

The Mechanisms of Corporate Governance and Firm Performance: Evidence from Malaysia's ACE Market

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Abstract: Corporate governance is pivotal for company performance, but Malaysian companies are not necessarily confident in their system. For companies on the ACE Market where the degree of adoption for MCGG is lower, the threat of delisting grows greater. This study, by using firm performances as measured by ROA and Tobin's Q, sought to answer whether there is an association between company return on assets (ROA) and Tobin's with the effect of these corporate governance mechanisms. This study using a sample of 103 listed companies in the ACE Market, our study obtained diversified metrics of governance effect on firm performance through OLS during the regression analysis process. Risk management committees and CEO duality had negative impacts on ROA; but their impacts were minor in relation to Tobin's Q. The size of the board and firm age both had a positive effect on ROA; however, the default rate decreased with the frequency of board meetings. Our results are consistent with the relational complexity of governance–performance phenomena underdeveloped. It seems that a one-size-fits-all categorical endorsement may not have any impact. The study provides practical implications to the literature for policy decision makers, managers of firms across countries (especially in emerging economies like India, who want to improve their quality of transparency and accountability) and investors.

Keywords: *Corporate governance, firm's performance, ordinary least squares, MCGG*

1. Introduction and Background

Most academics and business experts concur that successful corporate governance procedures are essential to the success of an organisation (Talalwa, Magableh & Badwan, 2024). Implementing robust corporate governance practices is advisable to improve both business performance and sustainability (Atugeba & Acquah-Sam, 2025). Studies demonstrate that countries with strong corporate governance structures achieve faster business growth, drawing increased capital inputs. Thus, efficient corporate governance substantially enhances organisational competitiveness and long-term sustainability (Wu, Alkaraan, & Le, 2023). Companies that prioritise corporate governance frequently exhibit enhanced cash flow and diminished capital costs, eventually augmenting the value of shareholders.

Companies that highlight corporate governance frequently exhibit enhanced cash flow and diminished capital expenses, hence augmenting shareholder value (Talalwa et al., 2024). Corporate governance mechanisms have been shown to connect with business success in numerous theoretical and empirical studies in emerging economies (Singla & Prakash, 2023). Prior research indicates that effective corporate governance frameworks in emerging economies are essential for domestic enterprises and foreign investors seeking significant investment and growth possibilities in these markets (Coleman & Wu, 2021).

Furthermore, a previous study contended that inadequate corporate governance frameworks are the underlying causes of financial statement fraud. Effective corporate governance can enhance the quality of internal control. Moreover, since it is shown that compliance with corporate governance in organizations may improve the quality of financial reports (Md Nasir & Hashim, 2021).

The Malaysian Institute of Corporate Governance (MICG) is one of Malaysia's main organizations working on corporate governance issues. In 1998, the MICG was founded as an independent corporate governance institute with several functions. It delivers information for clear and effective corporate governance applications in Malaysia. MICG also handles corporate governance issues that complement those addressed by CCM, Bursa Malaysia, SCM, and MIA. For instance, MICG is already actively calling for the Malaysian Code on Corporate

Governance (MCCG) which was launched by insisting that the Board of Directors for any publicly-traded company commit to follow it in their annual reports.

However, as a result of stringent listing requirements and poor company performance, many firms have been removed from the main market in Malaysia to be placed on a lower one, PN17. These objectives guide our study as we explore the connections between corporate governance and the business performance of Malaysia-listed corporations. Several businesses are delisted from the Main Market to PN17 for want of or inferior MCCG disclosures. After the implementation of MCCG by the Malaysian Government, the financial performance of listed corporations has significantly improved. MCCG is highly vital to the firm's performance. This issue may also stem from stringent listing requirements, which render it challenging for some companies to remain viable in the primary market. Hence, this research is prompted by the issue arising from the inadequate MCCG disclosure by Malaysian enterprises, which results in numerous companies being susceptible to delisting from the market.

The primary goal of this research is to investigate the relationship between corporate governance and firm performance in Malaysia, as well as to explain how corporate governance can favorably affect firm performance. As well as how corporate governance can influence and enhance firm performance. Correspondingly, aims to address the deficiencies of prior research by employing characteristics to enhance understanding and yield beneficial outcomes for organisations and investors. This research provides practical implications and significant insights for investors and organisations, facilitating informed decision-making, improving corporate governance processes, and enhancing performance in the sector of consumer products and services.

Moreover, this research aims to examine the relationship and impact of corporate governance on the performance of Malaysian firms, utilising return on assets (ROA) and Tobin's Q as proxies. Indeed, ROE and ROA serve as proxies for accounting-based performance metrics, particularly pertinent in emerging nations such as Malaysia (Singla & Prakash, 2023). Firm performance has predominantly been assessed using a singular metric, such as Tobin's Q, return on equity, and return on assets (Mishra & Kapil, 2018).

Corporate governance is crucial for structuring the corporation and making it competitive with international firms. Corporate governance in banks is important because of the various interests that these firms should show consideration for. Therefore, this study has both theoretical and practical implications for the investors and firms by facilitating decision-making processes imposing governance institutions and improving company performance in the Malaysian environment. Therefore, it seeks to bridge this research vacuum by creating a greater comprehension and adding value to organizations and investors through its characteristics. The paper also provides practical consequences and contributions to investors and organizations by promoting more informed decision-making, strengthening corporate governance processes, and boosting the performance of companies in the consumer products/services sector. Lack of empirical evidence and practices on the benefits of corporate governance brings alarm, as it influences both company performance, within Malaysian companies.

2. Literature Review

Agency theory has exerted a profound effect on the field of corporate governance, like the business performance measurement, reasons for earnings management and capital structure decisions at the company level; and it raised concerns in corporate social responsibility (CSR) studies. For instance, Bhatt and Bhatt (2017) studied its impact on firm performance entities whereas Johari (2009) investigated the consequences of earning management. This theory was used to explain the disclosure practice by Haji and Ghazali (2013) whereas Deesomsak (2004) attempted to examine its impact on financial policy.

Risk Management Committee

Risk Management Committee (RMC) mainly assumes the responsibility of a company stewarding risks, which holds all dangers potentially on site, and tries to reduce them during the process of research and development. However, although the specific composition and work system of RMC varies widely by organization, merely having one often braces the improved corporate governance outlook. Karim, et al (2024) dribbles were mainly

RMC in proportion, the frequency of meetings, independence and nature. It is reported that these have an immense effect on company performance. Similarly, the previous studies by Jia(2019) and Alabdullah (2022), these RMC elements in bankruptcy risk research, emphasizing the relevance of this Board towards improved environmental stability for organizations.

H1: A positive relationship exists between RMC and firm performance.

Role Duality

Role duality arises when the CEO also serves as the board chairperson. This arrangement can generate conflicts of interest but may also provide unified leadership. Prior studies report mixed outcomes: some find that CEO duality weakens monitoring and reduces performance (Rahman & Haniffa, 2005), while others suggest it can streamline decision-making. Haniffa and Hudaib (2006) and Tran, Nguyen, and Wang (2021) highlight that the influence of duality, numerous directorships, and managerial rights varies with the performance metric used. Bharath and Shamway (2008), for example, measured duality as a binary variable (1 = CEO is also chair, 0 = otherwise) to capture its potential effect on governance.

Role duality is another essential factor of firm performance (Abdullah, Khatib, Elamer & Hazaea, 2021; Yu, 2023). Duality in a company or business context usually refers to the idea of duality of roles or interests. The underlying principle of this concept is that people who work for a company, especially those in positions of authority or responsibility, sometimes have multiple jobs or obligations that occasionally conflict with one another. This role or conflict of interest may increase the moral, legal, or practical difficulties. Properly managing these dual responsibilities or interests is critical for the company's integrity and ethical conduct. Companies frequently adopt governance frameworks, ethical guidelines, and conflict-of-interest regulations to address these dualistic issues and guarantee that choices and actions are taken in the company's and its stakeholders' best interests. Transparency, disclosure, and the setting of clear ethical norms are often critical instruments in managing duality inside a company. Haniffa and Hudaib (2006) and Tran, Nguyen, and Wang (2021) highlight that the impact of duality, multiple directorships, and managerial ownership varies with the performance metric used. Bharath and Shamway (2008), for example, measured duality as a binary variable (1 = CEO is also chair, 0 = otherwise) to capture its potential effect on governance.

H2: A positive relationship exists between role duality and firm performance.

Number of meetings

Board meeting frequency is an indicator of board activity and monitoring intensity. Lipton and Lorsch (1992) and Jensen (1993) say that frequent meetings help directors stay informed and reduce information gaps. Wijethilake (2015) also notes that regular meetings improve oversight quality and decision-making. Nonetheless, Vafeas (1999) reported that there is no significant association between the number of meetings and companies' performance. Further research found positive associations: El-Mehdi (2007) in Tunisia and Ntim and Osei (2013) in South Africa both observed that companies with frequently arrange board meetings manage to perform better. The mixed results suggest that meeting quality, not just quantity, is a key factor. According to Jackling and Johl (2009), arranging board meetings frequently can strengthen the external factors and internal governance relationship, potentially improving a company's overall performance (Kallamu & Saat, 2015).

H3: A positive relationship exists between the number of meetings and firm performance.

Board Size

Board size refers to the total number of directors serving on the board. Bigger boards can deliver various expertise and improve oversight, potentially leading to a better performance (Al Farooque, Buachoom, & Sun, 2020; Pucheta-Martínez & Gallego-Álvarez, 2020). However, the coordination difficulties in large boards may slow decision-making and harm efficiency (Lipton & Lorsch, 1992). Due to the complexity of the business environment in developing countries, where competition is limited, regulations are less strict, and information asymmetry is more pronounced, corporate boards gain particular importance. In this setting, the board of directors plays a crucial role in monitoring the management behavior and guiding strategic decisions, with important consequences for managers' operations (Disli et al., 2022). Bhatt and Bhattacharya (2015) and Kamarudin et al. (2025) observed that larger boards and higher attendance rates were linked to better firm performance, whereas board independence and meeting frequency showed no clear effect. A U-shaped correlation between the dimension of the board and Tobin's Q value is discovered by Saini and Singhania

(2018), indicating that very small or large boards could, in the right environment-boost performance.

Prior research presents conflicting perspectives on how board size influences firm performance (Hassan & Halbouni, 2013). Some scholars argue that larger boards face coordination challenges and weaker cohesiveness, which can slow the decision-making and negatively affect performance (Lipton & Lorsch, 1992). In contrast, Hassoun and Aloui (2017) suggest that during periods of uncertainty, having a larger board can be advantageous because the broader pool of expertise supports more effective decision-making and potentially better outcomes. A diverse board may also give companies a competitive edge by encouraging deeper analysis and innovative solutions, while simultaneously enhancing the company's status and attractiveness towards investors.

H4: A positive relationship exists between board size and firm performance.

Firm Size

Firm age has also been found to affect performance. Older firms may have established networks, reputational capital, and optimized processes that enhance profitability (Ramadan & Hassan, 2022; Tanikawa & Kim, 2017). At the same time, aging organizations might face challenges such as bureaucratic inertia and slower adaptability to market changes, which could suppress market-based performance indicators.

H5: A positive relationship exists between firm age and firm performance.

3. Research Methodology

Sample

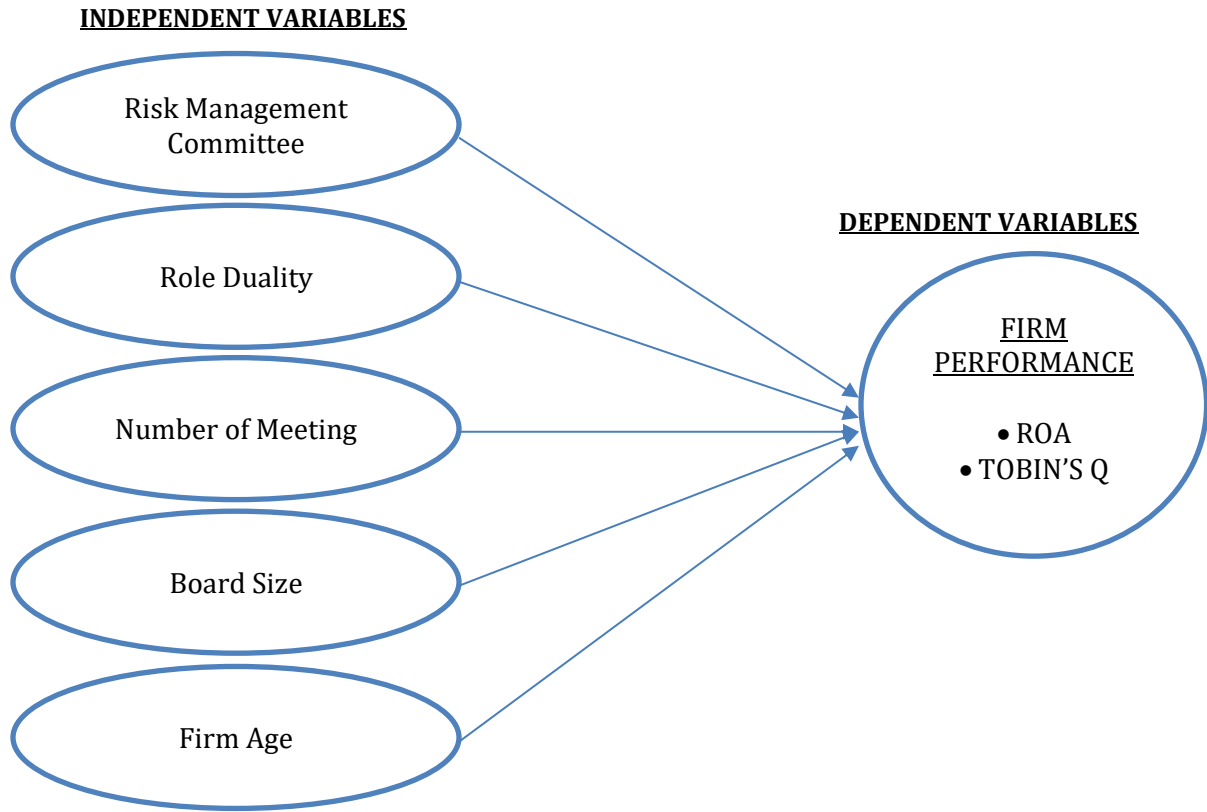
This paper focuses on Bursa Malaysia-listed companies, particularly those on the ACE Market. A total of 103 firms were selected as the sample to study the effect of RMC, duality, board meeting frequency, board size, and firm age on firm performance. These variables were measured according to established literature, with the company performance measured by using ROA and TQ. The summarization of the variables' measurement is shown in Table 1.

Table 1: Variable Measurement

Variables	Abbrev	Measurement
DEPENDENT VARIABLE		
Return on Assets	ROA	$\frac{\text{Net Income}}{\text{Total Assets}}$
Tobin's Q	TQ	$\frac{\text{Market Value of Equity} + \text{Preferred shares} + \text{debt}}{\text{Book Value of the Total Assets}}$
INDEPENDENT VARIABLE		
Risk Management Committee	RMC	Dummy variable: Denote as 1 if the firm has a separate risk management committee and 0 otherwise
Role Duality	RD	Dummy variable: Denote as 1 if the CEO is also the board chairperson, 0 otherwise
Number of Meetings	NOM	Total meetings attended by the board of directors within 1 year.
Board Size	BS	The total number of individuals takes place on the board of directors
Firm Age	FA	The age of the company from its formation until present.

The conceptual framework as shown in Figure 1 below for this research illustrates how corporate governance variables are hypothesized to influence firm performance. Risk management committee (RMC) and role duality (RD) are measured as binary variables, while the number of meetings (NOM), board size (BS) and firm age (FA) are continuous measures. Firm performance, as the dependent variable which represented by using both ROA as an accounting-based metric and Tobin's Q as a market-based metric.

Figure 1: Research Framework



Regression Model

Model 1:

$$ROA = \beta_0 + \beta_1(RMC_{it}) + \beta_2(RD_{it}) + \beta_3(NOM_{it}) + \beta_4(BS_{it}) + \beta_5(FA_{it}) + \varepsilon_{it} \quad (\text{Eq 1})$$

Model 2:

$$TQ = \beta_0 + \beta_1(RMC_{it}) + \beta_2(RD_{it}) + \beta_3(NOM_{it}) + \beta_4(BS_{it}) + \beta_5(FA_{it}) + \varepsilon_{it} \quad (\text{Eq 2})$$

4. Results

The model design, as shown in Eq. 1 and Eq. 2, was used as a research technique to identify the influence of the risk management committee, role duality, number of meetings, board size, and firm age on a company's performance. The data obtained for this study will be analyzed using EViews 12. This section will present the data and statistical analysis of this study.

Descriptive Statistics

The results of descriptive statistics in Table 2 are used in the study to give a summary of data for each variable. These statistics supply an outline of the characteristics of our sample. They indicate just how heterogeneous observations are.

Table 2: The Descriptive Analysis

	Mean	Medium	Maximum	Minimum	Skewness	Kurtosis	Std. Dev.	Obs.
ROA	-7.384	0.018	152.714	1385.699	-12.947	182.729	85.349	515
TQ	0.942	0.001	217.160	-0.275	15.623	248.859	13.044	515
RMC	0.722	1.000	1.000	0.000	-0.993	1.986	0.448	515
RD	0.718	1.000	1.000	0.000	-0.971	1.944	0.450	515
BS	0.668	6.000	13.000	3.000	0.927	4.307	1.556	515
NOM	4.856	5.000	14.000	1.000	0.859	7.428	1.679	515
FA	20.522	20.000	67.000	0.000	1.190	5.621	11.447	515

Correlation Analysis

A correlation matrix in Table 3 was constructed to explore how independent variables correlate with each other and also if there might be cases of multicollinearity. The correlation coefficients were tested for significance at 1%, 5% and 10%.

Table 3: Correlation Analysis

Variables	ROA	TQ	RMC	RD	NOM	BS	FA
ROA	1						
TQ	-0.749***	1					
RMC	-0.054	0.042	1				
RD	-0.055	0.043	0.653***	1			
NOM	-0.052	0.031	0.141***	0.201	1		
BS	0.059	-0.033	-0.015	0.050	0.017	1	
FA	0.027	-0.016	0.150***	0.103**	0.056	-0.056	1

Notes: *, **, and *** indicate significance at 10%, 5% and 1% respectively

Variance inflation factors (VIF)

The VIF test was used to examine whether the independent variables, including the risk management committee, role of duality, number of meetings, board size and company age had any significant creative power. If the test of multicollinearity detects multicollinearity, the independent variables will have a large correlation. Table 4 presents a measure of collinearity analysis can be seen.

Table 4: Variance Inflation Factors (VIF)

Variables	Coefficient	Uncentered
	Variance	VIF
TQ	0.037	1.009
RMC	53.923	6.252
RD	55.205	6.367
BS	1.072	8.064
NOM	1.854	7.854
FA	0.044	3.940

According to Hair et al. (1995) and Liao and Valliant (2012), VIF values fewer than 10 and acceptance values more than 0.10 imply no issue in the multicollinearity. The findings revealed that all variables matched these requirements, indicating that collinearity was not an issue in this model.

Regression Analysis

Regression analysis is a statistical tool for determining the relationship between independent and dependent variables. Its main purpose is to determine how changes in the independent factors affect the dependent variable. This study employs the Durbin-Watson statistic to test for autocorrelation, which is the correlation of

residuals through the observations in a time series or regression model. The statistic runs from 0 to 4, with a value around 2 suggesting no autocorrelation. The values are significantly less than 2 which indicates a positive autocorrelation, while values substantially greater than 2 imply negative autocorrelation. Table 5 summarizes the regression analysis results for both proxy measures of company performance.

Table 5: The Regression Analysis

Dependent Variables	MODEL 1 ROA	MODEL 2 TQ
RMC	-7.400** (0.024)	0.843 (0.1725)
RD	-6.070** (0.039)	0.762* (0.0605)
NOM	-3.067** (0.043)	0.266 (0.1367)
BS	1.968* (0.053)	-0.163 (0.1443)
FA	0.225** (0.015)	-0.023* (0.0803)
R-squared	0.009	0.004
Adjusted R-squared	0.002	-0.004
Durbin-Watson stat	1.151	0.660
No. of Observations	515	515

Notes: Significance levels, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

There are two proxies of dependent variables stated in this study which are the first one is ROA the second one is TQ. Based on the regression analysis in Table 5 was used to examine whether the performance of ACE market companies is affected by characteristics such as the RMC, role duality, number of meetings, board size, and firm age. The R-squared value of the first model is merely 0.009, indicating that the model explains only 0.9 percent of the variation in ROA. While the R-squared value for the second model is merely 3, indicating that the model explains only 300 percent of the variation in Tobin's Q. The adjusted R-squared based on the first model, is preferred due to a higher value which means it creates a greater percentage of variability in the dependent variable, with a positive 8, suggesting that the model performs well. The Durbin-Watson statistic based on the first model shows positive autocorrelation, as the result shown below 2, which is 1.151, while the result based on the second model shows negative autocorrelation, as the value is more than 2.

According to Hoyt and Liebenberg (2025), a positive relationship was found between risk management practices and corporate performance. Similarly, Nahar (2016) found a significant link between risk management disclosures, the number of risk committees, and the presence of dedicated RMC in Australian firms. In this study, the RMC variable is examined within both OLS regression models, using ROA and TQ as dependent variables. Results from the ROA model show that the results of coefficient for RMC is statistically significant at the 5% level and negatively related to ROA, suggesting that firms with an RMC experience lower accounting-based performance. Conversely, in the TQ model, although the coefficient for RMC is positive, it lacks statistical significance, implying limited evidence that RMC presence enhances market-based performance, even if investors may view it as a positive governance signal.

Role duality is the CEO also serving as board chair, continues to be debated as a main feature of corporate governance (Hsu, 2021). In this study, the ROA model shows a coefficient of -6.070 (SE = 0.039), indicating a clear negative effect on accounting-based performance at the 5% significance level. Interestingly, the TQ model tells a different story: the coefficient for RD is 0.762 (SE = 0.061), showing a modest but significant positive

association with market performance at the 10% level. Taken together, these results recommend that combining the CEO and chair roles may hurt operational efficiency but could still be taken by investors as a sign of strong centralized leadership.

Farhan, Obaid, and Azlan (2017) previously found that meeting frequency influences firm performance. This study shows that NOM has a coefficient of -3.067 with a standard error of 0.043 in the ROA model, suggesting a significant negative result at the 5% level. However, in the TQ model, NOM shows a positive coefficient of 0.266 with a standard error of 0.137, which is statistically insignificant. These results indicate that frequent board meetings may adversely affect accounting outcomes but do not have a conclusive impact on market valuation.

Previous research, such as Song (2017) and Wang (2015) found a nonlinear relationship between board size and performance, indicating that insider representation tends to boost outcomes while a bigger share of outsiders may harm them. In this study, board size (BS) has a coefficient of 1.968 with a standard error of 0.053 in the ROA model, indicating a positive and significant effect at 10%. In comparison, the BS coefficient in the TQ model is -0.164 with a standard error of 0.144, indicating a negative but non-significant effect. These findings imply that bigger boards have a beneficial influence on accounting-based indicators like ROA, but their influence on market-based measures like Tobin's Q is minimal.

Tanikawa and Kim (2017) reached a favorable correlation between size and performance of the companies. In line with the current study which reports that firm age (FA) has a positive effect on ROA, showing an estimated coefficient of 0.225 and a standard error for it is 0.015 (significant at the level of $P < 1\%$). This means that mature businesses make better profits as a result of operating for longer and having experience. However, in the TQ model, FA has a coefficient of -0.023 and a standard error of 0.080, showing a negative association at a 10% level of significance. As a result, older businesses will respond more slowly than younger ones in favor of market soon may also be undervalued.

Furthermore, the empirical study finds that legacy businesses (FA) significantly increase ROA. There is a coefficient of 0.225 for this and a standard error of 0.015 which is significant at 1% level. This means that older firms tend toward higher returns because they have greater experience in running a business. However, FA has a coefficient of -0.023 with a standard error of 0.080 in the TQ model. This means that the relationship goes negative and is significant at the 10% level. This suggests that older firms might not adapt to changes in market conditions quickly, which could reduce their market value.

Discussion

The outcomes of this analysis have given us important information about how company administration mechanisms have an impact on the Certificate Market in Malaysia. The research found that governance characteristics engage in complex interactions with company performance in the ACE Market (As of 2023). For example, on the basis of two indicators ROA and TQ as the performance, this study revealed convoluted relationships between governance attributes and the performance of a firm.

Alternatively, data from the research states that when a Risk Management Committee (RMC) was present, it had a detrimental and economizing effect on TQ, but no effect whatsoever on ROA. It seems that although RMCs generally do not make any difference to short-term financial performance measures such as ROA they are relatively well valued (Table 4). Our results contradict a previous study that praised the virtues of risk management. Thus, it is apparent from further details that there are structural deficiencies in RMC governance or that small-market, medium and unlisted stock enterprises on the ACE-Market are not performing effectively.

Second, role duality, where the CEO also chairs the board, negatively influenced ROA. The result of this study shows a positive and weakly significant effect on TQ. A dual role may impair internal monitoring, explaining the lower accounting returns, but markets may perceive it as a signal of strong, centralized leadership, hence the positive impact on valuation.

Third, the number of board meetings disclosed a negative effect on ROA and no significant effect on TQ. This counters that more meetings enhance governance effectiveness. It implies that excessive meetings may reflect

inefficiency or crisis response rather than proactive governance.

In addition, board size was insignificantly negative with TQ and had a positive correlation to ROA. A larger board would provide more diverse expertise and supervision that could well bring up overall internal efficiency-though to a lesser extent can such change be reflected by investors.

Lastly, firm age positively correlated with ROA but negatively with TQ. Older firms may benefit from accumulated experience and stable operations, leading to stronger accounting performance. However, the market may view them as less agile or innovative, explaining the lower Tobin's Q.

5. Managerial Implications and Recommendations

The findings of this study have significant consequences for corporate managers, board members, and policymakers, particularly within the context of Malaysia's ACE Market. Firstly, the negative association between risk management committees and firm performance suggests that companies should not only establish such committees for compliance purposes but also ensure they function effectively and contribute meaningfully to strategic oversight. Furthermore, the results emphasize the need to avoid role duality, as combining the roles of CEO and board chair could compromise independent oversight and reduce operational efficiency. Instead, separating these roles can enhance accountability and lead to more balanced decision-making. The negative relationship between the number of board meetings and firm performance indicates that management should emphasize refining the quality and strategic value of board meetings rather than simply increasing their frequency. Moreover, the positive effect of board size on ROA suggests that firms may benefit from expanding board membership by including directors with diverse skills and experience, which can better support internal decision-making. Lastly, the contrasting effect of firm age on ROA and Tobin's Q highlights the need for older firms to remain adaptive and innovative to retain investor confidence. Collectively, these insights underscore the importance of designing governance structures that are not only compliant with regulatory standards but also tailored to enhance firm performance and stakeholder value.

Conclusion

This study adds to the expanding corpus of literature. On corporate governance by empirically examining its influence on firm performance in Malaysia's ACE Market. The findings highlight the complex and, at times, contradictory roles of governance mechanisms such as risk management committees, role duality, board meetings, board size, and firm age. Although certain governance features show expected positive relationships with performance, others reveal inefficiencies or unintended consequences, particularly in emerging markets and smaller firms. The dual analysis using both accounting (ROA) and market-based (Tobin's Q) performance metrics underscores the importance of adopting a multi-faceted approach when evaluating firm success.

In conclusion, effective corporate governance is essential, but its design and implementation must be context sensitive. Strengthening governance in Malaysia's ACE Market requires not just policy enforcement, but also internal cultural shifts within firms to embrace governance as a tool for sustainable performance not mere

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