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Effect of Corporate Governance and Capital Structure on Corporate Performance in Malaysian Listed Companies: A Conceptual Approach

¹Fauzan, ²Azhar Bin Abdul Rahman, ³Marhaiza Binti Ibrahim

¹PhD Scholar, Department of Tunku Puteri Intan Safinaz School of Accountancy, Universiti Utara Malaysia,
fauzansholeh76@gmail.com

²Professor, Department of Tunku Puteri Intan Safinaz School of Accountancy, Universiti Utara Malaysia,
azhar258@uum.edu.my

³Senior Lecturer, Department of Tunku Puteri Intan Safinaz School of Accountancy, Universiti Utara Malaysia,
marhaiza@uum.edu.my

ARTICLE DETAILS	ABSTRACT
History Revised format: May 2020 Available Online: June 2020	Purpose: Corporate governance and capital structure are seen as significant factors in improving corporate performance. Many researches focusing on how the corporate governance connected to the capital structure have been conducted. However, the information involving public firms in Malaysia remains scarce. Hence, this research aims to advance a conceptual framework that perceive the two major factors; corporate governance and capital structure, towards the performance of public firms in Malaysia.
Keywords Corporate Governance, Capital Structure, Corporate Performance, Malaysia	Design/Methodology/Approach: The annual reports of the companies registered in Bursa Malaysia (year 2013 to 2016) was used as the secondary data. The data was extracted using Thomson Reuters Data Stream Version 5.1 which available at the Sultanah Bahiyah Library of Universiti Utara Malaysia.
JEL Classification: L26, L31	Implications/Originality/Value: The information provided in this study will serve as an added knowledge to redefine the corporate governance policy and capital structure towards strengthening the role of corporate governance and capital structure in public firms in Malaysia This research will facilitate further enhancement of the company performances and benefit the financial report users, creditors, investors, shareholders, as well as stakeholders in public firms in this country.

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Corresponding author's email address: fauzansholeh76@gmail.com

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1. Introduction

Corporate performance has always been a major concern among the stakeholders within a company, including the proprietor, investor, supplier as well as the employee (Jaffar & Abdul-Shukor, 2016; Madrid-Guijarro et al., 2007; Omnamasivaya & Prasad, 2017; Patel et al., 2015; Sinesilassie et al., 2017). According to the researchers, a solid company performance will allow the company to produce trade opportunities and increase prosperity. Truncated

performing companies are commonly not competitive and more likely to experience financial difficulties (Brigham & Houston, 2014). Therefore, it is important for a company to review their performance over the period in stripe with constant changes in the commercial situation (Najmi et al., 2005).

Performance dimension will inform companies to income appropriate achievement and change their strategy to secure the company's upcoming (Najmi et al., 2005). Parker (2000) highlighted numerous reasons urging the needs of an organization to quantify their performance. These include to evaluate the achievement of the company, to determine whether there is an increase in profit, to understand the process of all activities occurring within the company, to recognize where problems may ascend and actions to be taken to correct them, to meet customer needs and to ensure that decisions are made according to a proper evaluation.

Corporate governance has been reported to give influence on the performance of a company (Abidin *et al.*, 2009; Ahmed Haji, 2014; Akpan & Amran, 2014; Al-Ghamdi & Rhodes, 2015; Apadore & Zainol, 2014; Bahreini & Zain, 2013; Ghazali, 2010; Haniffa & Hudaib, 2006; Johl *et al.*, 2015; Ong *et al.*, 2015), capital structure (Ali *et al.*, 2016; Ana *et al.*, 2012; Basit & Hassan, 2017; Bhattarai, 2016; Goyal, 2013; Salim & Yadav, 2012; San & Heng, 2011; Tharmila & Arulvel, 2013; Vātavu, 2015; Zeitun & Tian, 2007). Corporate governance is an established instrument that is adopted to ensure that directors and managers make decisions and operate the company in a way that benefits the stakeholders (Lashgari, 2004). This mechanism includes the procedures, duties, rules, regulations and organizations that affect the way companies are governed, directed, or measured. The Malaysian Code on Corporate Governance (MCCG) 2017 (Mustapha & Ahmad, 2011) stating that the corporate governance is a term that is regularly used to describe procedures and constructions in directing and managing corporate business activities to enhance shareholder productivity.

Corporate governance is a major pillar for an organization in emerging its goals (Hermalin, 2005), particularly in terms of financial disclosure. Current corporate governance is related to higher quality of monetary discovery. Accordingly, MCCG also encourages municipal corporations to adopt good governance observer practices (Ahmad-Zaluki & Wan-Hussin, 2010).

Taking the lesson from the corporate failures and the accounting (scandals) such as that happened to Enron in 2001, MCI WorldCom in 2002, Xerox in 2002, Tyco in 2002, Parmalat in 2003, Lehman Brothers (2008) and Satyam (2009) emphasizing the importance to create better governance for all countries.

In Malaysia, the corporate background has been sparked by several cases of corporate governance that have a poor record of history such as Renong in 1997 that made loans and had to incur the debt of RM 20 billion (Malaysia Today, 2010). In addition, the Malaysia Airlines System (MAS) in 1999 suffered losses of RM 260 million, while Perwaja Steel in 2004 suffered losses of RM 2.56 billion (Utaranews, 2017). Transmile in 2007 and the Klang Free Zone (PKFZ) in 2009 also suffered losses of RM 227 million and RM 254.85 million, respectively (Malaysia Kini, 2016).

In addition to the trust cases, the Minority Shareholder Watchdog Group (KPPSM / MSWG) in 2017 released statistical data on corporate governance obtained from the publicly listed companies on Bursa Malaysia. Based on these statistical data, corporate governance in Malaysia seems to continue to decline and increase (MSWG, 2017).

As such, the Malaysian administration has reserved steps to evaluate and support the corporate governance wherein 1998, the Malaysian Institute of Corporate Governance (MICG) was set up to develop corporate governance in Malaysia. One of its main responsibilities is to develop better practice guidelines by taking examples from companies in other developed countries around the world.

Besides, another factor that causes fluctuations in a company's performance is the capital structure. Capital structure is the approach taken by a company to finance its sources of investment (assets) through the proportions of liability and impartiality (Saad, 2010). Brockington (1990) and Ahmadpour & Yahyazadehfar (2010) describes the capital structure as a component of financing sources consisting of equity and debt.

Generally, companies can choose different types of capital structure. Based on the financial theory, capital structure is

said to affect the financing of a firm and its economic presentation (Abor, 2005). It also influences the commercial activity of a company since it involves the managements of financial resources that available to conduct commercial activities.

The breather of the paper is organized as surveys. The following discussion will include the summary of the previous researches that focusing on the hypothetical background of the association between the corporate governance and the corporate performance as well as the corresponding hypotheses that have been developed in this study.

2. Literature Review

An overview of the literature related to the topics under review is corporate performance, corporate governance, and capital structure.

2.1 Corporate Performance

The corporate performance is assessed by its achievement or the marketplace situation (Hooley et al., 2001). According to Abu-Jarad et al., (2010) most educations have created that dissimilar firms in dissimilar states incline to provide dissimilar presentation evaluation criteria. Several publications have suggested the monetary productivity and development of the company as the greatest commonly used criteria for evaluating corporate performance.

Several scholars take trusted on particular presentation criteria for a company such as creation achievement, sales and marketplace part development, and productivity associated to their projections (Maury, 2006). Other researchers use impartial presentation criteria in relations of revenue, efficiency, distribute sales, productivity, maintenance efficiency, timely delivery, volume consumption, and value (Lind et al., 2000). The use of such objective performance standards is the simplest way to evaluate a company's presentation. Corporate performance also remains restrained by means of long-term criteria such as market presentation and short-term criteria such as a non-market presentation. Some examples of the standards that can be used are the market value addition (MVA), economic value addition (EVA), cash flow growth, earnings per share (EPS), asset growth, dividend growth, and sales growth (Abdullah, 2004; Coles et al., 2001).

However, this research will use returns on assets (ROA) and returns on equity (ROE) as indicators to assess company performance. This method was adopted in the previous study by Dehaene et al., (2001) in their research regarding the firms in Belgium and several other studies such done by Haniffa & Hudaib, (2006) and Aik Leng & Abu Mansor, (2005). Brown and Caylor (2005) also used ROA and ROE as key measures in assessing the corporate presentation. The data of the profit before interest and tax were used as it reflects the company's actual performance and acts as a dependent variable. Additionally, this research will also use the Tobin Q and Intellectual Capital Value Added to measure the company performance.

2.2 Corporate Governance

Corporate governance could be described as the process of how the organization is operated. This process requires stability among the responsibilities of the numerous stakeholders to achieve the financial purposes of the association (Bonn & Fisher, 2005). Corporate governance involves the use of systems or instruments that guides the company management to a decision making that will benefits its stakeholders (Denis & McConnell, 2003). Corporate governance is mainly developed to observe the behaviour of diverse stakeholders and to decrease the agency costs related to principal and agent relationships (Lashgari, 2004; Runhui et al., 2011; Xu & Qiu, 2012). Arora and Sharma (2016) studied the companies of the 20 most important industries in India. They found out that large board size tends to give an advantage to the board of directors, especially to the decision-makers, and consequently affect the financial performance of a company. However, Arora and Sharma (2016) reported that quality does not show a significant part in the presentation of the company, especially on ROE.

The researches that studied on the influence of corporate governance towards the performance of companies in Malaysia has not produced any conclusive results. Ghazali (2010) in his research of 87 non-financial companies listed under the composite index in Malaysia reported that the company performance was not significantly affected by its corporate governance. Abidin et al., (2009) in their research of 75 firms revealed that the importance of the independent directors that was highlighted by the MCCG (2011, 2012) and Bursa Malaysia is strongly related to the company performance in a long period of time. Meanwhile, a research conducted by Haat et al., (2008) involving 142

firms in Malaysia concluded that corporate governance serves a robust impact on predicting a firm performance. Ponnu (2008) in his research of 100 Bursa Malaysia companies stated that there was a strong association between the corporate governance structure and the corporate presentation.

Koufopoulos et al., (2008) that studied on 27 companies listed under the Athens Stock Exchange (ASE) reported that the only factor that produce a positive impact on the company performance is the board size. However, the impact is not statistically significant. Uadiale (2010) that studied 30 companies listed under Nigeria Stock Exchange (NSE) found a negative relationship between the ROE castoff as a representation to assess the presentation of the firm by the quality functions of the chairman and chief executive officer. On the other hand, Sanda et al., (2005) found a positive association between the company performance and the segregation of the duty and function of chief executive and chairman in 93 companies under NSE. However, Leng and Mansor (2005) that studied the 120 registered corporations in Malaysia over four years (1996 to 1999) found that the chief executive with the chairmanship of the board of directors influenced the company performance positively.

2.3 Capital Structure

Capital structure could be defined as the proportion of sanctuaries used by a company for the purpose of a long-term financing and debt. These include the external equity, internal equity, and major stocks (Margaritis & Psillaki, 2010). The ordinary share capital is commonly obtained form the public through the issue of ordinary shares to the shareholders. This type of finance is only applicable to certain type of companies. These shares provide voting rights and may affect the company's decision-making process at the Annual General Meeting. The common stock comes with the high level of risks due to the uncertainty of the refund. Ordinary stocks cannot guarantee refunds and have outstanding claims.

In corporate finance, capital structure is a term used to describe the way a company manage its assets by balancing the ratio of debt, equity or hybrid securities (Saad, 2010). It describes how a company use its entire procedures and development using various bases of resources.

Modigliani-Miller theory is the most adopted theory of capital structure and has been widely accepted around the world. According to Modigliani-Miller, this capital structure operates in a perfect market. Numerous perfect market norms have been made up of rational investment uses, no taxation, perfect competition, no bankruptcy and efficient markets. Modigliani-Miller stated that the financial or financial structure of a company is not associated with the value of a perfect market.

Gleason et al., (2000) reported that different capital structures and classification of retail culture will affect the structure of retail capital. The study that was conducted on 14 European countries revealed that the culture does not influence the retailer presentation and the capital structure have influence on the company performance.

On the other hand, another research was carried out by Akintoye (2008) to understand the capital structure presentation for the selected food and beverage firms in Nigeria. This research used sales as an indicator of company performance and leverage as an indicator for the fashion structure. Akintoye (2008) concluded that capital structure significantly affects company performance.

King & Santor (2008) studied the connection between family ownership, corporate performance and capital structure of companies in Canada. Based on Tobin Q's ratios, the results show that families with independent companies having a single class of shares shows the same marketplace presentation, higher bookkeeping presentation constructed on ROA, and higher financial leverage based on overall debt to other assets compared to other companies. By comparison, family-owned companies having two-class shares shows a lower valuation of up to 17% relative to the company size, despite having the same ROA and financial leverage.

In the present study, we used short-term liability, long-term liability and total liability as a measure for capital structure.

3. The Conceptual Framework and Hypotheses Development

The conceptual framework was designed to discover the association between corporate governance and capital structure with corporate performance. In this proposed framework, corporate governance (including the independent directors, CEO duality, board size, board meetings, shareholder ownership, and tenureship) and capital structure (including short-term liability, long-term liability, and total liability) was considered as independent variables and the performance of the company was set as the dependent variable. Figure 1 shows the association between corporate governance and corporate performance as well as the relationship between capital structure and corporate performance.

Figure 1. The Conceptual Framework of the Research

3.1 Corporate Governance and Corporate Performance

Good corporate governance instruments give stockholders confidence in their companies that their investment will accept satisfactory revenues (Shleifer & Vishny, 2012). If elements of corporate governance do not exist or are not functioning properly, investors will not put their investment in the company or buy equity securities (company shares). As a result, the country's economic growth may be adversely affected as many good business opportunities are overlooked and at the same time pose financial difficulties to companies, employees and consumers (Haat et al., 2008). This shows that the destruction of stockholder assurance in Malaysia is outstanding to weak corporate governance standards in the country and lack of transparency in the financial system (Rahman et al., 2011). The failed system of a corporate governance is found to be the main factor that lead to the collapsing of several companies in Malaysia (Mohamad & Ibrahim, 2002).

According to Ghazali (2010), the main purpose of corporate governance is to understand long-term stakeholder value and it is predictable that firms that excel in their corporate governance will stays longer in the industry compared to the companies that have a weak corporate governance structure. Haat et al, (2008) also mentioned that the general perception of corporate governance has a positive association with stable corporate performance due to the introduction of regulations by the MCCG and the listing requirements on Bursa Malaysia.

Previous researches have suggested that corporate governance has a helpful effect on company performance, and a good corporate governance is expected to boost corporate performance and increase company value (Alves & Mendes, 2004; Chang et al., 2005). It also can be a great measure in preventing fraud (Yeh et al., 2002). Firms with improved corporate governance similarly have improved functional presentation than firms with unfortunate corporate governance (Black et al., 2006). Due to better operations, companies with better control are expected to have higher returns (Jensen & Meckling, 1976).

This study provides comprehensive information on how good corporate governance practices will produce a positive outcome on the performance of the company. This statement is corresponding to the agency theory that stated that good governance practices provide better supervision, protect shareholders' interests and able to improve company presentation.

Based on the arguments above, the hypothesis was developed as follows:

H1: There is a positive relationship between corporate governance and corporate performance.

3.2 Capital Structure and Corporate Performance

Mesquita and Lara (2003) reported that the rate of repayment was definitely associated with short-term liability and equity. On the contrary, it has a counterpart to long-term liability. A long-term liability is not profitable for the company as it reduces profitability due to interest payments. While Fu (1997) found a significant association between capital structure and profitability. Furthermore, Chou and Lee (2010) reported that equity and liability repayment are strongly associated with assets.

Similarly, Amjed (2007) revealed a strong association between luck and debt. The findings of the research also support the static trade-off theory which states that total debt has nothing to do with monetary presentation since of the distinct appearances of long-standing and short-range debt. On the other hand, the capital structure has a significant negative effect on the monetary presentation of a company (Onaolapo & Kajola, 2010). Concurrently, Pratheepkanth (2011) reported that there is a negative association between capital structure and financial performance.

Furthermore, Ferati and Egypt (2012) found a positive association between short-term liability and financial performances and negative association between long-term liability and financial performance. Meanwhile, the positive influence of corporate capital structure on the presentation of the firm was reported by Aburub (2012). Additionally, Akhtar, Bakhsh, Ali, and Kousar (2019) found that total debt does not caused a great effect on the company's presentation. Abbas et al., (2014) reported the presence of significant negative association between liability and financial performance.

Similarly, other studies also supported that there is a positive relationship between corporate performance and capital structure, which indictae the underlying theory of capital structure (Adesina et al., 2015; Deping & Yongsheng, 2011; Fosu, 2013). Meanwhile, the negative association between leverage and luck was reported by several research such as conducted by Chakraborty (2010), Pouraghajan et al., (2012), and Tharmila & Arulvel (2013). In contrast, Pouraghajan et al., (2012), Kyule and Ngugi (2014), Kazempour and Aghaei (2015), Hakwani, Shahid, and Hamza (2016) reported a positive association among leverage and luck. However, Khan (2012) revealed a significant negative association between financial leverage and corporate performance.

Based on the arguments above, the hypothesis was developed as follows:

H2: There is a positive relationship between capital structure and corporate performance.

4. Conclusion

This research proposes a conceptual framework for examining corporate governance consisting of the independent directors, CEO duality, board size, board meetings, shareholder ownership, and tenureship as well as capital structure (including short-term and long-term liability, and total liability) towards the corporate performance of public companies in Malaysia. The information provided in this study will be the foundation for future work in obtaining a more solid understanding of the impact of corporate governance and capital structure on corporate performance. Hence, it is hoped will be useful in tackling corporate performance problems in Malaysia.

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