# THE EFFECTS OF CORPORATE GOVERNANCE ON PERFORMANCE OF FEDERAL STATUTORY BODIES IN MALAYSIA

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**Abstract:** *This study securitized the effects of corporate governance (CG) on performance of Federal Statutory Bodies (FSB) in Malaysia. Various static approaches have been used such as Pooled OLS, Fixed Effect and Random Effect to analyze cross sectional time series data over the year of 2009 to 2013 for 51 FSB. . The study found a strong evidence of significant positive effects of Corporate Governance, including Internal and External Governance mechanism on financial and non-financial performance: Key Result Areas (KRA); Accountability Index (AI) and Return On Equity (ROE). It is therefore recommended that the Malaysian public sector agencies should enhance good corporate governance practices in order to accelerate their performance.*

**Keywords**: *Corporate Governance (CG), Effects of CG on Performance, Federal Statutory Bodies, Malaysia*

## 1. INTRODUCTION

Corporate Governance has become a crucial mechanism to improve corporate performance in private and public sectors around the globe. In its attempt to realise Vision 2020, the Malaysia government has launched Government Transformation Programme (GTP) in order to accelerate the performance of public sector agencies through the "embodiment of the highest standard of ethical conduct and good governance to gain the public confidence and trust" (10th Malaysia Plan, 315).

Malaysian public sector agencies which includes Federal Statutory Bodies (FSB) are governed by various legislative, policy and implementation procedures that regulates the governance, management, resource use, accountability and specify their functions. Besides agency-specific legislation, several essential circulars, directives and guidelines such as :1) *Garispanduan bagi Mempertingkatkan Tadbir Urus Dalam Sektor Awam (2007)*; 2) *Arahan YAB Perdana Menteri Bilangan 1 Tahun 2009*: formation of Governance Committee*;* and 3) *Arahan YAB Perdana Menteri Bilangan 1 Tahun 2014*: formation of Governance and Integrity Committee , were distributed to all ministries, state and local government to enhance governance practices in order to improve their delivery services.

In spite of assurance given by the government that Malaysians are able to depend on the government that is responsive, efficient, effective, and committed to the national objective of building a high-income economy and advanced nation through the embodiment of the highest standards of ethical conduct and good governance,, Malaysia continues to suffer shortcomings such as corruption,; inefficiency; unfair action; delay in service provision (Transparency International, 2016, Auditor General's Report 2014 Series 2, the Bureau of Complaint's Report). These shortcomings seem to indicate that there is a weakness in corporate governance practices.

The Malaysian Auditor General encourages all relevant parties "to conduct a continual assessment and feedback mechanisms on governance practices, structure and processes to identify and address both weaknesses and opportunities for improvement." (Buang , 2012). Therefore, the above mentioned shortcomings in the practice of corporate governance in the public agencies deserve attention, assessment and improvement in order to improve the performance of the public sector delivery service. However, parallel to improvement being implemented, it is imperative to know the current state of CG's implementation in the public sector agencies and its effects on their organizational performance.

This study aims to examine the relationship between CG Mechanisms and performance of FSB. It provides an analysis of the effects of internal and external corporate governance: board structure and process; institutional and stakeholders influence on Malaysian FSB's performance.

## 2. LITERATURE REVIEW

### 2.1 Concepts of Governance

According to Tricker, 1984, the word 'governance" is derived from a Latin word 'gubernare' which mean 'to rule or to steer'. While Edwards et al, 2012 indicates that governance is concerned with how societies, governments and organisations are managed and led. Importantly, it includes how they structure and otherwise order their affairs, make decisions and exercise power, and manages their relationships and accountabilities. Analysis of governance can be undertaken at three levels: (a) Public governance which focuses on society; (b) Public sector governance focuses on government; (c) Corporate governance focuses on organisation.

Corporate governance focuses upon the governance of organisations in private and public sector. This research concentrates on the corporate governance of the Malaysian Federal Statutory Bodies (FSB) in public sector.

The definition of corporate governance most widely used is "the system by which companies are directed and controlled. Board of directors are

responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors to satisfy themselves that an appropriate structure is in place." (Cadbury Report, 1992). While the ANAO (2003) defines corporate governance as "the process by which organisation are directed, controlled and held to account". Besides responsible for their directing and controlling functions, directors are also accountable to stakeholders.

In Malaysia, corporate governance is defined as "the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value whilst taking into account the interest of other stakeholders." (MCCG, 2012).

From the above definitions, corporate governance focuses on the structure and process used to direct and manage the business and affairs of the company with the objectives of striking a balance on:

- "The attainment of the company's objectives.
- The alignment of corporate behaviour to meet the expectations of shareholders.
- Accountability and good relationship, taking into consideration the interests of shareholders, stakeholders, corporate participations and society at large. "(Zainal Abidin and Ahmad, 2007).

### 2.3 Corporate Governance and Performance

The definition of corporate governance according to MCCG (2012), emphasises the contribution good governance "towards enhancing business prosperity with the ultimate objective of realizing long-term shareholder value." It implies that good governance will enhance organizational performance towards prosperity and add shareholder value.

Kapper and Love (2004) found high positive association between better governance and operating performance using firm level data of 14 emerging stock markets with return on assets as a proxy for operating performance. Likewise, some other researchers using G Index and G Score such as Gompers at el, (2001), Drobetz et al (2004), Brown & Caylon, (2004) reported a positive correlation between the quality corporate governance and their quality of profitability.

Corporate governance mechanisms can be broadly catogrised into groups: internal CG (ICG) mechanisms and external CG (ECG) mechanisms. ICG mechanisms refer to the structural and process components that are utilised to manage performance. Agency theory indicates that performance is

susceptible to the principal-agent problem. As such, internal structural component that serve to mitigate the principal-agent problem should promote positive FSB performance in the long term (Kiel & Nicholson, 2003; Slaughter & Leslie, 1997; Uhrig, 2003). While external CG (ECG) mechanisms refer to external actors exercising control over FSB's performance (Freeman1994, AIdridge 2004, Major & Nhopper 2004, Ritzer 2004) These mechanism concern with stakeholder and institution's influence through legitimacy and coercive, mimetic and normative isomorphism. Thus, besides Agency Theory, Stakeholder Theory and Institutional Theory are adopted in this study.

## 3. RESEARCH FRAMEWORK AND METHODOLOGY

### 3.1 Theoretical and Conceptual Framework

As indicated above, Agency, Stakeholder and Institutional Theories form the theoretical framework of this study. Whereas the conceptual framework addresses the relationship between the corporate governance practices and performance of FSB based on the theoretical framework formulated. The operationalisation of the corporate governance variables to effect performance of FSB for the purpose of empirical testing of hypotheses is shown in Figure 1.

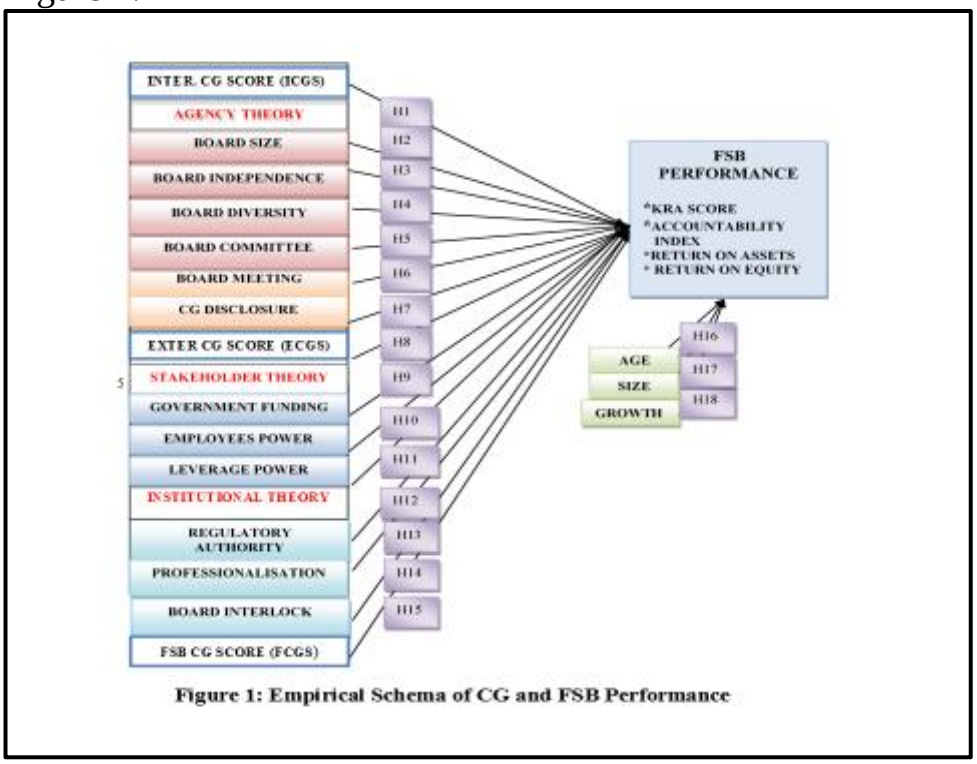


**Figure 1: Empirical Schema of CG and FSB Performance**

FSB Corporate Governance Score (FCGS) is a composite of internal corporate score (ICGS) and external corporate governance score (ECGS) which represents the overall level of CG practices of FSB.. ICG mechanisms have 4 board structure variables; Board Size (BSZ), Independent Director (BIN), Board Diversity (BDV), Board Committee (BCM), and 2 board process: Board Meeting (BME) and CG Disclosure (CGD). While ECG mechanisms have 3 Stakeholder Influence; Government Funding (GFN), Employee Power (EPW), Leverage Power (LPW) and 3 Institutional Isomorphism variables; Regularity Authority (RAY), Professionalisation (PRO), Board Interlocking (BTK). FSB performance represented by Key Result Area Scores (KRAS), Accountability Index (AI), Return of Assets (ROA) and Return of Equity (ROE) are dependent variables, while there are 3 control variables: Organisation's Age (LAG); Organisation's Size (LSZ); and Growth of Sales or revenue (GRO).

### 3.2 Governance Model

The analytical governance model of this study is based on the empirical schema as shown in Figure 1. It attempts to explain the relationship between corporate governance practices and the performance of FSB. The level of FSB's corporate governance practice is represented by Corporate Governance Score (FCGS) which is the composite of Internal Corporate Governance Score (ICGS) and External Corporate Governance Score (ECGS). The governance model to test the relationship between CG practices and performance in FSB is as follows:

$$\mathbf{Qit = a + b\ FCGSit + c\ Xit + Eit} \quad (1)$$

$$\mathbf{Qit = a + b1\ ICGSit + b2\ ECGSit + cYit + Eit} \quad (2)$$

Where Qit is the FSB performance measures: ROA, ROE, AI, KRAS
The FCGSit is a vector of FSB corporate governance score for FSB at time t
ICGSt represents a vector of internal corporate governance score for FSB at time t
ECGSit ia a vector of external corporate governance score for FSB at time t
Yit represents a vector for FSB organisational characteristics at time t: LAG, LSZ, GRO

i= 1-51, t = 2009-2013 and Eit = Error term.

$$\mathbf{Qt = a + b1tBSZt + b2tBIN + b3tBDVt + b4tBCM4t + b5tBMEt + b6CGDt + b7tGFNt + b8tEPWt + b9tLPWt + b10tRAYt + b11tPROt + b12tBTKt + c1tLAGt + c2tlLSZt + c3GROt + Et} \quad \mathbf{(3)}$$

Where Qt = performance, an dependent variable; ROA, ROE, AI and KRAS
a = Intercept
b = Slope of the independent variables;
c = Slop of the control variables.
Independent variables: board size (BSZ), board independence (BIN), board diversity (BDV), board meeting (BME), board committee (BCM), corporate governance disclosure (CGD), regulatory authority (RAY), professionalisation (PRO), board interlock (BTK), government funding (GFN), employees power (EPW) and leverage Power(LPW),
Control variables: organisation's age (LOAG), organisation's size (LOSZ), growth of sales (GRO) of FSB.
t = periods;Et = error term.

### 3.3 Hypotheses Development

The hypotheses developed in this study are based on the argument that the good corporate governance practices have a positive relationship with performance of FSB in accordance with the findings of previous studies by Gompers at el, (2001), Drobetz et al (2004), Brown and Caylon, (2004) Kapper and Love (2004), Black, Kim, Jang, and Park (2009), Hodgson, Lhaopadchan, and Buakes (2011). The main functions of board of directors are to monitor the performance of CEO, executive management and the performance of the FSB since they are accountable to various stakeholders who are affected by the activities of the FSB as stated in the empirical schema of the studies (Figure 1). The monitoring mechanism of FSB can be classified into internal corporate governance mechanisms and external corporate governance mechanisms.

Hypotheses H1, H2, H3, H4, H5, H6 and H7 are related to the internal corporate governance mechanisms and their influence on the performance of FSB. These hypotheses suggest that strong corporate governance will influence better performance hence internal corporate governance mechanisms will have positive relationship. Therefore H1, H2, H3, H4, H5, H6, H7 have significant positive relationship with FSB's performance

.Hypotheses H8, H9, H10, H11, H12, H13, and H14 are related to the external corporate governance and their influence on FSB's performance. These hypotheses suggest that strong external corporate governance mechanisms represented by institutional isomorphism and stakeholders influence will influence better FSB's performance hence external corporate governance will have a positive relationship with FSB performance.

Therefore H8, H9, H10, H11, H12, H13 and H14 have significant positive relationship with FSB's performance.

The level of overall corporate governance practices in FSB is represented by the FSB Corporate Governance Score (FCGS). FCGS is a composite of Internal Corporate Governance Score (ICGS) and External Corporate Governance Score (ECGS).

Hypothesis H15 is related to the FSB Corporate Governance Score (FCGS) and its influence on the performance of FSB. This hypothesis suggests that better score of FCGS will influence better performance hence FCGS will have positive relationship with the FSB's performance.

### 3.4 Population and Sample

The population of this study consists of 127 Malaysian Federal Statutory Bodies (FSB) (AG Report, 2013). FSB are selected as a basis for this study since they form about half of the total federal government entities with about 670,000 staff (Buang, 2012b). They are also bodies corporate i.e. incorporated by their own incorporation acts and adopt a corporate style management. Board of directors play a crucial role in implementation of good corporate governance which according to institutional and stakeholder theories will enhance their FSB's performance.

A purposive and stratified sampling is being used. A sample size of 51 FSB was chosen for this study since each of these agencies has the accountability index which will be used as performance indicator.

### 3.5 Data Collection

Data of this study were obtained by content analysis. Content analysis was based on publicly disclosed information in 51 FSB's annual reports for the year 2009 till 2013 to analyse the relationship between ECGS and FSB's performance. The study is therefore, involves with 255 observations.

| | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|
| BSZ | 6.0 | 28.0 | 11.157 | 4.0955 |
| BIN | .6667 | 1.0000 | .880536 | .0651049 |
| BDV | .0000 | .7500 | .147357 | .1099074 |
| BCM | .00 | .90 | .5264 | .17347 |
| BME | 1.00 | 20.00 | 5.6890 | 3.07895 |
| CGD | .1250 | .8762 | .523485 | .1460004 |
| ICGS | .5052 | .9015 | .646686 | .0667602 |
| GFN | .0000 | .9946 | .519700 | .3661234 |

| | | | | |
|---|---|---|---|---|
| EPW | .00 | 1.00 | .7126 | .45344 |
| LPW | .0000 | .9730 | .032458 | .1197014 |
| RAY | .0000 | 1.0000 | .759843 | .4280224 |
| PRO | .00 | 1.00 | .8425 | .36497 |
| BTK | .6667 | 1.0000 | .863036 | .0669371 |
| ECGS | .1320 | .9705 | .621692 | .1479873 |
| FCGS | .3787 | .8635 | .634189 | .0848059 |
| KRAS | .5000 | 1.0000 | .834773 | .1227095 |
| AI | .6271 | .9667 | .836792 | .0732915 |
| ROA | -8.7200 | 97.9200 | 5.734945 | 10.4377229 |
| ROE | -8.8000 | 100.0000 | 6.650425 | 10.7923721 |
| OAG | 1.0 | 64.0 | 23.913 | 15.2027 |
| OSZL | 6.74401 | 11.80759 | 8.8896212 | 1.02482855 |
| GRO | -97.9000 | 270.7300 | 15.447093 | 37.1304130 |

### 3.6 Data Analysis

Data collected were edited, checked to have the required quality, accuracy, and completeness. Then the data were analysed using SPSS and STATA which produced descriptive outputs, Correlation analysis and panel data regression analysis: Pooled OLS, Random Effect and Fixed Effect have been used to determine the extent of variations in performance of FSB will be explained by FCGS, ICGS, ECGS and other variables. Various diagnostic tests such as normality, heteroscedasticity, serial correlation, Hausman test and others will be conducted.

## 4. RESULTS AND DISCUSSION

The following section reveals the results of the study: 1) Descriptive statistics; 2) Correlation analysis; 3) Regression analysis that show the relationship between CG mechanisms and performance of FSB.

### 4.1 Descriptive Statistics

Table 1 provides the descriptive statistic for key variables used in the study over the period 2009 to2013. The overall level of CG practices represented by FCGS is 63.42% which is just above average as compared to the assurance by the government ‘good governance’. The mean board size of FSB (BSZ), women board members (BDV), CG disclosure (CGD),

governing funding (GFN) and leverage or lending power (LPW) are 11, 15, 52.35%, 52% and 3.25% respectively.

Meanwhile, the mean performance of the FSB in term of KRAS, AI, ROA and ROE are 83.48%, 83.68%, 5.73% and 6.65% respectively.

As for control variables, the average organisation's age (OAG) is 24 years old, the average organisation's size is RM 775 million worth of assets and the average growth of sales/revenue is 15.45% per year.

The average level of internal corporate governance (ICGS) practices is 64.67% while the average level of external corporate governance (ECGS) is

| | SZ | IN | DV | CM | ME | GD | CGI | FN | PW | PW | AY | RO | TK | CGI | CGI |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SZ | | | | | | | | | | | | | | | |
| IN | 106 | | | | | | | | | | | | | | |
| DV | .106 | 083 | | | | | | | | | | | | | |
| CM | 064 | 284** | 009 | | | | | | | | | | | | |
| ME | .123* | .009 | .015 | 103 | | | | | | | | | | | |
| GD | 065 | 374** | .150* | 464** | 240** | | | | | | | | | | |
| CGS | .412** | 332** | 296** | 621** | 301** | 582** | | | | | | | | | |
| FN | .066 | .248** | 108 | .247** | .168** | .380** | .277** | | | | | | | | |
| PW | 029 | .026 | .150* | 273** | 165** | 138** | 183** | 017 | | | | | | | |
| PW | .188** | 011 | 025 | 097 | 121 | .027 | 160** | .001 | 125* | | | | | | |
| AY | .017 | .001 | 070 | .026 | 096 | .044 | 053 | .035 | .092 | 019 | | | | | |
| RO | 059 | 174** | .014 | 060 | 213** | 097 | 183** | .006 | 323** | 086 | 162** | | | | |
| TK | 133* | 619** | 180* | 279** | 197** | 327** | 325** | .306** | .091 | .041 | 046 | 226** | | | |
| CGS | .012 | 021 | 027 | 071 | 171** | .045 | 122 | 374** | 590** | 179** | 498** | 681** | 040 | | |
| CGS | .173** | 149** | 140** | 306** | 268** | 190** | 500** | 217** | 587** | 219** | 455** | 666** | 163** | 921** | |

62.17%, slightly above average.

Table1: Descriptive Statistics of ICG, ECG, Control and Dependent Variables

### 4.2 Pearson Correlation Matrix of CG

Table 2 demonstrates the results of Pearson correlation analysis of 15 variables used in the CG mechanisms. Board Committee (BCM) has a significant positive correlation at $p<0.01$with Independence (BIN). Board meeting (BME) has a significant negative correlation at $p<0.05$ with Board Size (BSZ). CG Disclosure (CGD) has significant correlation with Board Independent (BIN), Board Diversity (BDV), Board Committee BCM) and Board Meeting (BME).

**T**able2: Pearson Correlation Matrix of Independent Variables
*Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2_tailed)

Internal Corporate Governance score has significant correlation with Board Size (BSZ), Board Independent (BIN)
Board Diversity (BDV), CG Disclosure (CGD), Board Committee (BCM) and Board Meeting (BME).

Meanwhile, External Corporate Governance Score has significant correlation with Government Funding (GFN), Employee Power (EPW), Leverage Power (LPW), Regulatory Authority (RAY), Profesionalisation (PRO), and Board Meeting (BME) at $p< 0.01$.

Government Funding (GFN) has a significant negative correlation with Board Independent (BIN), Board Committee (BCM), Board Meeting (BME), CG Disclosure (CGD) and Internal Corporate Governance Score (ICGS).

Employee Power (EPW) has a significant negative correlation with Board Diversity (BDV) but has significant positive correlation with Board Committee (BCM), Board Meeting (BME), CG Disclosure (CGD) and Internal Corporate Governance Score (ICGS).

Leverage Power (LPW) has significant relationship with Board Size (BSZ) and Internal Corporate Governance Score (ICGS).

Profesionalisation (PRO) has significant positive correlation with BIN, BME, ICGS, EPW and RAY at $p<0.01$. Board Interlocking (BTK) has significant relationship with all independent variables except EPW, LPW and RAY.

Further, External Corporate Governance Score (ECGS) also correlate with BME, GFN, EPW, LPW, RAY and PRO. The overall level of corporate governance practices represented by FCGS has significant correlation with all independent variables. However there is no multicollinearity between variables since each individual correlation value is not higher than 0.7, except between ECGS and FCGS. This test indicates that ECGS cannot be regressed with FCGS.

### 4.3 Multiple Regression Analysis

Panel data regression analysis was used to test the hypotheses and to reveal the relationships between internal corporate governance mechanisms and FSB performance. Test of heteroscedasticity, autocorrelation and Hausman test were done to select the appropriate analysis either Pooled OLS, Fixed Effect or Random Effect. The results of Regression analysis based on the model as stated in 3.2 are as follows:

#### 4.3.1 Relationship between FCGS and FSB Performance

Table 3 shows the regression analysis according to Model 1:

**Qit = a + b FCGSit + c Xit + Eit** (1)

FSB Corporate Governance Score (FCGS) represents the overall level of corporate governance practices, FSB performance represented by Return of Assets (ROA), Return of Equity ROE), Accountability Index (AI) and Key Result Areas (KRAS) and control Variables: Organisation's Age (LOAG), Organisation's Size (LOSZ) and Growth of Sales (GRO)

TABLE 3: Results of Regression Analysis of FCGS and FSB Performance

| MODEL 1 | ROA | ROE | AI | KRAS |
|---|---|---|---|---|
| **(Constant)** | 3.921<br>(2.60)*** | -4.185<br>(-2.71)** | 0.698<br>(15.37)*** | 0.448<br>(5.33)*** |
| **FCGS** | 3.272<br>(1.68)* | 8.395<br>(4.24)*** | 0.084<br>(1.79)* | 0.431<br>(4.38)*** |
| **LOAG** | -0.737<br>(-1.60) | 0.695<br>(1.49) | 0.040<br>(1.97)** | 0.060<br>(1.84)* |
| **LOSZ** | -.215<br>(-1.62)* | 0.180<br>(1.34) | 0.003<br>(0.93) | 0.004<br>(0.64) |

| | | | | |
|---|---|---|---|---|
| **GRO** | -0.000<br>(-0.06) | -.000<br>(-0.21) | -0.000<br>(-0.35) | 0.000<br>(0.44) |
| **R-Squared** | 0.0316 | 0.1024 | 0.1818 | 0.1866 |
| **F-statistics** | (2.04)* | (8.25)*** | (10.93)** | (30.07)*** |

Notes: The values of coefficients are in the 1st row of the cell.
The values for T statistics are in parenthesis in the 2nd row of the cell.
* Indicative variables are at the 0.10 significant level.
**Indicative the variables are at the 0.05 significant level
***Indicative the variables are at the 0.01 significant level

As indicated by Table 3, F-statistics or the model fit for ROA, ROE. AI and KRA as proxies of FSB performance were significant at level of $p < 0.01$, $p<0.05$ and $p<0.1$. According to this model, FSB performance measured in term of ROA, ROE, AI and KRAS has significant relationship with overall corporate governance practices (FCGS) at $p<0.1$ and $p< 0.01$, and individually it has significant positive relationship at $p<0.05$ and $p<0.10$ with organisation's age and a significant negative effect on organisation's size.

### 4.3.2 Relationship between ICG and ECG Mechanisms and FSB Performance

Tables 4 shows the regression analysis according to Model 2:

$$\mathbf{Qt = a + bICGSit + bECGSit + cYit + Eit.} \qquad \mathbf{(2)}$$

Model 2 attempts to establish the effects of Internal Corporate Governance, External Corporate Governance mechanisms or variables on FSB performance represented by Return of Assets (ROA), Return of Equity (ROE), Accountability Index (AI) and Key Result Areas (KRAS) with Organisation's Age (LOAG), Organisation's Size (LOSZ) and Growth of Sales (GRO) as control variables.

As indicated by the regression analysis in Table 4, F-statistics or the model fit for ROA, ROE. AI and KRA as proxies of FSB performance were significant at level of $p < 0.01$, and $p<0.1$. According to this model, internal corporate governance measured in term of ICGS has significant positive relationship with FSB performance measured in term of ROE, AI and KRAS. While external corporate governance (ECGS) has significant positive

effects on ROE and KRAS relationship at p< 0.01. Organisation's age has significant positive effects on AI and KRAS, Growth of sales (GRO) has positive relationship with ROE. However organisation's size (LOSZ) has significant negative effects on ROA. This indicates that the bigger the size of the organization the lesser is the return on assets (ROA).

TABLE 4: Results of Regression Analysis of ICGS, ECGS and FSB Performance.

| MODEL 2 | ROA | ROE | AI | KRAS |
|---|---|---|---|---|
| **(Constant)** | 3.374<br>(1.96)* | -4.840<br>(-1.96)** | 0.595<br>(9.63)*** | 0.422<br>(3.86)*** |
| **ICGS** | 3.140<br>(1.26) | 9.885<br>(2.89***) | 0.227<br>(2.85)*** | 0.270<br>(1.79)* |
| **ECGS** | 1.306<br>(1.19) | 3.664<br>(2.93)*** | 0.015<br>(0.58) | 0.206<br>(3.74)*** |
| **LOAG** | -0.737<br>(-1.60) | -0.073<br>(-0.10) | 0.042<br>(2.06)** | 0.060<br>(1.83)* |
| **LOSZ** | -.2402<br>(-1.74)* | -0.020<br>(-0.14) | 0.003<br>(0.86) | 0.004<br>(0.58) |
| **GRO** | -0.000<br>(-0.06) | 0.005<br>(1.85)* | -0.000<br>(-0.35) | 0.000<br>(0.44) |
| **R-Squared** | 0.033 | 0.1024 | 0.1962 | 0.1866 |
| **F-statistics** | (1.71)* | (8.25)*** | (17.04)*** | (30.07)*** |

Notes: The values of coefficients are in the 1st row of the cell.
The values for T statistics are in parenthesis in the 2nd row of the cell.
* Indicative variables are at the 0.10 significant level.
**Indicative the variables are at the 0.05 significant level
***Indicative the variables are at the 0.01 significant level

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### 4.3.3 Relationship between CG Mechanism and FSB Performance

Tables 5 shows the regression analysis according to Model 3:

**Qt = a + b1tBSZt + b2tBIN+ b3tBDVt + b4tBCM4t + b5tBMEt + b6CGDt +b7tGFNt + b8tEPWt + b9tLPWt + B10tXRAYt + b11tPROt + b12tXBTKt + c1tLAGt + c2tlLSZt + c3GROt +Et (3)**

Model 3 attempts to establish relationship between individual corporate governance mechanisms or variables, and FSB performance represented by Return of Assets (ROA), Return of Equity (ROE), Accountability Index (AI) and Key Result Areas (KRAS) with Organisation's Age (LOAG), Organisation's Size (LOSZ) and Growth of Sales (GRO) as control variables.

Table 5 indicates that Board Size (BSZ) has a significant positive relationship with Key Result Area (KRAS) at p<0.01 as initially hypothesized. Board Independent (BIN) has a significant positive effect on ROA.

TABLE 5: Results of Regression Analysis of CG Variables, Control Variable and FSB Performance

| MODEL 3 | ROA | | ROE | | AI | | KRA. | |
|---|---|---|---|---|---|---|---|---|
| | Coeff. | t Sig | Coef f. | t Sig | Coeff | t Sig | Coeff. | t Sig |
| Constant | -1.282 | (-0.35) | -1.524 | (.-0.44) | 0.782 | (8.46)*** | 0.142 | (1.56) |
| BSZ | 2.488 | (1.62) | 2.244 | (1.49) | -0.0273 | (-0.61) | 0.181 | (3.68)*** |
| BIN | 5.910 | (1.79)* | 3.284 | (1.03) | 0.159 | (0.22 | 0.046 | (0.34) |
| BDV | 1.945 | (1.34) | 3.8134 | (2.73)*** | 0.056 | (1.96)* | -0.002 | (-0.03) |
| BCM | -1.623 | (-1.02) | 0.537 | (0.34) | 0.073 | (1.22) | 0.052 | (1.09) |
| BME | -0.088 | (-1.47) | -0.058 | (-0.99) | -.001 | (-0.54) | 0.001 | (-0.41) |
| CGD | 0.398 | (0.24) | 2.126 | (1.30) | 0.040 | (0.89) | 0.171 | (3.03)*** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| GFN | -1.903 | (-2.98)*** | -1.792 | (-2.78)*** | 0.004 | (0.19) | 0.008 | (0.38) |
| EPW | 1.025 | (1.82)* | 1.338 | (2.42)** | 0.285 | (1.18) | 0.055 | (3.35)*** |
| LPW | -1.231 | (-0.79) | 3.916 | (2.59)*** | -0.024 | (-0.67) | 0.231 | (4.10)*** |
| RAY | 0.453 | (1.70) | 0.563 | (2.22)** | 0.003 | (0.67) | 0.041 | (2.68)*** |
| PRO | 1.149 | (1.53) | 1.915 | (2.59)*** | 0.014 | (0.34) | 0.065 | (3.01)*** |
| BTK | -0.166 | -0.05 | -2.801 | (-0.92) | -0.131 | (-2.08)** | 0.196 | (1.42) |
| LOAG | -1.564 | (-2.31)** | -0.438 | (-0.66) | 0.040 | (1.79)* | 0.009 | (0.42) |
| LOSZ | -1.564 | (-1.05) | -0.104 | (-0.71) | 0.002 | (0.77) | -0.005 | (-.0.72) |
| GRO | 0.005 | (1.54) | 0.005 | (1.48) | -.000 | (-0.53) | -0.000 | (-0.24) |
| R sq<br>F | 0.301<br>(37.81)*** | | 0.882<br>(1.87)** | | .268<br>(17.72)** | | .359<br>(8.92)*** | |

Notes: The values of coefficients are in the 1st row of the cell.

The values for T statistics are in parenthesis

* Indicative variables are at the 0.10 significant level.

**Indicative the variables are at the 0.05 significant level

***Indicative the variables are at the 0.01 significant level

While Board Diversity (BDV) has a significant positive relationship with ROE and AI. Meanwhile Corporate Governance Disclosure has a significant positive relationship with KRAS.

Furthermore, Employee Power (EPW), Leverage Power (LPW), Regulatory Authority (RAY) and Professionalisation (PRO) have significant positive effects on ROE and KRAS as initially expected.

Contrary to expectation is the finding on Government Funding. GFN has a significant negative relationship with ROA and ROE. It means that the more government funding the lesser is return on assets and return on equity. This is possible due to the fact that government funds are for development expenditure not for making profit.

Board Interlocking (BTK) has a significant negative effect on financial management (AI) which is contrary to prediction of hypothesis H14. This may be due to conflicting ideas in pursuing decisions on financial management.

Organisation's age (LOAG) has a significant negative effect on ROA and a significant positive effect on AI. Organisation's experience may have positive effect on non- financial performance but not the financial performance. Other mechanisms such as Board Committee (BCM), Board meeting (BME), Organisation's Size (LOSZ) and Growth of sales or revenue (GRO) have no significant effects on FSB Performance.

## 5. CONCLUSION

Corporate governance is a crucial mechanism in order to accelerate performance in private and public organisations around the globe. Malaysia is undergoing a dramatic transformation to become a high-incomed developed nation by year 2020. Its government is implementing Government Transformation Program (GTP) in order to accelerate the performance of public sector agencies through the embodiment of highest standard of ethical conduct and good governance. In spite of this assurance by the government, Malaysia continues to experience challenges including corruption, inefficiency, unfair actions, and delay in service provision. These shortcomings are symptoms of weak CG and deserve attention, assessment and improvement. Hence, this study aims to scrutinise the relationship between overall corporate governance (FCGS), internal and external CG mechanisms and performance of Federal Statutory Bodies (FSB).

The mean level of overall corporate governance practice in FSB is only 63.42% which is only above average, not according to the assurance by the government i.e. good governance. Mean board size is 11 which is higher than in top 100 public listed companies i.e. 8. Women on board is 14.73% compared to 9.7% in top 100 public listed companies. The government's target for women on board for 2016 is 30%. Meanwhile, the mean CG disclosure of FSB is at average level i.e. 52.35%

This study shows that there is a significant positive relationship between overall CG (FCGS), internal CG (ICGS) and external CG (ECGS) and their mechanisms: BSZ, BIN, BDV, CGD, EPW, LPW, RAY and PRO and FSB performance. Meanwhile, Organisation's age (LOAG) has a significant positive relationship with AI and a significant negative effect on ROA. Organisation's size (LOSZ) has a significant negative relationship with ROA. BTK also has a significant negative effect on AI. While BCM, BME and GRO have no significant relationship with FSB performance.

The results shows that positive increase in BSZ, BIN, BDV, CGD, EPW,LPW, RAY and PRO will contribute to better FSB performance. On the other hand, Board Committee (BCM) and Board Meeting (BME) have no effect on FSB performance since most FSB have their meeting (BME) more than expected 4 times annually and most FSB have sufficient board committee (BCM).

It is therefore recommended that all public sector agencies should practice good CG in order to enhance good performance.

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