri (2009) suggested that the government to initiate a mechanism that can provide appropriate supervision based on Shariah perspective. Thus, the establishment of the Sharia Supervisory Board (SSB) is one of the main features of Islamic corporate governance. With the inception of SSB, it would be able supervise and monitor to enable company affairs to be managed based on Shariah requirements.

Therefore, this study attempts to examine the existing variables in corporate governance studies particularly board characteristics and its association with a Shariah- compliant Malaysian public listed companies' performance. The existing corporate governance variables included in this study namely ownership structure, board size, board meeting, leadership structure, board diversity and family ownership. For public listed companies that are approved by Shariah are as defined as companies listed on Bursa Malaysia with core activities that do not conflict with Shariah principles. (Securities Commission Malaysia, 2013, 2014, 2015).

The screening process for any listed companies to be classified as Shariah- compliant company is conducted by the Securities Commission Malaysia's (SC) Shariah Advisory Council (SAC) on annual basis. The screening process would continuously review whether the Shariah-compliant listed companies should be listed in the Shariah- compliant securities if the specified benchmarks are not fulfilled. Hence, companies whose activities conflict with Shariah regulations are classified as non-Shariah compliant companies (Mohamed Ibrahim et al., 2006).

Difference with prior studies, this study scrutinizes the association concerning selected corporate governance variables and the performance of Malaysian Shariah-compliant company by using the most recent available data from 2013 until 2015. The period is selected because it was the period, which MCCG has been revised for the third time. The revised MCCG 2012 warrants this study to investigate the extent of the implementation of revised MCCG with a some changing of code of practice will enhance a company performance other than a time factor. This study extends the findings to governance changes for the three financial years starting from 2013 to 2015. The classification of Shariah- compliant status is conducted by SAC of SC annually. The SAC will determine whether the company fulfil the benchmarks set by the SC namely business activity and financial ratio (Securities Commission Malaysia, 2015).

In general, the SC the business activity benchmarks at 5 percent and 20 percent according to the company type of businesses or activities. The contribution of non-Shariah-compliant activities to the company's consolidated revenue and pre-tax profit will be calculated and compared with benchmarks of relevant business activities. For the financial ratio benchmark, setting a maximum percentage rate of 33 percent of either riba or riba-based elements in the statement of financial position. In addition, the SAC would also consider other qualitative factors which may relevant such as when it involves the perception of the public or the image of the company whether it is involved in any activity that contradicts the teachings of Islam.

MCCG 2017 recently came into force on 26 April 2017, replacing MCCG 2012, offering a mechanism to create and enhance investor confidence, to build trust and confidence in managing and controlling as well as promoting the country's economic development (Finance Committee on Corporate Governance, 2017). Nevertheless, effectiveness of the code of corporate governance buildings and implementation on companies' operation in the emerging is very subtle and the Malaysia has not been properly explored with a certain governance variable. The situation also essential in learning a corporation governance performs which improve the importance of Shariah- compliant companies in Malaysia.

Literature Review and Hypothesis Development

Board Size and Company Performance (BSIZE)

The size of the board of director is crucial for a corporate governance practice with the impact on improvement and relation in business and activities. In addition, board size indicates the company's ability and productivity in guiding the business. Abdul Rahman and Mohamed Ali, (2006) and Fama and Jensen, (1983a) viewed board size as an important component of board attributes that may impact company performance. Agency theory suggests the larger boards size remain ineffective, whereas the smaller size of boards work in refining business performance (Abdullah et al., 2010; Shukeri et al., 2012).

Based on Jensen (1993), larger board size has the potential to harm company's value by reducing the effectiveness of interaction, monitoring and coordination. Ineffective board sizes are more likely to reduce their ability to perform their roles which also suggests that there is a correlation between board size and company performance.

Prior studies also argues that the board size is an important element of a company because larger board has the potential to provide and secure critical resources and information to a company (Hillman & Dalziel, 2003; Pfeffer, 2010). The presence of board size enables the channel of critical resources and information from outside the company, which could be used for company interests. From this perspective, the appropriate number of directors to be appointed would potentially increase organizational capacity (Dalton et al., 1999; Hillman & Dalziel, 2003). Prior studies claimed that the smaller the size of the organization, the more efficient it is, such as Adams et al., (2010), Eisenberg et al., (1998) and Xie et al., (2003). These studies documented that company with small board size enable them to secure better business performance. Smaller board size also could be part of initiative in reducing the agency costs which in line with the agency theory arguments (Young & Yang, 2011).

Contrary, larger boards also could linked a company to other several outside companies' resources and information which may not have offer the opportunities in small and boards to secure main sources (Haniffa & Hudaib, 2006). In addition, Nicholson and Kiel, (2003) documented positive relationship between board size and efficiency which demonstrates that company with large board size are efficient in securing valuable connections and build corporate identities (Pearce & Zahra, 1992; Zahra & Pearce, 1989). Also, Huang et al., (2011) documented that large board sizes are positively associated with effectiveness. By appointing more directors, a company would receive better monitoring and advisory role from the directors.

Finance Committee on Corporate Governance (2000) stated that each company is required to appoint the most appropriate number of directors so as to ensure that the fiduciary duties as well as other functions perform with sufficient number of directors. Dalton et al., (1999) and Zahra and Pearce, (1989) argued that if company directors are competent to provide strategic decisions on an ongoing basis, a small board size may be sufficient to carry out their duties effectively. A small size of board of directors usually consists of four to six company directors.

The presence of a larger boards is expected to provide the best actions of control. Furthermore, a larger board, especially with diverse expertise could also increase monitoring of the company which hinder the probability of earnings management practice, therefore boosting company efficiency (Dalton et al., 1999; Peasnell et al., 2005; Xie et al., 2003).

In order to ensure efficiently play the role of theirs as company's advisor and monitor, prior studies recommends eight directors for a company, in average (Haniffa & Hudaib, 2006). Overall, the effectiveness depending on the board size does not count on the statistics of directors sit on it, though a minimum number of directors with enough experience and understanding is essential to make certain duties are completed efficiently (Shakir, 2008). The mixed evidence of the effect of the board size with the corporate governance framework as well as company performance presents a chance for an extensive examination. Therefore, this study hypothesised that:

H_1: There is significant association between board size and Shariah-compliant company performance.

Board Meeting and Company Performance (BMEETING)

In 2002, a survey conducted by PriceWaterhouseCoopers and BSKL found that 91 percent of respondents attended board meetings more than 4 times in a financial year. In addition, the survey documented 36 percent attending 6 to 7 board meetings in a financial year. This is an increase over the initial survey completed by the same number in 1998. The survey also documented that around 63 percent of companies hold 4 board meetings and 37 percent hold 3 or possibly fewer board meetings in a financial year. These figures suggest that there is an expansion of understanding to hold more board meetings (Kuala Lumpur Stock Exchange, 2003).

As for the meeting attendance requirement, each director are required to attend board meetings regularly as required by the Listing Requirements of Bursa Malaysia. The Listing Requirement states that *"a director is instantly disqualified like a director if he/she is actually lacking from over fifty percent of the complete board gatherings held in a year"* (Bursa Malaysia Berhad, 2012). Thus, the emphasis on the frequency of board meetings suggests that more meetings create a significant impact on a company's financial affairs.

It emphasises that frequent board meetings are most likely to indicate a company's reaction to a very poor company's performance (Jensen, 1993). Frequency of board meetings indicates that the number of board actions. A well -functioning company expects to compile the appropriate numbers for an ideal board meeting. With fewer board meetings, companies are expected to exhibit fewer conflicts among board members. The fact is, regular formal board meetings consume more management time and dedication along with costs to the company such as travel expenses, administrative support as well as board meeting charges. All these expenses will significantly reduce the company's revenue and hence profits.

In addition, high board activity signals to investors 'perceptions that the company may be experiencing severe performance problems, which require the board's attention. It also provides evidence that the board meetings frequency indicates the level of effort of the board, which also reflects corporate governance practice (Vafeas, 1999). A poor company performance indicates that the industry is underestimating the company with increased board activity. Contrary, Brick and Chidambaran, (2010) discovered that number of board meeting was negatively substantial. The frequency of meetings will lower the efficiency of the expansion company. Companies with regular board meeting supply business opportunity for board members to discharge their role in appropriate manner and provide adequate advise for enhance company's control. This will point to significantly less unnecessary behaviour by the company's management.

Conger et al., (1998) found that company with high numbers of board meetings observed management behaviour effectively so that it was consistent with shareholder objectives. This will most likely reduce agency problems and improve company performance because time spent for board meetings able to support the company with important resources through the increasing board utilisation. An orderly and adequate period of cooperation between directors and management will increase the amount of coordination and cooperation (Brick & Chidambaran, 2010; Vafeas, 1999). This would enhance the usefulness of a board. Therefore, the resolutions of the board meeting are usually used as a proxy in reviewing the management and actions of the board of measure In the Malaysian context, the MCCG requires companies to hold their board meetings on a regular basis. Indirectly, the listing requirements of Bursa Malaysia set at least four board meetings in a financial year by indicating the need for the board to approve the company's performance on a quarterly basis. Nevertheless, it may not be sufficient and difficult for companies to correlate well between business monitoring and board meetings within 4 meetings a year. Therefore, this study hypothesised that:

H_2: There is significant association between board meeting frequencies and Shariah-compliant company performance.

Leadership Structure and Company Performance (DUALITY)

The board leadership structure provides relatively a significant towards a company overall performance. A leadership structure is established within a company to oversee the management behaviour, including the Chief Executive Officer (CEO) (Abdullah, 2004; Dalton et al., 1998; Musteen et al., 2010b; Shahrier et al., 2020). Nevertheless, effective leadership is able to offset the effects of poor corporate governance practices. This can affect the functioning of the company by increasing accountability at the leadership level (Clark et al., 2014).

The role of duality exists when an individual appointed as the two most dominant positions in the same company namely Chairman of the board of directors and CEO. It is unusual to detect the presence of a duality role among Malaysian public listed companies. (Abdullah, 2004; Musteen et al., 2010a; Shahrier et al., 2020). The Chief Executive Officer is a full-time position and is responsible for managing the company daily along with the implementation of selected business strategies. Instead, the chairman's primary role is to monitor and evaluate the overall performance of the executive director, such as the CEO (Abd. Hamid, 2011).

In addition, the board's success in managing the company affairs may be threatened as the CEO is likely to manage or influence other board members, select favourable agenda, as well as affect the board members selection (Fama & Jensen, 1983b; Haniffa & Cooke, 2002). The presence of duality in the company has posibility create dominance, which will have an undue impact on the strategic and operational decisions of the company. The presence of any dominant character could also damage the company's economic reporting quality in case the dominant decision favour private curiosity over company's best interests (Evans et al., 2010; Fich & White, 2005).

The company's strategic decision -making, control and implementation process will be difficult as a result of duality issues, thus reducing the board's ability to successfully monitor and advise the CEO and other member in company's management team (Callaghan, 2005). In addition, a CEO-led board of directors is more likely to lead to higher agency problems, which could also affect the company's substandard performance. The role of duality will invite more conflict and reduce company performance. Separating the two roles usually allows efforts to ensure a balance exists between the key roles in the company. Given that the existence of a duality role will be a challenge to the management of the company, hence the effort to separate it has the potential to avoid any conflict of interest within the company (Shukeri et al., 2012). It is more likely the presence of a self -interested CEO to exercise authority or may have the effect as chairman of the board to appoint favourable individual to be appointed as the company's directors.

Nevertheless, previous studies on the relationship between CEO duality and business financial reporting have yet to be concluded. In Malaysia, the problem of CEO duality is addressed in detail in the MCCG and therefore the matter is found to be important. (Abdullah, 2006). Abdullah, (2004) and Che Haat et al., (2008) has found that CEO duality is not related to company performance. As the presence of role duality in Malaysian public listed companies is considered unusual, therefore the expected effect is insignificant. In addition, it is argued that the presence of CEO duality is small therefore, the Malaysian board framework is primarily independent of management and without the influence of dominant personality. Abdullah et al., (2010), concluded that CEO duality has nothing to do with the quality of economic reporting. The independence of the board will be able to reduce any dominant character in the company.

Moreover, an alternative justification of the findings was also realized based on a review by Klein, (2006) who documented that CEOs having a duality function would reduce the quality of economic reporting especially if the CEO is also part of a nomination committee or possibly compensation. A CEO who has undue power or may influence a company that has the potential to exercise power or may influence matters beyond limits thereby manipulating revenue easily. Thus, the next hypothesis is proposed as follows:

H_3: There is significant association between the presence of duality role and Shariah-compliant company performance.

Board Independent and Company Performance (BIND)

The distinction between independent director and roles is significant. Independent directors are very important in the internal direction mechanism as they are better suited to carry out supervisory roles in the company (Fama & Jensen, 1983a). Given that the board of directors performs a significant role in the effective corporate governance practices of a company, that should be seen as the main criteria for the examination of a company's performance (Jensen, 1993).

Empirically, there is evidence that supports agency theory which recommends that companies value their independent directors if they are able to guide and advise the company towards better performance (Mace, 1979). In addition, it plays an important role in the risk of takeover by competitors (Gibbs, 1993). Also, they could participate in a political role in decision making and create a competitive advantage for companies (Agrawal & Knoeber, 2001). In addition, Kim et al., (2014) highlighting the independent directors roles among other are to monitor and advise the company management. The presence of the independence director also found to have a positive correlation with company performance (Kim & Lu, 2011; Lin & Hwang, 2010). Prior studies also suggested that the possibility of management managing company performance by avoiding reporting losses as well as revenue reduction is negatively related to the presence of independent directors. (Peasnell et al., 2005).

These existences of independent director is constructively related to the greater return. Fan and Wong (2005) discovered a good connection of independent directors also on equity and also associated with improved company performance (Abdullah et al., 2010; Pearce & Zahra, 1992). Also, Baysinger and Butler, (1985) found businesses perform well when the board has more independent directors. An effective independent director will lead to a positive institutional reputation and capital of expertise which in turn enhances management's efforts in leveraging the company's development opportunities. Better supervision, networking and acquisition of expertise in the corporate community from independent directors increases the likelihood of business development options to perform at optimal times and increase shareholder value (Cohen et al., 2004).

Appointing large number of independent directors increases the value of the company through substantial development alternatives. In the Malaysian context, a study of 75 public listed companies by Zainal Abidin et al. (2009) aware of the need for the Malaysian Code on Corporate Governance as well as Bursa Malaysia to focus on the interests of independent directors. Alternatively, past studies have also documented that ownership structure positively affects company performance which large number of independent directors (Kim & Lu, 2011). Independent directors are expected to provide useful and critical information and knowledge about the company's investment options (Agrawal & Knoeber, 2001).

Prior studies also documented that company which appoints foreign independent directors have a negative relationship with company performance (Agrawal & Knoeber, 1996; Bhagat & Bolton, 2008; Yermack, 1996). Likewise, in the British framework, Shahrier et al., (2020) found a negative connection independent director with company performance. Nevertheless, effective monitoring requires the presence of effective independent directors who are independent of management. A company with a majority of independent directors also influences the coordination of directors in deciding and formulating path strategies that lead to improved business performance (Zahra and Pearce 1992).

In term of financial reporting quality, Frankel et al. (2011) extended studies related to linking board independence with the performance of non -GAAP companies which also provided evidence that quality of financial reporting was positively associated with the board independence. However, in line with previous studies in the Malaysian context, there is a lack of evidence to allow independent directors to practice corporate governance and transparency, (Wan Hussin, 2009; Wang, 2006).

In Malaysia, for companies with substantial shareholders, the MCCG stipulates that at least one-third of the board of directors of publicly listed companies in Malaysia must consist of independent directors. The existence of independent directors is likely to offset any unwanted power or perhaps significant shareholder influence over the company. In addition, the company is required to appoint a number of independent directors who reflect the shareholding of the company in addition to the large shareholders.

Empirically, Kim and Lu (2011) further discuss that the enforcement of rules related to the appointment of independent directors enhances the board independence. In addition, appointing a majority of independent directors may be related to inadequate performance of the company as demonstrated by Pearce and Zahra (1992). An independent directors are also expected to provide better judgment and decisions, which are sufficient to increase shareholder value. By appointing more independent directors are also significantly considered, by companies, that enhance the company's potential to maximize shareholder value (Beasley, 1996). Corporate governance will be enhanced for companies with a good share of independent directors, which will emphasize on enhancing shareholder value.

In addition, Dechow et al. (2010) found that a higher share of independent directors would limit the propensity of company management to carry out revenue management. Nevertheless, the explanations on the relationship between boards of directors' quality as well as earnings management are typically insufficient. This is due to the directors 'responsibilities which typically fall into options at certain strategic and high levels such as setting general business strategies. In conclusion, previous studies have documented mixed results on the association of board independence with overall company performance. It may be because they may not be independent and opportunistic (Ravina & Sapienza, 2009). Therefore, this study posits that:

H_4: There is significant association between the board independent and Shariah-compliant company performance.

Board Diversity and Company Performance (BDIVERSITY)

The appointment of women as company directors has been the subject of a wide-ranging debate about board diversity and its relationship to company performance. In Malaysia, the government has set a policy that requires women to be appointed as top management or company directors, whether in the private sector or the government. Currently, the percentage of women as company directors varies between companies. However, the number of appointments of women as directors is increasing (Bushon, 2011; Hillman et al., 2007).

Currently, the number of women appointed as directors is still low in Malaysian public listed companies (Burgess & Tharenou, 2002; Jamaludin & Hashim, 2021). Although there has been an increase in the number of women appointed as directors, the increment is still at a slow rate (Zainal et al., 2013). In addition, Agrawal and Knoeber, (2001) examining whether the appointment of women directors has anything to do with their political mileage. These study shows that although appointments are increasing, there is little evidence to support women directors performing their duties under the influence of political ideology.

Terjesen et al., (2009) and Terjesen and Sealy, (2016) has demonstrated the importance of women directors in improving corporate governance hence the quality of economic as well as ethical reporting. Nevertheless, further examination is required to truly clarify the effect of having women as directors. Malaysian companies also need the participation of women in their boardrooms to provide good and better strategic decisions through diversity in the boardrooms and ultimately create a competitive advantage for the company (Bushon, 2011). The primary argument embedded about the boardroom diversity related to gender is that whether women directors are appointed depends on single factor that makes them monitor better or perhaps simply a sign for men -dominated companies in boardrooms.

Based on psychological and sociological perspectives, women have been considered to focus less on financial incentives and have high ethical values than men (Ku Ismail & Abdullah, 2009). Ruigrok et al. (2007) suggests that women directors are more likely to join company management through family relationships that hold a drastically lower number of directorships. The association between women directors and personal financial gain also inconclusive due to the small amount of research on this subject. (Carter et al., 2010; Rose, 2007). Nevertheless, overall, gender diversity is associated with corporate governance as well as company performance (Erhardt et al., 2003). Therefore, the study hypothesised that:

H_5: There is significant association between the board diversity and Shariah-compliant company performance.

Family-based Director and Company Performance (FAMCOMPANY)

As a result of the separation of management and ownership, share -based contract rewards to management are set to align management interests with shareholders which will create agent monitoring costs (Jensen & Meckling, 1976). Based on Yunos et al. (2011) it has discovered two models of ownership structure namely internal directors and the other is a market -based system.

Through this model, a company will be started as a privately owned business, supervision is also handled by the start -up. Eventually, this type of company will require capital as well as the issuance of shares. As part of the process within the boardroom, it may increase equity without voting rights, offer shares with related companies and assume that control remains in the hands of a handful of people. As a company grows, large new investors will buy shares of the company. At that time, minority shareholders were offered in complex networks and purchased companies as well as pyramid system management ownership structures began to emerge.

Managers are likely to act to prioritize their personal interests by dividing the company's assets among themselves, which may conflict with independent interests. (Fama & Jensen, 1983b; Jensen & Meckling, 1976; Munir et al., 2013; Porta et al., 1999; Shleifer & Vishny, 1986). As a result of the separation between ownership and control of the company, managers can be influenced by the broad ownership structure to dispose of the company's stock in a way that may affect shareholder capital. Claessens and Fan, (2003) confirmed that most East- Asian listed companies continues to be owned by family members. They argue that a sole shareholder has influence in more than two -thirds of listed companies in East Asian countries and 60 per cent of the company's management in these companies are controlling members of the company. This is consistent with Haniffa and Cooke, (2002) and Porta et al., (1999) who also found that companies controlled or managed by family members are actually prevalent throughout the world and largely in the Asian region. As a result, family companies are considered to have a relationship with the quality of the company's economic reporting. Family -controlled companies largely use multiple directorships to develop and maintain their authority as well as secure resources and information (Lester & Cannella, 2006).

Prior studies have also found that family-controlled companies are more willing to disclose all important financial information for the main basis of segment reporting (Wan Hussin, 2009 & Wang, , 2006). The results also suggest that companies with a higher proportion of affiliated directors are more apt to provide greater disclosure. This is because, family wealth is very closely related to the welfare of the company and therefore family members may have strong incentives to monitor managers and reduce the free-riding issue that exists with dispersed shareholders (Abd. Hamid, 2011). Also, the companies with family members are more prominent in non -government -linked companies than government -linked companies because these companies are family -owned companies before being registered as a public company on Bursa Malaysia. Thereafter, after becoming a majority shareholder, they appointed family members as executive directors and managers. This is to ensure that they able to maintain their control over the company. Zainal et al., (2013) offers evidence that family-controlled companies are more likely to practice diversity, especially on nationality and gender.

In Malaysia, relatively small studies have examined the relationship between financial reporting and the quality of family companies (Haniffa & Cooke, 2002). Since family member companies have knowledge of information and resources, they tend to disclose information that is relevant for financial reporting purposes (Wan Hussin, 2009). The voluntary financial info disclosure suggests the utilisation of vital assets to boost company economic reporting quality. Also, family-controlled companies are usually potentially to contribute certain info therefore creating company's competitive benefits which could lead to beneficial effects on company efficiency (Wang, 2006; Wu, 2010). Ali et al. (2007) and Wang (2006) particularly discovered that companies with a greater proportion of family members in a company utilise the crucial info and materials for the prosperity of the business operations of theirs.

In addition, the good consequences of owning majority directors from family members will improve with the presence of duality role (Villalonga & Amit, 2004). The family-controlled companies are actually discovered to be favourably considerable once the company's founder act as CEO cum chairman of the board with company 's worth. Jung and Kwon (2002) also discovered that family-controlled companies with the presence of the founder or maybe family members as largest shareholdings, significant connected to the company efficiency.

The presence of dominant role of family member within the boardroom, indirectly or directly, able to affect various other when deciding company's strategic decisions most of the time. This gives evidence that family-controlled companies tend to have less serious agency pricing than non-family-controlled companies (Ali et al., 2007). This was because of the harmonisation been around between both management as well as the board of directors, which consists of family members as vast majority. Based on the theoretical reasons and empirical evidence above, this study proposes the following hypothesis:

H_6: There is significant association between the family-based director and Shariah-compliant company performance.

Methods

This study consists of 1612 sample observations of Shariah-compliance public listed companies ranging from 2013 until 2015. This study starts with initial population of Shariah-compliant public listed on Bursa Malaysia in 2013 to 2015 as shown in Table 1. The total observation of Shariah-compliant listed companies which for all 3 years is 1762 companies, which is the initial population for this study. Table 1 also present the sector classification for all Shariah- compliant listed companies.

From the 1762 Shariah- compliant companies, this study excludes 2 companies from financial sector for each year, 130 companies without annual report within 2013 to 2015 and 14 companies with PN17 status, ending up the final number of observations are 1612.

Selected data is from years 2013 to 2015 because of the implementation MCCG 2012 will only take effect on 2013 company annual report which disclose in 2014. This method reflects the matched-pair design applied by Abdullah et al., (2010) and Dalton et al., (1999). Sample selection is to provide all Shariah- compliant listed companies for the years 2013 to 2015 which consists of 1612 observations of active companies during this observation period. The purpose is to compare the impact of compliance on the practices of the revised MCCG 2012 up to the time of the commencement of the revised MCCG in 2017.

Table 1: Shariah- compliant listed companies from 2013 to 2015

Sector	2013	%	2014	%	2015	%
Consumer product	106	18.24	99	16.87	106	17.85
Industrial product	179	30.81	177	30.15	182	30.64
Mining	1	0.17	0	0.00	0	0.00
Construction	36	6.20	39	6.64	35	5.89
Trading and services	133	22.89	138	23.51	135	22.73
Properties	59	10.15	65	11.07	67	11.28
Plantation	34	5.85	36	6.13	37	6.23
Technology	24	4.13	25	4.26	24	4.04
Infrastructure	5	0.86	4	0.68	4	0.67
Finance	2	0.34	2	0.34	2	0.34
SPAC	2	0.34	2	0.34	2	0.34
Hotel	0	0.00	0	0.00	0	0.00
Total	581	100.00	587	100.00	594	100.00
Less:						
Companies from finance sector	2		2		2	
PN17 status companies	7		4		3	
Incomplete or unavailable annual report	52		29		49	
Final sample	520	89.50	552	94.04	540	90.91

Sources: Securities Commission Malaysia (2013, 2014, 2015).

Required information as well as the data is collected from official website of the relevant regulators namely Bursa Malaysia, Security Commission of Malaysia and annual report of a company. This study collects the data for the time between 2013 until 2015. Data for 2013, 2014 and 2015 reflect the compliance towards MCCG 2012 until the commencement the revised MCCG in 2017. The data gathered for this study includes board size, board meeting, board composition, leadership structure, as well as common performance indicator namely return on equity (ROE) and return on assets (ROA). Company approved annual report is used to gather the details on the dimensions of the business, which includes total market and asset capitalization.

Table 2 describe a summary of the operational variables and related hypothesis developed. It provide variables of board characteristics namely leadership structure, board composition, board size, board independence, board diversity and ownership structure. For company performance and a way of measuring business management size, accounting-based measurement are applied to the company's overall performance by utilising ROA and ROE (Hassan Musse et al., 2021). To measure the association between board characteristics and company performance, linear model estimation as follows:

Equation 1: Specification of the Regression Model

$$PERF_{it} = B_o + B_1BSIZE_{it} + B_2BMEET_{it} + B_3DUALITY_{it} + B_4BIND_{it} + B_5BDIVERSITY_{it} + B_6FAMCOM_{it} + B_7COMSIZE_{it} + \mathcal{E}_{it}$$

PERF is a continuous variable; measured by ROA and ROE, it represent the company's performance. The ROA is the ratio of profit after tax divided by total assets of company (i), in the period (t). Similarly, the ROE is the ratio of profit after tax divided by company shareholder's equity. B_0 is the constant and B_1 to B_7 is the slope of the independent and control variables. $\mathcal{E}$ is a random error. The remaining operational definitions of variables as shown in Table 2.

Table 2: Variables operational definitions

Variables	Definitions	Symbol
Return on total assets	Profit after tax / book value of total assets	ROA
Return on equity	Profit after tax / shareholders' funds	ROE
Board size	Total number of directors	BSIZE
Board meeting	Board meeting frequencies in financial year	BMEET
Leadership structure	Dummy variables 1 for combined roles and 0 for separate role.	DUALITY
Board independent	Proportion of independent directors to the board size	BIND
Board diversity	Proportion of women directors to the board size	BDIVERSITY
Family member	Percentage of family member in a board	FAMC
Company size	Lagged of total revenue of each company in observations year	COMSIZE

Findings

Table 3: Descriptive statistics (2013- 2015)

	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
Dependent Variables:						
ROA	1.16	0.05	233.59	-213.73	15.03	1612
ROE	1.53	0.06	184.62	-305.32	17.80	1612
Independent Variables:						
BSIZE	7.45	7.00	18.00	4.00	1.85	1612
BMEET	5.34	5.00	46.00	1.00	2.16	1612
DUALITY	0.07	0.00	1.00	0.00	0.26	1612
BIND	0.47	0.43	1.00	0.11	0.13	1612
BDIVERSITY	0.10	0.00	1.00	0.00	0.14	1612
FAMCOM	0.19	0.00	0.83	0.00	0.22	1612

Note: N=1612

Table 3 presents the descriptive statistics of all variables of this study. In average, the ROA and ROE are recorded at 1.16 and 1.53 suggesting that the companies are performing slightly well during the 3 years period. The two ratios represent efficiency of company's managing the assets and equities and the ability to generate income using its assets and equities. As for BSIZE, in average the companies recorded 7.45 which indicate that ideally 7 directors appointed in a company for a period. BMEET documented a value of 5.34, suggesting that in average company held their board meeting approximately 5 times within an accounting period. Interestingly, 46 times meeting is held within an accounting period is recorded suggesting an approximately 3 board meetings held within a month.

Shariah-compliant companies recorded in average 7 percent companies have the same individual appointed as chairman of the board and chief executive officer (CEO) or equivalent of a company. In average 47 percent of Shariah- compliant companies directors are independent directors (BIND), suggesting high number of board independence above the minimum requirement. As for BDIVERSITY, approximately 10 percent of the board composition is women directors, in average. This study also documented approximately 19 percent of the board member is among family members, in average.

Table 4: Main Regression (n= 1612, 2013- 2015)

Variables	Model 1	Model 2
	ROA	ROE
C	***-1.74***	***-11.23***
	-0.72**	***-1.92*****
BSIZE	-0.06	***1.49***
	-0.15	***3.17******
BMEET	***-0.12***	***-0.49***
	-1.53**	***-3.71******
DUALITY	-0.21	***-0.44***
	-1.20	***-7.63******
BIND	***6.76***	4.99
	3.58***	0.78
BDIVERSITY	**-7.11**	-1.18
	-2.17**	-0.17
FAMCOM	*7.67*	10.24
	3.59***	1.15
COMSIZE	***4.69***	***5.66***
	-6.37***	***7.89******
Adjusted R^2	0.31	0.22
Std. Error	12.46	15.76
F-stats	***2.13******	***1.68******
Obs.	1612	1612

Significance is based on two-tailed tests; *, ** and *** represent significance at the 1%, 5% and 10% level, respectively.

The regression estimates as shown in Table 4 presents 2 model using ROA and ROE as dependent variable, respectively. In Model 1, BMEET is negatively significantly associated to ROA suggesting that the frequency of board meetings most likely to reflect a company with lower ROA. The result for BMEET is consistent in Model 2 which indicate the same effect towards ROE whenever the numbers of board meetings increase. In addition, this study finds that BSIZE is positively significantly associated with ROE, however the BSIZE does not significantly associated with ROA although, surprisingly, it is a negative association.

This study also find that DUALITY only significantly related to ROE, but not for ROA. This suggesting that the presence of same individual as CEO or equivalent and chairman of the board could detriment the company ROE. Additionally, BIND only significantly associated with ROA although it is positively related to both ROA and ROE. Surprisingly, BDIVERSITY is negatively associated with both ROA and ROE, however not significant for ROE. This study also recorded that FAMCOM only positively significantly associated with ROA. Finally, COMSIZE is significantly positively associated with both ROA and ROE model. This study suggests that the ROA and ROE of company would better as the Shariah- compliant companies profit increase.

Discussion

Relatively, the overall performance of Malaysian Shariah- compliant companies is involving the effects arising from government influence such as the implementation of corporate governance. PLCs in Malaysia can also be strongly connected with federal policies including wealth distribution as well as rearrangement the business ownership through NEP 1970 and ICA 1975. This effect would divert managerial objectives to maximize the profit which result in distortion of managerial investment choices (Fracassi & Tate, 2009; Opper et al., 2017). Provided that, literature shows a possible relationship between corporate governance structure and performance, the failure of previous research on corporate governance structure and performance to have this chance to have distorted of the results. The study issue is establishing whether these variations be existent and effect to the Shariah- compliant companies.

As stated, the focal aim of this study is investigating whether there is a relationship between the characteristics of the board of directors of a Shariah-compliant company and its performance. This study attempts to determine whether each board characteristics does affect the Shariah- compliant companies in a positive way as expected from the best practise of corporate governance. According to resource dependent theory, the embedded characteristics within every director should provide greater opportunity for securing resources as well as building economic of scales.

From a total 1612 observations of this study from 2013 to 2015, generally, this study provide evidence that certain board characteristics which, consistently with prior studies, affects Shariah-compliant company performance. Except for board diversity, other board characteristics somewhat significantly affects Shariah- compliant companies' performance. Board diversity measured by gender is expected to create a better board composition as women director are commonly known have the capability to provide better work performance and less financial materialistic (Bear et al., 2010; Gul et al., 2011; Jamaludin & Hashim, 2021; Rose, 2007).

Contribution of the current study on corporate governance knowledge

These findings emphasize the impact of ownership structure, independent board structure on the market value acquisition of companies in emerging markets. So far, this study shows mixed evidence between the independent variables of corporate governance and company performance. In general, there is a lack of preliminary investigation into corporate governance and company performance in emerging markets during highly volatile economic periods.

Nevertheless, during the worldwide economic crisis it start to be volatile, and its behaviour start to be difficult to check out or even predict. Furthermore, the effect on the governance rule of 2012 on the listed companies to the company performance between Shariah and non- Shariah compliant companies certainly not been examined in this study using comparable variables and broad data. The findings of this study play significant role in the body of knowledge on corporate governance which shows that board structure could negatively or positively impact a company's performance in an active emerging market. Furthermore, this study increases the body of knowledge about Islamic corporate governance practices and encourages further research opportunities.

The findings of this study do not reflect the consistency of a significant relationship between internal governance structure and company performance. Mixed findings may be related to endogenous issues with all variables on research, like joint endogeneity (Adams et al., 2010; Field et al., 2013); reverse causality (Smith, 2009) and unobserved heterogeneity (Ho & Mohd-Raff, 2019). This might argue for another analytical approach to the information. The mixed and inconsistent success of the need is indicated by the study to thoroughly analyses and take into consideration important variables.

Theoretical Implications

This study contributes to and develops current research on Islamic corporate governance and company performance. In particular, this investigation will extend the value of the literature found on corporate governance to overall company performance in Malaysian context. by examining corporate governance practices in Malaysia, and how it can reflect the board's accountability to shareholders and stakeholders through the company's performance.

The current study has observed the variables of corporate governance from the structure as well as the functionality of ownership, performance and composition. Nevertheless, this study will examine the variables of corporate governance individually and in several contexts. In addition, this study explores the relevance of the various concepts of corporate governance stated as well as details the variations in that specific relevance. The study also examines the results along with the impact of corporate governance regulations conducted by companies registered in the current Malaysian capital market. It is to examine the similarities and differences required by conventional governance in Islam and its impact and influence on the overall functioning of a company which has never been studied before. Thus, this investigation will contribute expertise in several ways as follows.

First, this study assesses the influence and impact of the MCCG 2012 compliance on the performance of Shariah -compliant companies. Secondly, investigate the practice of Islamic corporate governance structure in Malaysia and its impact on company performance. Thirdly, the study also determined Shariah -compliant companies to the extent to which corporate governance practices set out the MCCG 2012 governance guidelines. Also, this study contributes to agency theory and corporate governance oversight for Shariah-compliant publicly listed companies in Malaysia.

In Malaysia, the economic system is improving, driven by the recovery in the real estate sector. It is able to increase the confidence of investors and financiers, and subsequently the growing population, reducing the debt and financing situation. This global financial event is expected to boost regional economic activity to encourage international, regional and local companies to get involved in major business event. Malaysia has effective support for oil revenues for its financial stability. The Malaysian property market improved following the market recovery from the effects of the global economic crisis and the Asian financial crisis.

Additionally, the economic development in the Malaysia consists of big infrastructure projects primarily funded by large government and local governments linked companies (GLC). In such a corporate environment, effective corporate governance practices are essential to ensure a good level of governance effectiveness not only to protect the interests of shareholders, but to safeguard the interests of the nation's wealth and assets.

The results of this study also show that good governance practices do not always improve the performance of a company in the short term, it is also due to other external economic factors that have an immediate impact on the company's performance. As a result, this study has significant implications to various parties such as businesses, investors, policy makers, international companies, stakeholders, and governments. It is due to the company's corporate value and resource protection, success and sustainability of the shared economic climate.

Due to the latest financial issues around the world, Malaysian regulatory agencies need to create trust among investors alongside additional international companies through corporate governance and corporate law reforms. As a result, corporate governance rules were enacted in 2012 and the rules were enacted to enhance the effectiveness of corporate governance and increase the public confidence in the capital market that their interests are secured, and the business is sustained, while relevant reforms implemented.

The findings of this study also reflect the decisions of different business sectors regarding all the new governance rules, including financial companies and non-financial companies specifically for Shariah-compliant companies. While the impact on ratings is not surprising; it is quite beneficial as it reflects the nature and level of maturity of the business in terms of the company's response to the new rules.

Corporate governance theories emerged in matured market segments as well as these theories and perspectives may be a bit a lot more suitable for such marketplaces than for immature and appearing countryside marketplaces. Therefore, the implications of this study are relatively significant. This study provides unique market-specific governance insights that takes into account tradition, public structure, level of business maturity, size and mechanism of business as well as general economic development strategy. Such mechanisms need to have additions to ensure ethical conduct along with high professionalism. In addition to a reasonable approach to all individuals as well as to achieve a balanced and sustainable governance approach. The results of this study show a significant relationship between the concept of corporate governance and efficiency. A company imagines that the members of the board of directors do not perform their duties faithfully and their effectiveness, efficiency, participation and performance in the board of directors are questioned.

Practical and Social Implications

This study also proposes several suggestions that could improve and boost performance of Shariah- compliant companies in Malaysia. The overall results of this study show that in some cases the results are statistically significant, except for some variables. For corporate governance regulators, several valuable suggestions are proposed to improve and enhance the corporate governance of Shariah -compliant companies.

Regulatory agencies are proposed to ensure business management to fully aware of the importance mechanisms of corporate governance. They will be able to produce relevant approaches to make certain principles of corporate governance understood and practiced by each of those who hold relevant positions in company management. Ownership structure, leadership structure, board composition, board diversity as well as board size are all equally important in corporate governance practices and therefore business leaders must focus on that importance in their behaviour and actions if they want to achieve absolute best results. for the organization.

Recommendations by the Malaysian securities commission are considered as best practice guidelines for the management of companies with shares traded on the market. Different companies may have different corporate governance plans and styles and may even produce different results. These Shariah-compliant companies need to be given the best guidelines based on proper empirical research in providing a set of handrails that can deliver good results. However, it is also important to ensure that investors understand the company and an understanding of their potential.

On the other hand, they must consider each proposal and provide information as to whether they comply with their recommendations. It is important that the explanations given for each proposal are specific and sufficient. A review of the proposal about the need to update some elements of the proposal from 2013. To the extent possible, the proposal will not include elements that are directly regulated or that are largely part of the company's practice. The code of corporate governance provides guidelines for board members to perform their fiduciary duties effectively and strategically to their organizations. All board members need to ensure that the board carries out their role effectively while developing a strong understanding as well as successfully implementing, best practices for corporate governance.

These variables that have been measured and analysed may serve as a guide to the authorities for the purpose of drafting or reviewing the latest guidelines on corporate governance to safeguard that these publicly listed companies, especially Shariah-compliant companies, are able to stay competitive with the company's performance. Based on the findings of this research, this study suggests that Malaysian securities commission authorities should pay attention to some elements of corporate governance that have a significant relationship with the performance of the company, especially ROA and ROE. The elements of the variable are size of board, size of company, family company, the independency board of director and the frequencies of board meetings.

Lastly, this study provides a selection of recommendations to be viewed by regulatory organizations at the international and local levels. This includes a sustainable corporate governance approach which not only considers the long-term passion of shareholders but also the ethical value of self-regulation of all stakeholders, with a focus on higher professional behaviour that will initiative a balanced and sustainable organization. It would be supporting to avoid unethical and unprofessional corporate behaviour, and further helps reduce crises related to corporate governance.

Conclusion

Although there is an extensive prior studies on corporate governance practices as well as company performance and results in studies related to company performance based on various theoretical perspectives, variables and measurement strategies. Institutional involvement in the dynamic and contextual decision-making process of each business is different. In addition, most empirical studies of corporate governance are conducted involving emerging markets with various variables and theories. In addition, it is also related to several perspectives that have studied the impact of compliance with corporate governance guidelines on overall performance.

In the context of this study, Malaysia is the host country of the Islamic capital market which can make this study of special and unique value. Several countries in the world including Britain, China, Hong Kong, and the United States have their own Islamic capital and support centres, hence warrant the Shariah corporate governance is to be applied in the global market.

This study is to provide motivating results not only to fill the gap on the implementation of corporate governance but also on corporate performance. I also look into filling the gap if it exists between Islamic and conventional governance practices. This will help for better understanding as well as encourage variation to improve governance.

This study has several limitations. First, there is a need to provide a mechanism to find matching pairs of Shariah and non -Shariah companies for analytical purposes. Although there are over 900 companies on Bursa Malaysia, the search for matching companies has significantly limited coverage on the sample and means it is far from true randomness. Moreover, although the effect on efficiency is most likely to be minimal, inaccurate matching pairs may affect the test selection mechanism itself. Third, there are potential variables left out in the regression version. Such omitted variables may better predict and explain a company's performance. Finally, this study examines the relationship of corporate governance structure with company performance in a 3 -year study. The selection of a longer period can produce more thorough results.

The selected period may be inadequate for the companies to realize the advantages of effective corporate governance practices while they had been holding a learning curve. The number of observation season is just 3. In the situation of Malaysia, just Islamic Financial Institutions (Ifs) including Takaful and Islamic Bank must set Shariah Supervisory Board. Besides that, its' supervise by Security Commission in Islamic capital market. Due to that here, the intensity of supervision and advising is a little could differ in the capital industry.

The information used for this study was obtained from the annual reports of Malaysian Shariah -compliant public listed companies. Secondary information from authorised sources were used, and this may limits the opportunity to obtain certain unique data needed in analysing some information such as the perceptions of shareholders, CEOs, board members, chairmen, SSB staff and staff members about the governance system of companies listed on Bursa Malaysia. Nevertheless, despite these limitations, this study contributes to the improvement of the literature on the relationship between the corporate governance structure of Shariah -compliant companies and company performance.

Recommendations for future research

Additional analysis can be performed as described in the specific section as there is still little that remains inconclusive by researchers on corporate performance and governance, particularly on Shariah compliance. Recommendations for future studies are as follows.

First, the range of this research must be expanded by expanding its tests and frameworks on a number of other relevant elements related to corporate governance and company performance. This would offer a better understanding of the dynamics on the association among company performance and related corporate governance variables. Second, the research sample could be expanded to include unlisted companies, which include family -owned companies, and longer post -governance periods. These recommendations will further determine whether there are differences or similar benefits that may be derived from such unlisted companies and consistent results are obtained with respect to the effects of regulatory preparation. This study could be replicated by accomplishing such studies in other setting that have different characteristics socially and geopolitically such as Indonesia and Brunei. This may be valuable and could be an important note in the literature on Islamic and conventional corporate governance.

Third, a comparative analysis of corporate governance between Shariah -compliant companies and Shariah -non -compliant companies can be conducted to determine the components of Islamic government practices used with companies that can help company performance. Compliance with the code of corporate governance was found to be effective. It is suggested that compliance with corporate governance guidelines by unlisted companies should not be targeted and questioned; on the contrary, it should be implemented diligently and able to reflect the objectives that have been established especially in relation to the skills, expertise, competencies, educational background and experience of corporate leaders and corporate directors. Company management must understand how to turn corporate governance practices into sound business approach to focus on positive effects such as efficiency. This is not directly revealed in the findings of this study. Compliance or clarification of corporate governance mechanisms may be significance looking at the SC and other relevant regulations that use robust compliance implementation or may clarify governance.

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