DO BETTER-GOVERNED FIRMS ENHANCE SHAREHOLDERS’ VALUE?
A STUDY OF CORPORATE GOVERNANCE INDEX FIRMS

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Abstract

Malaysia has taken various actions to improve the corporate governance (CG) mechanisms and practices for all listed firms. In 2011, the Malaysian Corporate Governance Index (MCGI) was released, and before that, in 2009, the blueprint of MCGI was introduced. As a result, MCGI released annually the top 100 listed Malaysian firms that have been classified and ranked as the well-governed firms from its corporate governance compliance and disclosure. This study examines the efficacy of MCGI on shareholders’ value over the 12-year periods from 2008 to 2019 and compares pre- and post-CG Blueprint. A generalized least square (GLS) method is employed as it fits the data characteristics in this study, and robust results are yielded. The results reveal that MCGI, firm size, ROA, and female directors exhibit a significant impact on shareholders’ value while leverage and growth yield non-significant effects on shareholders’ value. Overall, firms tend to use external financing rather than internal financing as the preferred option. This supports the contention that trade-off theory was adopted in the Malaysian context for the study period. However, this result is unstable over time; therefore, an up-to-date investigation of its relationship is necessary.

Keywords: Corporate Governance, Shareholders’ Value, Malaysian Corporate Governance Index (MCGI), Malaysian Listed-Firms

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1. INTRODUCTION

A country with a prospective investment appeal needs efficient financial markets in which corporate governance (CG) plays a vital role, affecting high investors’ protections. Corporate governance mechanisms are designed to protect all interests within the firms, including shareholders and stakeholders (Jiraporn, Kim, Kim, & Kitsabunnarat, 2012). Corporate governance requires firms to uphold the best practice and demands voluntary participation; otherwise, law enforcement will hold the firms accountable. Corporate governance is also essential to stakeholders in which their various roles affect the entire organization (Freeman, Harrison, & Wicks, 2008).

The success of maximizing shareholder welfare is largely determined by the implementation of value-based and long-term management. Managers and directors should have a similar commitment to shareholders’ interest to maximize the firm value through allocative, productive, and dynamic efficiency-based on the shareholder model of agency theory (Brealey & Myers, 2002; Block & Hirt, 2000).
Over the past decades, there has been increased attention to the soundness of corporate governance framework in impacting shareholder value maximization. Several studies have examined the efficacy of corporate governance on shareholders' interests with inconclusive results. This difference can be caused by the absence of similarities in assessments for standardizing differences in perspective at the corporate or state level, lack of awareness to comply with regulations, many choices of mechanisms in the implementation of governance, different data sources, can cause measurement different data and different methodologies and statistical analysis. These studies are characterized by a lack of standardization, differing in terms of country focus, regulatory compliance requirements, choice of corporate governance mechanisms, data sources, selection of measurements, and statistical methodologies.

The Malaysian Capital Market in 2000 promulgated the Malaysian Code of Corporate Governance (MCCG), and then, the government evaluated the transformation impact of the governance structure. The best practices and recommendations of MCCG become an integral part of the Bursa Malaysia Listing Rules. The Securities Commission Malaysia (SC) initiative was the Capital Market Masterplan 2 (CMP2) launched in 2011. The first major deliverable from the CMP2 is the Corporate Governance Blueprint launched by the SC. The Blueprint led to the release of MCCG 2012. There is awareness about changing market behavior, global developments and the demand to continue to make changes and improve an effective governance system, which was revised after realizing changing market dynamics, international developments, and the need to continually recalibrate and improve the effectiveness of the governance framework. It is premised on the expectation that boards of companies occupy a central role as agents of shareholders within the corporate governance ecosystem. Under this new paradigm, self-and market discipline is promoted through a more proactive shareholder influence and the heightened role of gatekeepers and influencers.

Active participation of substantial institutional investors in public listed firms is required by Minority Shareholders Watchdog Group (MSWG) to support the government initiative of becoming an independent and extensive capital market. In this respect, it further strengthens and enhances the role of institutional investors in exercising responsible ownership and monitoring a firm’s development by a leadership role in governance.

In light of this environment, this study is proposed to investigate the impacts of the MCCG on Malaysian public listed companies, shareholders and investors. Firstly, this study has two significant aims: 1) to examine the extent of compliance of Malaysian listed companies with corporate governance practices over the period from 2008 to 2019; and 2) to assess the impact of the MCCG on company valuation during the 12-year period.

Secondly, the development of the corporate governance landscape over time provides the opportunity to undertake a comparative study to assess the efficacy of MCCG 2012. Hence, this study compares the extent of compliance and impact of the MCCG on company valuation between the pre-CG Blueprint (2008-2011) and post-CG Blueprint (2012-2019). Altogether, two areas are proposed in this study to examine the extent of compliance with corporate governance practices and the impact on shareholders’ wealth over the 12-year period from 2008 to 2019 and compare between pre-and post-CG Blueprint.

This period (2008-2019) is chosen because it represents the global financial crisis (GFC) 2007-2008. Although its epicenter was in the United States, the GFC had brought enormous ramifications for the world economy, including Malaysia, with the collapse in exports and a slowdown in foreign direct investment. The aftermath of the Asian Financial Crisis was the regulation of the financial sector without affecting the stock market. Despite the GFC, the Malaysian Government confidently said in early 2009 that Malaysia's economic fundamentals were still strong. Further, MSWG introduced the Malaysian Corporate Governance Index (MCCI) in 2009 and subsequently enhanced the adoption of the ASEAN index to become the Malaysian-ASEAN Index from 2012. Hence, this study examines the impact of corporate governance practices through voluntary adoption using Malaysian listed companies from 2008 to 2019 to provide insight into the governance reform consequences. The MCCI captures each company’s governance structure reflecting the code of corporate governance best practice recommendations. The MCCI is an indicator of good governance implementation for both the variety and the quality of corporate governance implementation. The results of research using twelve years of data show that the implementation of good corporate governance can improve the welfare of company owners, the results of this study form the basis of this research. As a control tool for unobservable events or the heterogeneity of the company structure and the choice to use governance mechanisms is to use panel data, this is in line with the arguments of Himmelberg, Hubbard, and Palla (1999).

The structure of this paper is as follows. Section 2 reviews the relevant literature. Section 3 analyzes the methodologies that have been used to conduct empirical research on corporate governance indices and corporate performance. Section 4 presents findings and discusses the findings. Section 5 concludes the study.

2. LITERATURE REVIEW

The management of public firms is generally entrusted to the managers, and commonly this separation between the owner and the management leads to agency problems if the managers’ interest does not align with the owners’ interest according to agency theory (Jensen & Meckling, 1976). Thus, the Sarbanes-Oxley Act was introduced to increase transparency and control of agency costs by enacting various governance requirements for listed firms. A company with poor corporate governance tends to increase the likelihood of financial distress and bankruptcy (Daily & Dalton, 1994). Corporate governance was used to enhance operating performance, and it was used to prevent fraud (Yeh, Lee, & Ko, 2002). It is also believed that good corporate governance helps to generate investor goodwill and confidence.
Corporate governance has been extensively studied in recent years. Many recent studies have focused on the corporate governance mechanisms, such as board structure, board demographics, board leadership, board education, and board evaluation, and relate it to firm performance across countries operating under different characteristics with the majority in the US, the UK, and Japan (Callen, Klein, & Tinkelman, 2003; Shrade, 2003; Garg, 2007; Kang, Cheng, & Grey, 2007; Rose, 2007; Sheridan & Milgate, 2005; Fauzi & Locke, 2012; Basyith, Fauzi, & Idris, 2015; Fauzi, Basyith, & Ho, 2017; Fauzi, Basyith, & Foo, 2017; Tarchouna, Jarra, & Bouri, 2017; Bhagat & Bolton, 2019), and Asian countries such as Taiwan (Chen, Kao, Tsao, & Wu, 2007), Thailand (Hodgson, Lhaoadchan, & Buakes, 2011) and India (Arora & Bodhanwala, 2018; Kaur & Vij, 2018; Mishra, Jain, & Manogna, 2021), and the UAE (Al-Gamri, Ku Ismail, Ahsan, & Alquhaif, 2020). These studies yield different results affected by each country’s trait and prevailing governance system. Thus, investigating Malaysian’s listed firms could add diversity to the growing body of work that examines this relationship.

Furthermore, the relationship between corporate governance and firm performance of listed firms in Malaysia has been extensively investigated by many researchers (Ponn, 2008; Ibrahim & Abdul Samad, 2011; Kah Marn & Romuald, 2012; Wan Yusoff & Alhaji, 2012; Mustafa, Mohd. Ghazali, & Mohamad, 2015; Mohamed Zabri, Ahmad, & Wah, 2016; Bhatt & Bhatt, 2017). Many recent studies have focused on the board structure as one of the corporate governance mechanism indicators. Ponnu (2008) studied the impact of corporate governance structures and the performance of Malaysian public listed companies for 1999 and 2005. Using 100 listed firms selected from 30 large companies and 70 mid-sized companies, this study employed a non-parametric test to test the difference between 1999 and 2005. Duality and proportion of independent directors are used as corporate governance proxy, and return on assets and return on equity are used as firm performance proxy. The results revealed no significant relationship between corporate governance structures and firm performance.

Ibrahim and Abdul Samad (2011) investigated the relationship of corporate governance mechanisms and performance between family and non-family ownership of public listed firms in Malaysia from 1999 to 2005. Two hundred ninety firms were selected from 474 firms listed on the main board of Bursa Malaysia. Board size, independent directors, and duality are used as corporate governance proxy, and return on assets and return on equity are used as firm performance proxy. The results revealed that family-owned firms experienced a higher value than non-family-owned firms. Further, the corporate governance for family and non-family firms has a significant solid influence on firm performance.

Kah Marn and Romuald (2012) studied the impact of corporate governance mechanism and corporate performance of listed firms in Bursa Malaysia from 2006 to 2010. Using 20 firms, a panel regression is employed. Board size, audit committee, board composition, CEO, and ownership status are used as corporate governance proxies, and earning per share is used as corporate performance. The results revealed that only board size and ownership status significantly affect firm performance.

Wan Yusoff and Alhaji (2012) examined the relationship between corporate governance and firm performance of listed companies in Malaysia. Using 813 listed firms that represent 9 sectors of the main board of Bursa Malaysia from 2009 to 2011, they employed a proportion of non-executive directors, board leadership structure, and board size as corporate governance proxies and earning per share and return on equity as firm performance proxies. The results revealed that the influence of corporate governance on the financial performance of Malaysian listed firms is similar to previous studies in Malaysia and other countries. They also concluded that there is no different effect on financial performance even though various corporate governance reforms have been undertaken in Malaysia since 2000.

Mustafa et al. (2015) studied the influence of corporate governance and organizational capacity on the performance of Malaysian listed companies for the period of December 2009 to April 2010. They employed a survey method to derive corporate governance variables (independent director, CEO duality, board size, ownership concentration, financial management, and organizational learning) and corporate performance variables. As they stated, the reason for using the survey method to acquire the data using the application of a mail questionnaire is to add value in how findings from the questionnaires highlight the perceptions of individuals about the research objectives extend the research methodology corporate performance. However, the results found no significant effect of corporate governance on firm performance.

Mohamed et al. (2016) investigated the impact of corporate governance practices on firm performance among the top 100 listed firms in Bursa Malaysia from 2008 to 2012. Descriptive analysis and correlation are employed. Board size and board independence are used as corporate governance proxy, and return on assets and return on equity are used as firm performance proxies. The results revealed that board size has a significantly weak negative relationship with return on assets but significantly affects return on equity. Further, there is no significant effect of board independence on firm performance. In conclusion, this result seems inconclusive as there is no robustness in the results found. Furthermore, Bhatt and Bhatt (2017) investigated the effect of the MCGI on the performance of the 113 listed companies in Malaysia and found a positive and significant impact of MCGI on firm performance.

Kaur and Vij (2018) investigated the compliance of corporate governance practice in the Indian banking sector and found that the corporate governance index has a significant and positive impact on firm financial performance measured by return on assets, Tobin’s Q, and economic value-added. However, Mishra et al. (2021) who also investigated the impact of corporate
governance on firm performance in India, found an inconclusive result. The corporate governance index (CGI) positively affects return on assets and return on net worth but negatively affects Tobin's Q.

Bhagat and Bolton (2019) found a positive and significant impact of director stock ownership as a measure of corporate governance on firm performance but a negative impact on a firms’ future risk in the U.S. financial institutions sector. In addition, Al-Gamrh et al. (2020) found a weak corporate governance practice in the UAE for all listed firms on the Abu Dhabi Stock Exchange (ADX) and the Dubai Financial Market (DFM). If the firms implement a good corporate governance practice, it can eliminate the negative impact of investment opportunities on firm performance.

It can be concluded that the results from previous recent studies for the period before and after the corporate governance code (2009 to 2019) yield inconsistent and inconclusive results; hence, this study attempts to examine top 100 listed firms in Bursa Malaysia robustly. Thus the results could add diversity to the growing work exploring this relationship. Moreover, all previous studies employed the corporate governance variables to examine their effects on firm performance. Yet, this study only focused on those listed firms ranked in terms of their corporate governance compliance and disclosure. Thus, this study assumed that all firms included in the analysis are well-governed. Therefore, this study attempted to link the corporate governance rank with its shareholders’ value without having more corporate governance variables in the models except for female directors. In addition, the proportion of female directors on board is low as few firms in the study still have no female directors on board (see Table 1).

Further, the higher regulatory requirements compliance provided a catalyst for the increased importance of corporate governance, which is perceived by investors as voluntary ownership responsibility as studied by the Institutional Shareholders Services Global Institutional Investor in 2006. Consistent with this, it is expected that corporate governance within Malaysian firms has improved due to the enhanced MCCG. Thus, the study tests the following hypothesis:

\[ H1: \text{The extent of compliance with corporate governance practices by Malaysian listed firms has improved from 2008 to 2019.} \]

Prior academic studies substantiate the importance of corporate governance in making a difference in managerial decisions and firm performance and valuation (Larcker, Richardson, & Tuna, 2005). It is widely acknowledged companies that run good governance will provide guarantees for investors to pay premiums. Several indicators that can be used to assess the company’s implementation of good governance are by looking at the independence of the board, openness, accountability, the board of directors who carry out the function as an agent of the company and show superior performance. Jensen and Meckling (1976) long touted this mechanism for reducing agency problems by monitoring and controlling management’s opportunistic behavior. Hence, it is expected that better-governed firms have enhanced shareholders’ wealth. Thus, the following hypothesis has been tested:

\[ H2: \text{There is a negative association between the corporate governance's rank of the firm and the shareholders' wealth.} \]

The above hypotheses \( H1 \) and \( H2 \) will be tested: 1) over 12 years from 2008 to 2019; 2) pre-and post-CG Blueprint.

3. METHODOLOGY

3.1. Data

This study uses data from the annual report of Malaysian-listed firms for 2008–2019, collected from the Bursa Malaysia archive (Malaysian Stock Exchange). This study includes listed firms in the top 100 companies issued by Minority Shareholders Watchdog Group. MSWG was set up in 2000 as a Malaysian Government initiative to protect the interests of minority shareholders and bring awareness about minority shareholders' protection.

The development of Malaysian Corporate Governance Index that frames the study is illustrated as follows:

**Figure 1. Stages of the development of Malaysian Corporate Governance Index (MCGI)**
Samples selected for the study are taken from the top 100 companies based on the MCGI over a 12-year longitudinal timeframe from 2008 to 2019. This study uses 6 MCGI reports from 2010 to 2019 (6 MCGI reports), and only firms listed for at least 4 times on the top 100 companies are included for analysis. Further, this study excludes banks, trust, investment, and insurance companies and those firms with any missing observations for any variable in the model during the research period are dropped. Thus only 47 firms fit the criteria giving a total of 564 observations. The exclusion of banks, trust, and insurance companies has different management and governance structures and is subject to banking and other regulatory requirements. Though only 47 firms were observed, the sample will suffice in capturing aggregate corporate governance in the country because those top 100 listed firms represent the whole industry in Malaysia.

3.2. Variables
This study uses market capitalization (MCAP) to measure shareholders’ value as the dependent variable. Market capitalization measures the company’s size, which is vital as the company size determines various characteristics in which investors are interested. According to market capitalization, firms can be categorized into large-capital, middle-capital, and small-capital firms. Most firms included in the top 100 MCGI are large-capital and middle-capital firms in which those firms are significant players in well-established industries. These firms generally have a consistent increase in share value and dividend payment, and hence they provide consistent rewards for investors. Market capitalization is calculated by multiplying the market share price and the total number of shares outstanding.

The explanatory variables Malaysian Corporate Governance Index (MCGI), firm size (FSIZE), leverage (LEV), return on assets (ROA), Auditor, female directors on board (WOMEN), growth (GROWTH), and financial year. MCGI is measured using the firm’s rank listed on the top 100 firms listed by Malaysian Corporate Governance Index. This MCGI can measure the level of awareness to comply with the governance structure. Which will be used as an indicator of the independent variable and the index becomes the basis of the methodology that is widely used in similar research. Examples include the Standard and Poor’s 500, CLSA (Credit Lyonnais Securities Asia) and the ISS Corporate Governance Quotient, as well as self-developed governance indices (Klapper & Love, 2004; Gompers, Ishii, & Metrick, 2003; Black, 2001; Black, Jang, & Kim, 2006; Henry, 2008; Ho & Taylor, 2013). The level of compliance with the corporate governance structure will be measured using the MCGI, which functions as a proxy for the independent variable. The index has become a popular methodological approach to measuring the overall quality of compliance with a comprehensive set of governance-related mechanisms.

Further, firm size (FSIZE) is measured as the natural logarithm of total assets. Leverage (LEV) is measured as the ratio of total debts over total assets. Return on assets (ROA) is measured as net income ratio over total assets. The Auditor is a dummy variable that takes the value of 1 if a firm uses big four auditor firms such as Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and Klynveld Peat Marwick Goedelers (KPMG) and zero if otherwise. The female director variable (WOMEN) is measured as the percentage of female directors on the board. GROWTH is measured as the ratio of dividends per share over the market share price. The financial year (2008 to 2019) is set as dummy variables.

3.3. Method
A panel data analysis is employed since the data are pooled across firms from 2008 to 2019. To estimate the shareholders’ value against the explanatory variables, this equation is the first point to begin; the Ordinary Least Square (OLS) model is as follows:

\[ MCAP_{it} = \beta_0 + \beta_2MCGI_{it} + \beta_3FSIZE_{it} + \beta_4LEV_{it} + \beta_5ROA_{it} + \beta_6AUDITOR_{it} + \beta_7WOMEN_{it} + \beta_8GROWTH_{it} + \beta_9IND_{it} + u_{it} \]

where, \( MCAP_{it} \) is market capitalisation for firm \( i \) in year \( t \); \( MCGI_{it} \) is corporate governance score; \( \Delta MCGI_{it} \) is change in corporate governance score; \( FSIZE_{it} \) is firm size; \( LEV_{it} \) is leverage; \( ROA_{it} \) is return on asset; \( AUDITOR_{it} \) is auditor type; \( WOMEN_{it} \) is proportion of women on board; \( GROWTH_{it} \) is growth opportunity; \( IND_{it} \) is industry type. Further, \( \mu_i \) denotes the unobservable individual effect, \( \lambda_t \) denotes the unobservable time effect, and \( v_{it} \) is the remainder stochastic disturbance term.

Given the desirability of evaluating changes in corporate governance structures over multiple time frames, the use of the OLS fixed effect estimation technique would be helpful as it can control for unobserved firm heterogeneity over the panel time series, while also providing robust regression estimates. The use of the OLS fixed effect estimation technique is used to reduce or eliminate events that cannot be observed. After the heteroscedasticity test using Breusch-Pagan got the results of 74.84 (p-value 0.000), this condition indicates that there is the inconstancy of variance between variables. In OLS, the assumptions used for the inter-variable variables are constant; that is, the variance of the observations is unrelated to the same regardless of the values of the explanatory variables associated with them, and the mean value of the observation is determined by the explanatory variable. Then the value of the observed variance is equal to the mean value. If an unrelated variance exists, it is not there is no certainty that the OLS estimator is the most efficient and unbiased. Therefore, generalized least square (GLS) should be used. GLS is a modification of OLS which takes into account the inequalities of variance in the observations. However, there are other methods that can also be used to solve heteroscedasticity problems such as the generalized method of moment (GMM).
4. FINDINGS AND DISCUSSION

Table 1 presents all variables’ descriptive statistics, and Table 2 shows regression results. The mean value of MCAP is 10,591.7 with a range of 75,4875 to 199,040, suggesting that most of the firms in the sample have lower market capitalization amongst the top 100 firms indexed by the MCGI. The mean value of MCGI is 17.052, with a range of 1 to 99, suggesting that most firms in the sample have a higher range. The mean value of firm size is 8.3653 with a range of 4.8203 to 11.671, implying that most firms in the sample have leverage close to the average leverage of industry. The average total debt utilized by Malaysian top 100 firms indexed by the MCGI accounts for 50%, which is close to the range of the average total debt for most developed countries in the 1990s, being 50 to 60% (Rajan & Zingales, 1995). Moreover, recent studies by Bessler, Drobetz, and Grüninger (2011) indicates that the average total debt for all firms over the world is 25%, for non-US firms is 26%, for US firms is 23%, for common law countries is 25% and for civil law, countries are 27%. Based on this, it seems that Malaysian firms now utilize debt financing as the preferred option to use external financing rather than internal financing, suggesting that the higher the leverage, the higher the shareholder value. This means that firms tend to use external financing rather than internal financing as the preferred options and supports the contention that a trade-off theory was adopted in the Malaysian context, particularly the top 100 firms indexed by MCGI for the study period. However, this result is unstable over time; therefore, an up-to-date investigation of its relationship is necessary. The result also indicates that larger firms have big four audit firms as their auditor. The mean value of WOMEN is 0.3943 with a range of 0 to 3, suggesting that most firms in the sample have lower female directors on board, and some of those firms even have no female directors on boards. This lower existence of female directors on board in the Malaysian listed firms is somehow disheartened as most countries around the world encourage the firms to have more female directors on board. The mean value of GROWTH is 41.738, with a range of 1 to 325, suggesting that most firms in the sample frequently pay dividends.

Table 1. Descriptive statistics

| Variables  | Obs. | Mean  | Std. dev | Min  | Max  |
|------------|------|-------|----------|------|------|
| MCAP       | 564  | 10591.7 | 18802.0 | 75.4875 | 199040 |
| MCGI       | 564  | 17.052 | 25.534 | 1.0000 | 99.000 |
| FSIZE      | 564  | 8.3653 | 1.5877 | 4.8203 | 11.671 |
| LEV        | 564  | 0.5050 | 0.2776 | 0.0435 | 0.9347 |
| ROA        | 564  | 0.1432 | 0.3920 | -0.0497 | 0.5457 |
| Auditor    | 564  | 0.0902 | 0.2975 | 0.0000 | 1.0000 |
| WOMEN      | 564  | 0.3943 | 0.3958 | 0.0000 | 3.0000 |
| GROWTH     | 564  | 41.738 | 62.294 | 1.0000 | 325.00 |

Table 2 presents the correlation matrix for all variables. Based on the correlation value obtained, it shows that there is no strong correlation between variables; this is because the largest correlation value is -0.2934 between the firm size (FSIZE) variable and ROA. It can be concluded that there is no symptom of multicollinearity between variables.

Table 2. Correlation matrix

| Variables | MCGI | FSIZE | LEV | ROA | Auditor | WOMEN | GROWTH |
|-----------|------|-------|-----|-----|---------|-------|--------|
| MCGI      | 1.0000 | | | | | | |
| FSIZE     | -0.0108 | 1.0000 | | | | | |
| LEV       | -0.1764 | 0.2860 | 1.0000 | | | | |
| ROA       | -0.0059 | 0.0916 | 0.0916 | 1.0000 | | | |
| Auditor   | -0.0064 | 0.1576 | 0.1181 | -0.2439 | 1.0000 | | |
| WOMEN     | -0.0072 | -0.0525 | 0.0969 | 0.0847 | -0.1315 | 1.0000 | |
| GROWTH    | -0.0123 | -0.1214 | 0.2626 | 0.1310 | 0.1270 | 0.2202 | 1.0000 |

Table 3 presents the regression results. The MCGI coefficient exhibits a negative and non-significant impact on shareholders’ value, suggesting that the higher the MCGI rank, the lower the shareholders’ value. This indicates that the market players observe the firm’s management of its corporate governance mechanisms. The lower value suggests that the stock of those firms that have than previous MCGI have been actively sold. Thus, it decreases the stock price and affects the shareholders’ value.

The FSIZE coefficient exhibits a positive and significant impact on shareholders’ value, suggesting that the larger the fit size, the higher the market capitalization.

The LEV coefficient exhibits a positive and non-significant impact on shareholders’ value, suggesting that the higher the leverage, the higher the shareholder’s value. This means that firms tend to use external financing rather than internal financing as the preferred options and supports the contention that a trade-off theory was adopted in the Malaysian context, particularly the top 100 firms indexed by MCGI for the study period. However, this result is unstable over time; therefore, an up-to-date investigation of its relationship is necessary. The result also indicates that larger firms with higher assets’ tangibility utilize more leverage to gain the tax benefits of debt, as larger firms have less risk of bankruptcy. Moreover, this result supports the fact that the market capitalization in Malaysia is considerably high, thus attracting investors to acquire capital gain.

The ROA coefficient exhibits a positive and significant impact on shareholders’ value, suggesting that the higher the company’s performance as indicated by ROA, the higher the shareholders’ value.

The Auditor coefficient exhibits a positive and non-significant impact on shareholders’ value, suggesting that using the four biggest audit firms tends to increase the shareholders’ value. This indicates that investors seem to have complete confidence in the company, and it thus increases the stock price.

The WOMEN coefficient illustrates the opposite and significant impact on shareholders which means that the higher the number of female directors, the lower the shareholder value. One of the contributing factors is that the number of female directors is still around 40%. This result does not contradict the agency and resource dependence theory that increasing the level of diversity will reduce the dominance of the decision-making
process and encourage diversity of ideas from various points of view. Generally, having more female directors on the board increases the size of the human resources from which directors can be drawn and can provide some of the different knowledge and skills and additional perspectives that may not be possible with an all-male board. It can be concluded that there is no evidence that the presence of female directors on the board of directors is not effective on share value.

The GROWTH coefficient exhibits a negative and non-significant impact on shareholders' value, suggesting that higher payment of dividends tends to lower shareholder's value. This result indicates that investors of these large firms may not be appealed by getting a higher premium. Technically, those larger firms attempted to convey the information to investors about the firm's prospects by paying a higher dividend. However, the investor might think that higher dividend payments may lessen the firm's ability to develop in the future. Moreover, this result also indicates that higher growth firms tend to have more debt, as they expect to expand their business scale, and debt financing is preferable as it carries a lower cost.

### 5. CONCLUSION

To improve boards' performance, the Malaysian Government has stipulated and released some rules and codes of practice for listed firms to guide listed firms in managing their firm by Malaysia legal requirements and corporate governance standards. There are several regulations that have been issued by the Malaysian Securities Commission, namely principles and guidelines on best corporate governance practices (Securities Commission Malaysia, 2012), and the Malaysian Code of Corporate Governance 2012 which is the first submission of the CG Blueprint and replaces the Code. This MCCG 2012 sets out overarching governance principles and specific recommendations for companies to adopt regarding structures and processes in making corporate governance, both an integral part of their business dealings and as well as their corporate culture. One of the weaknesses of this code is that although many companies have implemented these principles, they have not yet become mandatory, and the impact of these principles on Malaysian companies has not been studied. Thus, this paper attempts to empirically test whether Malaysian firms with better governance increase shareholder value. The results reveal that MCGI, firm size (FSIZE), ROA, and female directors (WOMEN) exhibit a significant impact on shareholders’ value while

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### Table 3. Regression results

| Variables | Model 1 Coefficient | Model 2 Coefficient | Model 3 Coefficient | Model 4 Coefficient |
|-----------|----------------------|----------------------|----------------------|----------------------|
| Constant  | (46931.53)***        | (41844.29)***        | (46785.01)***        | (39906.71)***        |
| MCGI      | 6065.70              | 6065.70              | 5646.21              | 5646.21              |
| FSIZE     | 19.216***            | 19.216***            | 27.6097              | 27.6097              |
| ROA       | 624.23***            | 624.23***            | 641.93***            | 622.92***            |
| LEV       | 1069.90              | 1069.90              | 619.71***            | 604.465              |
| Auditor   | 103.95***            | 103.95***            | 2978.73              | 2988.97              |
| WOMEN     | 1874.81              | 1874.81              | 1903.14              | 1864.148             |
| ROA       | 6260.13***           | 6260.13***           | 6068.77***           | 5771.82***           |
| Auditor   | 2506.77              | 2506.77              | 2255.33              | 2248.26              |
| WOMEN     | 1930.98              | 1930.98              | 2828.63***           | 2828.63***           |
| GROWTH    | 3503.12              | 3503.12              | 3127.90              | 3127.90              |
| Year 2008 | (1216.85)**          | (1216.85)**          | (1385.70)**          | (1545.39)**          |
| Year 2009 | 563.4712             | 563.4712             | 512.814              | 524.039              |
| Year 2010 | 8.5064***            | 8.5064***            | (5.1771)**           | (7.8211)***          |
| Year 2011 | 7.8404               | 7.8404               | 8.0551               | 7.4098               |
| Year 2012 | 1322.746             | 1322.746             | 1322.746             | 1322.746             |
| Year 2013 | 777.99***            | 777.99***            | 1101.07              | 1101.07              |
| Year 2014 | 1194.19              | 1194.19              | 1224.73***           | 1224.73***           |
| Year 2015 | 454.098              | 454.098              | 940.277              | 940.277              |
| Year 2016 | 2265.84***           | 2265.84***           | 719.4                | 719.4                |
| Year 2017 | 3648.42***           | 3648.42***           | 404.206              | 404.206              |
| Year 2018 | 1505.12              | 1505.12              | 360.64               | 360.64               |
| Year 2019 | 264.033              | 264.033              | 488.10               | 488.10               |
| Year 2020 | 777.99***            | 777.99***            | 399.34               | 399.34               |
| Year 2021 | 399.34               | 399.34               | 421.58               | 421.58               |
| Year 2022 | 527.33               | 527.33               | 436.81               | 436.81               |

Notes: Second row is Std. err. *** Sig. level at 1%, ** Sig. level at 5%, * Sig. level at 10%.
leverage (LEV) and GROWTH yield non-significant effects on shareholders’ value. The result also indicates that corporate governance improves firm performance over time. Overall, firms tend to use external financing rather than internal financing as the preferred option. This supports the contention that trade-off theory was adopted in the Malaysian context for the study period. However, this result is unstable over time; therefore, an up-to-date investigation of its relationship is necessary.

Limited data is one of the weaknesses of this research, where the data obtained is still limited to publicly available data such as annual reports obtained from the website and other databases. This result is also related to validate findings, where professional accounting practice can limit problems related to data disclosure. Another thing is the relatively limited sample size of the top 100 companies indexed by the Malaysian Corporate Governance Index from 2010 to 2019. Furthermore, the economic conditions during the data period in this study were also an obstacle in making the findings valid. This paper is important for future research because it can compare the pattern of the impact of corporate governance indices on company performance.

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