IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE AMONG GOVERNMENT - LINK COMPANIES IN MALAYSIA AND SINGAPORE

Shubatra Shanmugaretnam[1], David Ng Ching Yat [2], Yen Wen Chang [3], Low Suet Cheng[4]

[1]*Lecturer, Department of Accountancy, University Tunku Abdul Rahman*
Kajang, Selangor, Malaysia

[2]*Associate Professor, Department of Accountancy, University Tunku Abdul Rahman*
Kajang, Selangor, Malaysia

[3]*Postgraduate Student, Taylor's Business School, Taylor's University*
Subang Jaya, Selangor, Malaysia

[4]*Lecturer, Department of Accountancy, University Tunku Abdul Rahman*
Kajang, Selangor, Malaysia

Email: shubatra@utar.edu.my[1], ngcy@utar.edu.my[2], yenwen.chang@sd.taylors.edu.my[4], lowsc@utar.edu.my[4]

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ABSTRACT

The aim of this research was to investigate the impact of Corporate Governance on financial performance among Government – Link companies in Malaysia and Singapore as a comparative study for a period of 15 years from 2005 to 2019. A sample of 60 Government-Link companies consisting of 34 from Malaysia and the balance 26 from Singapore was taken. A total of 900 firm years was observed. Panel data analysis using EViews was carried out to examine the effect of Corporate Governance components which compromise the percentage of independent directors, the percentage of independent directors on the audit committee, the frequency of board meetings and the composition of women directors, effect on firm performance. Tobin's Q was used as the measurement for firm performance. The outcome from this research indicated that Corporate Governance in Malaysia Government-Link Companies have a greater effect on financial performance compared to Singapore Government-Link Companies. In summary, this study has been beneficial by providing an understanding of Corporate Governance practices to stakeholders, policy makers, shareholders, Board of Directors of Government-Link Companies and the government itself.

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Keywords: *Government – Link Companies,* Corporate Governance, Financial Performance, Panel Data Analysis, Malaysia, Singapore.

1.0 INTRODUCTION

The main objective of Malaysian Government-Link Companies (GLCs) is for commercial purposes whereby the Malaysian government owns the controlling share and the power over important decisions such as management engagements, restructuring, diversified investments, contract allocations, acquisition and financing. GLCs' influence the economy in Malaysia in a pervasive way (Menon, 2018).
In Singapore, the GLCs or better known as the State-Owned Enterprises (SOEs) was established for the purpose to stimulate industrialization and growth among strategic business in 1960 (Chen, 2016). "The Malaysian Code of Corporate Governance 2017" and "The Singapore Code of Corporate Governance 2018" define Corporate Governance as having the appropriate people, system and composition to manage and operate a company in order to ensure increase in shareholders wealth in the long-run. The importance of Corporate Governance has been highlighted and brought to the foresight since the Asian Financial Crisis in 1997 (Soei, 2019). Malaysia seeks to increase the foreign investments and compete in the global platform. Best practices of Corporate Governance are needed to gain the confidence of investors and this can be considered as a critical element in establishing investors' confidence. The Auditor General's Report 2010, stated that numerous Government-Link Companies where accountability was lacking, especially in the area of board efficiency (Arifina, 2016). The mismanagement of funds in many Government-link companies led to a loss of public trust on the government as well as the Government-Link companies (Vithiatharan, 2014). Research from the past which was carried out on the impact of Corporate Governance on companies' performances yielded mixed outcome. Consequentially, this research is aimed to reduce the gap by carrying out further studies and make a comparison on the impact of corporate governance practices in Malaysia and Singapore Government - Link Companies. This comparison was carried out as Malaysia and Singapore are neighboring countries with similarities in certain cultural and economic aspects (e.g. economic institutions, legal traditions, religion and ethnicity).

2.0 LITERATURE REVIEW

2.1 Corporate Governance

Corporate governance can be defined as the manner in which companies are governed, administered and overseen by policies, regulations and guidelines (Sarun, 2019). The charter of Corporate Governance is designed to cater for the achievement of the organization's goal and heightening the appeal as well as value for long-term shareholdings. During the "Asian Economic Crisis" in 1997, many companies in Malaysia became aware that they had poor corporate governance practices especially in the areas of accountability, transparency, high leverage, lack of disclosure and cronyism (Sejati, 2019). The Malaysian Code of Corporate Governance 2017 came into effect with the aim to improve the quality of corporate governance among Malaysian companies (Abidin, 2019). Singapore was positioned the highest in the Asia Pacific region for transparency and governance policies followed by Hong Kong, Japan and Taiwan (Ministry of Finance Singapore., 2016). The 2018 code superseded the 2012 code and was implemented on 1 January 2019.

2.2 Independent Variables and Hypothesis Development

2.2.1 Relationship between Percentage of Independent Directors and Financial Performance

Independent directors can be said to be someone without any personal association with the organization that can influence their judgement, behavior and integrity towards the organization. A study carried out by Farooque, Buachoom and Sun in 2020, showed the presence of independent directors enhanced the financial position of companies. In another study carried out by Kweh, Ahmad and Ting in 2019, established that there was an insignificant correlation between the composition of independent directors and the financial performance of the companies. This is due to that independent director were external directors and have no control over decisions taken by the executive directors on operational matters (Naciti, 2019). The hypothesis developed for this variable is stated below

H1: The composition of Independent Directors has a higher significance on financial performance in Government-Link Companies in Malaysia as compared to Singapore.

2.2.2 Relationship between Composition of Independent Directors on The Audit Committee and Financial Performance

According to the Malaysian Code of Corporate Governance 2017, the best composition for an audit committee should consist of non-executive independent directors. In Singapore, The Code of Corporate Governance 2018 also mentioned that the audit committee should comprise of a majority of non-executive independent directors. An audit committee strength is the level of independence it exercises (Norzaiton, 2019). It was concluded that audit committee's independent members increased the efficiency on activities such as internal audit functions (Farooque, Buachoom and Sun, 2020), matters regarding risk management and nomination of auditors (Farooque, 2020).

In the parallel outcome from research conducted by Hassan, Molla and Khan in 2019, showed an insignificant affect between the proportion of independent directors and Tobin's Q among the Pharmaceutical Industries in Bangladesh (Hassan, 2019). The development of the hypothesis for this independent variable is:
H2: The composition of Independent Directors on the Audit Committee has a higher significance on the financial performance in Government Link Companies in Malaysia compared to Singapore.

2.2.3 Relationship between Frequency of Board Meetings and Financial Performance

Board meetings can be considered as a straightforward activity carried out by the board and it is compulsory for all public listed companies to improve board efficiency (Ji, 2020). According to the study carried out by Alhares,Elamer and Alshbili in 2020, board meetings tends to have a negative correlation with financial performance due to the increase in cost related to the meetings i.e. travelling claims, management time cost and directors' allowances for the meetings (AlHares, 2020). The frequency of board meetings showed a favorable impact on Tobin's Q among firms in Jakarta (Buchudadi, 2019). The hypothesis developed for this variable is stated below:

H3: The frequency of board meetings had a greater significance on the financial performance in Government Link companies in Malaysia compared to Singapore.

2.2.4 Relationship between Composition of Women Directors and Financial Performance

Malaysian Code of Corporate Governance Practice 4.5 states that public listed companies should have at the minimum 30% composition of women directors on their board. According to the study conducted by Larkin, in 2020, women directors have a unique supervision method and understanding that would create a force within the board which would lead to the improvement of the firm performance (Larkin, 2020). According to Duppati, Rao and Matlani (2019), women directors have an impact on Tobin's Q (Duppati, 2019). On the other hand, (Rehka, 2019) stated that women directors could not contribute to the increase of firm performance due to the increase in conflicts and misunderstanding within the board as a result of board diversity. The hypothesis developed for this variable is stated below:
H4: The composition of women directors has a greater significance impact on the financial performance among Government Link Companies in Malaysia compared to Singapore.

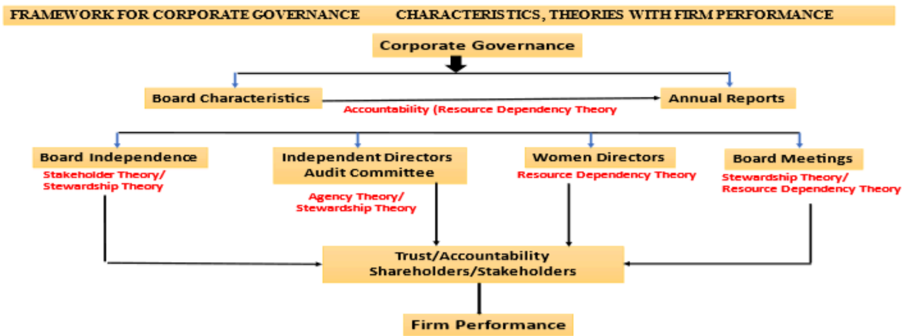

Figure 1: Theories for the study

3.0 METHODOLOGY

According to Vijayamohanan (2016), panel data analysis was defined as a data set containing observations on multiple phenomena over multiple periods. Thus, it has two categories of analysis, which were the time series and cross-sectional series that allow observing the behaviour of the GLCs over time. Panel data analysis allows the CVs to be analysed because the CVs cannot be measured like the business practices among the companies, and the variables were varied on overtime but not across entities. The advantage of using panel data analysis as it will provide more data information, more significant variability, less collinearity among the variables, more degrees of opportunity and more efficient. The cross-sectional information in different variables representing the CG and IC, where else the time-series information of 15 years period was determined. In this study, random effect and fixed effect model will be attempted to be applied in solving the problem. There were two categories of panel data analytic model used in this study; the fixed-effect model and random effect model (Fitrianto & Musakkal, 2016). The fixed-effect model can be used to analyse the influences of variables change over time. In addition, the random effect model variation among the GLCs was assumed to be random and uncorrelated with the IVs included in the model.
The Hausman test was critical, as a result of this test would be used in determining whether to select the fixed effect model or the random effect model. This test was mainly testing whether the disturbance was correlated with other explanatory variables. If the p-value in the

Hausman test is less than 0.05, the fixed-effect model was used; on the other hand, if the p-value is more than 0.05, the random effect model will be used.
The general equation for a panel analysis is

$$yit = \beta 1xit1 + \beta 2xit2 + \cdots + \beta kxitk + \varepsilon it$$

4.0 RESULTS AND DISCUSSION

Table 1 Summary of Result of Panel Data Analysis

Independent Variables	Dependent Variable	
	Tobin's Q Malaysian GLC	Tobin's Q Singapore GLC
Frequency of Board Meetings	**0.0066*** **	**0.0814***
Independent Directors	0.9385	**0.0240****
Women Directors	**0.0002*** **	**0.0850***
Independent Directors in Audit Committee	0.4261	0.757 3

Note: Significant at ***1%, **5%, *10% level.

Table 2 Hausman Test Result for Malaysia Table 3 Hausman Test Result for Singapore

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	14.430116	6	0.0252

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.234654	6	0.5141

The outcome of the Hausman Test shows P-value of 0.0252, a value lower than 0.05 for Malaysia. Therefore, which means that the "Fixed Effect Model" is a better option. The outcome of the Hausman Test shows P-value of 0.5141, a value higher than 0.05, for Singapore. Therefore, the "Random Effect Model" is a better option. According to the results displayed, it can be seen that the frequency of board meeting in Malaysian Government Link companies has a significant correlation with Tobin's Q at 1% level and the findings also showed that the frequency of board meetings in Singapore Government Link companies had an significant correlation with Tobin's Q at 10%. The p-value Tobin's Q the percentage of independent directors in Malaysian GLC was 0.9385, whereas the p-value Tobin's Q for Singapore GLC was 0.0240. This shows that the percentage of independent directors have a greater impact on financial performance in Singapore as compared to Malaysia. The proportion of women directors on the board in Malaysian Government-Link companies influences Tobin's Q at 1% level and in Singapore Government Link companies at a significant level of 10%. The proportion of independent directors on the audit committee has an insignificant impact on Tobin's Q for both countries at 1%, 5% or 10%.

5.0 CONCLUSION

In general, the CG variables of Malaysia GLCs have less impact on Financial Performance compared to Singapore GLCs. From the findings, only two variables (BM and WD) are significant with Tobin's Q. The panel data analysis corresponded to the results of previous researchers, which stated that the CG variables (BM and WD) were statistically significant with the particular indicators of Financial Performance. As some of the CG variables (IDAC and ID) of Malaysia GLCs had no significant impact on FP, this showed that others external or internal factors might be included in the study in order to evaluate their effects on FP. It can also be concluded that Malaysia GLCs should improve on implementing appropriate CG recommendation in order to maximize shareholders' wealth.

Comparatively, the CG variables of Singapore GLCs have more impact on FP compared to Malaysia GLCs. Based on the research findings, there are three variables (BM, ID and WD) significant with Tobin's Q. The panel data analysis was similar to the findings of past studies, indicate the CG variables IDAC had no effects on FP. As most of the CG variables (ID, BM and WD) of Singapore GLCs were found significant with FP, this concluded that the CG variables of Singapore GLCs have more impact on FP as compared to Malaysia GLCs. This could also indicate that Singapore GLCs are more stringent in implementing CG recommendations in their companies.

The contribution of this research would benefit the enhancement of Corporate Governance practices for stakeholders and legislator. It also promotes theoretical knowledge towards academic understandings. Corporate Governance would also assist Government-Link companies to utilize funds efficiently, nature a more positive bonding with shareholders and management and lead to improvement in the business environment and performances. A good Corporate Governance would encourage sustainable economic growth because of greater performance by companies and their ability to attract foreign capital. This study is carried out to establish whether Corporate Governance has an effect on Government-Link Companies in Malaysia and Singapore to provide added information and understanding to Board of Directors as well as other stakeholders. In addition, it can also generate and encourage a better connection between the Board of Directors, workforces, investors and management.

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