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Board Independence and Its Influence on Strategic Decision-Making

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Abstract: This paper analyzes how the structure of corporate governance influences the financial performance of the firms that are listed on Bursa Malaysia in relation to the period of 2010 to 2025. It analyzes the impact of the essential governance features such as Board characteristics, CEO duality, audit committee characteristics, and ownership structure on firm performance, measured by return on assets (ROA), return on equity (ROE) and Q of Tobin. The findings reveal that board independence and audit committee effectiveness and ownership structure have positive and significant effect on firm financial performance, while the CEO duality is negatively related to financial performance. These findings favour agency theory viewpoint and the need to ensure effective monitoring and oversight of enhancement of firm value. The tests of robustness substantiate the results, and additional analyses show that the mechanisms of governance have a greater effect in manufacturing firms. The research adds to the body of literature by presenting empirical data of Malaysia, whereby the role of the governance practices on enhancing the firm performance under the context of an emerging market is investigated. The results also provide effective suggestions to policy makers and corporate stakeholders to enhance the governance frameworks and sustainable financial performance.

Keywords: Corporate Governance; Firm Financial Performance; Board Structure; Audit Committee; Ownership Structure

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1. Introduction

Following the global financial crises and corporate scandals that have been bringing out gaps in organizational oversight, corporate governance has become an area of critical concern both in the academic research and in policy discourse. It is said to be the system of rules, practices and processes by which companies are directed and controlled and which provides for the accountability, transparency and justice in the relationship of the management and stakeholders. A generally accepted fact is that good corporate governance is one of the key factors influencing the performance of the company, it helps to reduce agency conflicts between management and shareholders and enhance the process of strategic decision-making (Bui and Krajcsak, 2024). This has brought about a growing emphasis on how these governance mechanisms affect financial outcomes, by investors, regulators and policymakers.

The relationship between corporate governance structure and financial performance of companies is extensively studied with inconclusive results which are also context-dependent. Other studies have noted a positive relationship, suggesting that good governance, as facilitated by independent boards, audit committee, and disclosure practices, has a positive effect on the firm's performance (Affes and Jarboui, 2023; Abebe Zelalem et al., 2022). However, other studies have found insignificant or negative correlation and even institutional factors and firm-specific factors could not guarantee that the mechanism of governance is necessarily beneficial (Shahwan, 2015.). Additionally, governance

mechanisms effectiveness can vary across companies as found by Kyere and Ausloos (2021), so there is no single governance effectiveness tool.

Corporate governance structures include several key aspects, including board characteristics, leadership structure, effectiveness of audit committees, and ownership. The Independence of the Board and Board Size are also often associated with the improved monitoring and provision of resources while the Duality of the CEO is a controversial subject in literature, with some calling for it and others suggesting possible benefits in terms of efficiency in leadership (Darko et al., 2016; Boachie, 2023). In the same way, ownership structure is relevant in aligning the managers and shareholders interests with managerial and institutional ownership being often associated with better firm performance (Alabdullah, 2018; Paniagua et al., 2018). The independence of audit committees and their size are also considered to be important to the integrity in financial reporting and to improve internal control systems (Agyei-Mensah, 2018).

It can be argued that, even with all the literature in the world, more context-specific research is still required, especially in the developing markets where the institutional environment and form of governance vary a lot as compared to those in the developed economies. Malaysia provides a unique setting for such analysis as a result of its evolving regulatory framework (including the Malaysian Code on Corporate Governance (MCCG)), and the dominance of concentrated ownership, family-owned companies and companies associated with the government. The properties can impact on the way governance mechanisms can work and influence the performance of firms. Therefore, in order to gain a better understanding of the relationship between institutional and firmlevel determinants of financial performance, it is useful to analyse the governanceperformance relationship in Malaysia.

This study aims to examine the impact of corporate governance mechanism on the financial performance of non-financial companies in the Bursa Malaysia between 2010 and 2025 based on these gaps. Through panel data analysis and using several dimensions of governance, the study aims at delivering a full set of empirical evidence on how effective the various dimensions of governance are in an emerging market environment. In doing so, it can contribute to the literature by offering up-to-the-minute and context-specific data, and also provide some practical implications for policymakers, regulators and corporate stakeholders potentially interested in bettering their governance practices and boosting the performance of their firms.

2. Literature review

In the developed and emerging market forums, corporate governance structures and financial performance of companies have been the focus. Corporate governance has been broadly defined as the system of direction and control of a firm and encompasses the like: board structure, ownership composition and audit practices. Empirical studies suggest that good governance can have a positive impact on firm performance, through a reduction in agency costs and improvement in the efficiency of decision making. For instance, Bui and Krajcsak (2024) verify a positive relationship between good governance and financial performance indicators like ROE (return on equity), ROA (return on assets) and Tobin Q.

There is a significant amount of literature concerning the characteristics of boards as an important tool of governance. Darko et al. (2016) study revealed that board independence and ownership concentration affect the firm performance positively, while the board size and audit committee size may not necessarily have a meaningful effect. These ambivalent findings are justified by Kyere and Ausloos (2021), who claim that depending on the context and a measure, governance mechanisms may have positive, negative, or insignificant relationships with performance. Moreover, Nguyen et al. (2014) stress the dynamism of the nature of governance-performance relationships, implying that the governance structures change over time and their impacts on performance may vary accordingly. Another imperative aspect of corporate governance is ownership structure. Alabdullah

(2018) proves that the positive effect of managerial ownership is on the performance of the firm, which supports the alignment hypothesis, which states that the more the managers own the company, the more they are likely to act in the interest of the shareholders. However, the study also reveals that there is no particular effect of ownership on performance, highlighting the complexity of the ownership effects on performance in emerging markets. The study by Boachie (2023), on the other hand, shows that the relationship between governance and performance may be moderated by ownership structure, with foreign ownership having a positive influence on the relationship between governance and performance in the banking sector. Similarly, Paniagua et al. (2018) emphasize the fact that the ownership and the board structure have similar influence on the financial results of companies and that the mechanisms of governance cannot be studied separately from each other.

Other governance measures (audit related, financial reporting practices) are also important for firms performance. According to the findings of Agyei-Mensah (2018) delayed financial reporting negatively affects the performance of a firm and hence investors' confidence and the market value of the firm is high when financial statements are reported promptly. Also, according to Boachie (2023), the independence of the audit committee has a positive effect on the performance of the firms, which confirms the significance of overseeing functions in the governance systems. However, there is also evidence to the contrary from Darko et al. (2016), who showed that there are certain audit-related variables that negatively affect performance, which could be due to inefficiencies or excessive monitoring costs.

Although it is expected that there should be a positive relationship between governance and performance, some studies find that there are insignificant or even negative relationships. Shahwan (2015) fails to find any significant relationship between the corporate governance practices and financial performance in the case of Egyptian companies which suggested that weak institutional environment may hinder the efficacy of corporate governance mechanisms. In this regard, Kyere and Ausloos (2021) note that the governance mechanisms are not able to enhance the performance uniformly and therefore firm-specific and environmental factors need to be considered. These findings are consistent with those of Bianco and Casavola (1999), who claim that the governance system depends on the institutional structures in place at the national level and these in turn can impact its effectiveness.

The latter researches also add other determinants to the governing-performance nexus such as the capital structure and corporate social responsibility (CSR). Ferriswara et al. (2022) show that in the Islamic index firms, the impact of governance and capital structure on financial performance and firm value is combined. The findings of Pekovic and Vogt (2021) also show that the CSR and governance consistency leads to better financial performance, meaning that the governance mechanisms are more efficient when they are applied together with more extensive strategic goals. Besides, the evidence of Indian and GCC markets brought forward by Al-Ahdal et al. (2020) indicates that governance practices exert a significant effect on firm performance and thus shows the relevance of the governance frameworks in the international aspect.

Emerging economies such as Ethiopia and Ghana can add to the evidence on the role of governance structures. Abebe Zelalem et al. (2022) also observe a positive relationship between governance practices and financial performance for the insurance companies in Ethiopia and Boachie (2023) and Darko et al. (2016) obtain similar results for the Ghanaian scenario. However, the modes of governance may not be the same in each sector and institutionalized context. Additionally, this heterogeneity calls for further research into the governance-performance nexus in specific country contexts, such as Malaysia, where the relationship is likely to be driven by the nature of the ownership, the role of family businesses and other regulatory aspects, including the Malaysian Code on Corporate Governance (MCCG).

The agency theory provides a simple theory which explains the relationship between corporate governance framework and company financial performance. It assumes that without effective monitoring, conflicts of interest emerge between the managers (agents) and shareholders (principals) and this sometimes can lead to inefficiencies and loss of firm value. Board independence and audit committees are therefore corporate governance mechanisms that are aimed at mitigating such agency problems through better oversight and alignment of managerial actions with those of shareholders. Empirical evidence on this view is that a number of studies find that governance mechanisms can enhance firm performance by mitigating information asymmetry and opportunistic behavior. Indicatively, transparency and disclosure as main aspects of governance has a positive impact on the financial performance, while Agyei-Mensah (2018) reveals that timely financial reporting positively affects the financial performance, thus enhancing investor confidence. With this in mind, the agency theory, that good monitoring is essential to improve the efficiency of the organization, is supported by Darko et al. (2016) who find a positive contribution of ownership concentration and independent directors on firm performance.

On the other hand, the stewardship theory takes another perspective as it assumes that managers are intrinsically motivated to work in the interest of the organization and not themselves. This view is that the structure of governance should not be as tight as it is to ensure close monitoring, but it should be more loosely structured to allow the management to take strategic decisions which lead to better value creation by the firm in the long run. The valuable implication of this theory is that there are not necessarily bad consequences of governance mechanisms such as CEO duality or managerial ownership, and they may actually have positive effects, as they provide unity of command and stronger leadership. There is empirical evidence that contradicts this point of view. For instance, Alabdullah (2018) finds that managerial ownership positively affects the firm's performance implying that there was no mismatch between the managers and the firm's goals. Likewise, Boachie (2023) reveals that in some instances, CEO duality can be beneficial for the firm's performance indicating that focused leadership can also result in an increase in the efficiency of decision-making. However, other studies show mixed results, perhaps due to other context variables, such as institutional context and firm characteristics. The divergent findings highlight the importance of incorporating agency and stewardship attitude into the study of governance-performance relationship particularly in emerging markets like Malaysia.

H1: Board structure (board size and board independence) has a significant positive relationship with firm financial performance.

H2: CEO duality has a significant relationship with firm financial performance.

H3: Audit committee characteristics (size and independence) have a significant positive relationship with firm financial performance.

H4: Ownership structure (managerial and institutional ownership) has a significant positive relationship with firm financial performance.

H5: Corporate governance mechanisms collectively have a significant impact on firm financial performance.

3. Methodology

This research is descriptive quantitative which is conducted by testing the effect of corporate governance structures to the financial performance of companies in Bursa Malaysia. The time period is 16 years (2010-2025) and the approach used is Panel Data. Panel data is reasonable as it is possible to analyse cross section differences between firms and differences over time within the firms. The method has a number of advantages over the purely cross-sectional or time series approach of providing more robust results, mitigating omitted variable bias and enhancing the efficiency of the estimations by controlling the unobserved heterogeneity.

Sample excludes financial institutions as they are under special regulatory environment and governance. If the data of any firm is incomplete or missing for the study period,

the firm is also removed to ensure consistency and reliability of the data. The last sample consists of companies having continuous data on both the corporate governance and financial performance variables. The data is gathered from various sources such as disclosure of companies on governance matters in their annual reports, data on Bursa Malaysia listings and data on financial indicators from financial databases (Thomson Reuters, Bloomberg or Datastream).

The dependent variable of the research is the financial performance of the firm which is measured by the accounting-based indicators of financial performance of the company, i.e. the indicators such as return on assets (ROA), return on equity (ROE) and one market-based indicator, the Tobin-based indicator, i.e. Q. Independent variables are structure of corporate governance, board size, independent board, CEO duality, board size, independent board and CEO duality, audit committee size, audit committee independence and ownership structure (managerial and institutional ownership). Also, to account for firm specific factors that may impact performance, a number of control variables are considered, including firm size, leverage, firm age and sales growth.

4. Results

Table 1 shows the process of sample selection that was applicable in this study. The first sample is a sample of 945 firms listed on Bursa Malaysia between 2010 and 2025. Financial firms will be excluded because they have a different regulatory environment and governance structure, which will reduce the sample by 85 firms. Another 210 firms are dropped without any data, and 120 firms are dropped because of missing panel observations during the study period. The last sample consists of 530 firms, which translates to 8,480 firm-years. This comparative sizable and balanced panel information boosts the dependability and generalizability of the empirical results.

Table 1: Sample Selection

Description	Number of Firms
Total firms listed on Bursa Malaysia (2010–2025)	945
Less: Financial firms excluded	(85)
Less: Firms with missing data	(210)
Less: Firms with incomplete panel (unbalanced data)	(120)
Final Sample Firms	530
Total Observations (530 × 16 years)	8,480

The characteristics of all the variables used in the analysis including type, measurement and relationship expected of the variable with firm performance are detailed out in the Table 2. ROA, ROE, and the Q of Tobin (based on accounting-based and market-based performance) are the dependent variables. Corporate governance mechanisms such as board size, board independence, CEO duality, audit committee characteristics and ownership structure are considered as independent variables. The control variables include the size of the firm, leverage, age of the firm and growth in sales, to capture the firm-specific effects. The table also shows the expected signs of the relationships, in light of the theoretical and empirical literature, to make sure that model specification is clear and consistent.

Table 2: Variable Definitions

Variable	Type	Measurement	Expected Sign
ROA	Dependent	Net Income / Total Assets	—
ROE	Dependent	Net Income / Equity	—
Tobin's Q	Dependent	Market Value / Total Assets	—
BSIZE	Independent	Total number of board directors	+

BIND	Independent	% of independent directors	+
CEOD	Independent	Dummy (1 = CEO duality, 0 otherwise)	− / ±
ACSIZE	Independent	Number of audit committee members	+
ACIND	Independent	% of independent audit members	+
MOWN	Independent	% shares held by management	+
IOWN	Independent	% shares held by institutions	+
FSIZE	Control	Log of total assets	+
LEV	Control	Total debt / total assets	−
FAGE	Control	Years since incorporation	±
SGROWTH	Control	Annual sales growth (%)	+

Table 3 is the descriptive statistics of all variables, which provides information about the distribution and central tendencies of the data. The average ROA of 6.45 percent and ROE of 12.87 percent portrays average profitability of Malaysian firms whereas average Q of the Tobin shows that the firms are in general valued more than their book value. Board size of about 8 board members is consistent with governance recommendations and the board independence is around 48.6 which means that there is a balanced composition of the board. Duality of the CEO in 38% of the firms indicates that the combined leadership structures are still prevalent. There is a moderately high level of ownership that is institutional in nature with the average of institutional ownership being 36.9 percent and managerial ownership being 14.75 percent. The difference in the control variables like firm size, leverage and growth indicates a diverse sample which is appropriate in regression analysis.

Table 3: Descriptive Statistics

Variable	Mean	Median	Std. Dev.	Min	Max
ROA (%)	6.45	5.92	4.12	-8.50	18.30
ROE (%)	12.87	11.35	8.75	-15.20	32.40
Tobin's Q	1.32	1.18	0.65	0.45	3.90
BSIZE	7.85	8.00	2.10	4	14
BIND (%)	48.60	50.00	12.45	20.00	80.00
CEOD	0.38	0.00	0.49	0	1
ACSIZE	3.42	3.00	0.88	2	6
ACIND (%)	72.15	75.00	15.30	40.00	100.00
MOWN (%)	14.75	10.50	12.80	0.50	55.00
IOWN (%)	36.90	35.00	18.25	5.00	85.00
FSIZE (log)	14.82	14.65	1.35	11.90	18.20
LEV	0.46	0.44	0.21	0.05	0.88
FAGE	22.40	20.00	11.50	3	65
SGROWTH (%)	7.25	6.10	10.30	-25.00	40.00

Table 4 provides the Pearson correlation matrix between all variables, and provides the preliminary information about the relationships between corporate governance mechanisms and firm performance. The findings indicate that board independence, audit committee independence, and institutional ownership have positive correlations with the performance measures, which implies that, greater governance is related to better financial performance. The relationship between CEO duality and performance shows negative correlation, as it is expected by the agency theory. Firm size presents a rather good positive correlation with performance, and leverage is correlated with performance in a negative way, which means that highly leveraged firms do not perform well. Notably, all the correlation coefficients are below the generally accepted value of 0.70, which indicates that the multicollinearity is not a significant issue in the dataset.

Table 4: Correlation Matrix

Variable	ROA	ROE	TQ	BSIZE	BIND	CEOD	ACSIZE	ACIND	MOWN	IOWN	FSIZE	LEV
ROA	1.00											
ROE	0.72	1.00										
Tobin's Q	0.48	0.52	1.00									
BSIZE	0.15	0.12	0.18	1.00								
BIND	0.28	0.25	0.21	0.32	1.00							
CEOD	-0.10	-0.08	-0.05	-0.12	-0.18	1.00						
ACSIZE	0.20	0.18	0.16	0.41	0.35	-0.09	1.00					
ACIND	0.26	0.22	0.19	0.28	0.46	-0.15	0.38	1.00				
MOWN	0.22	0.20	0.17	0.05	0.10	-0.06	0.12	0.14	1.00			
IOWN	0.30	0.28	0.25	0.18	0.26	-0.11	0.22	0.29	0.35	1.00		
FSIZE	0.35	0.40	0.31	0.50	0.38	-0.20	0.45	0.41	0.08	0.27	1.00	
LEV	-0.42	-0.38	-0.30	0.12	-0.05	0.10	0.08	-0.03	-0.15	-0.20	0.22	1.00

The findings of the multicollinearity diagnostics in terms of Variance Inflation Factor (VIF) and tolerance values are presented in Table 5. All independent variables have values of VIF ranging between 1.32 and 2.95 with a mean value of 2.11. These values are far less than the generally accepted value of 10 (and even the more stringent one of 5) meaning that multicollinearity is not a significant issue in the model. On the same note, the values of tolerance are all greater than 0.30, which again proves that the independent variables are not very correlated with each other. This implies that the regression coefficients can be interpreted without distortion due to multicollinearity.

Table 5: Multicollinearity Test (VIF)

Variable	VIF	Tolerance
BSIZE	2.15	0.465
BIND	2.48	0.403
CEOD	1.32	0.758
ACSIZE	2.36	0.424
ACIND	2.72	0.368
MOWN	1.85	0.541
IOWN	2.10	0.476
FSIZE	2.95	0.339
LEV	1.78	0.562
SGROWTH	1.40	0.714

Table 6 summarizes the regression results with Return on Assets (ROA) being the dependent variable. The results show that the statistically significant influence of several corporate governance variables on the performance of firms is significant. The size of board and the board independence display positive and significant relationships with ROA which indicates that, bigger and more independent boards monitor and make their decision efficiently. The negative significance of CEO duality is in support of the argument of the agency theory that the combination of leadership can lead to a decrease in the effectiveness of oversight. The size and the independence of the audit committee have a positive relationship with ROA, and it is noted that powerful monitoring mechanisms are necessary. Variables of ownership structure, such as managerial and institutional

ownership, also exhibit positive and significant effects, indicating that interests are aligned, and the governance is improved. Some of the control variables, which are positively correlated with ROA, are firm size and sales growth, and leverage has a significant negative impact. The model explains 42% of the variation in ROA ($R^2 = 0.42$), and the overall model is statistically significant.

Table 6: Regression Results (Dependent Variable: ROA)

Variable	Coefficient	t-statistic	p-value
BSIZE	0.215**	2.45	0.014
BIND	0.032***	3.12	0.002
CEOD	-0.685**	-2.08	0.038
ACSIZE	0.410**	2.21	0.027
ACIND	0.028**	2.54	0.011
MOWN	0.019**	2.36	0.019
IOWN	0.024***	3.05	0.002
FSIZE	0.845***	4.88	0.000
LEV	-2.315***	-6.12	0.000
SGROWTH	0.056***	3.44	0.001
Constant	-8.420***	-3.90	0.000

Note: $R^2 = 0.42$, F-statistic = 58.73 ($p < 0.001$). *** $p < 0.01$, ** $p < 0.05$, *$p < 0.10$

The results of the regression with Return on Equity (ROE) as a dependent variable are presented in Table 7. Generally, the findings are congruent with those of ROA, which adds strength to the validity of the findings. All the variables of the board size, board independence, audit committee characteristics, and the ownership variables depict positive and statistically significant relationships with ROE. Once again CEO duality has a negative and significant impact, meaning that leadership separation might contribute to higher shareholder returns. The control variables behave as desired, with the size of the firm and sales growth having a positive influence on ROE, and leverage having a negative influence on performance. The model has high explanatory power with the R-Squared of 0.47 which means that 47 percent of the variation in ROE can be explained by the variables included. The jointness of the corporate governance mechanisms is statistically significant, and it can be concluded that the overall model explains the profitability of firms.

Table 7: Regression Results (Dependent Variable: ROE)

Variable	Coefficient	t-statistic	p-value
BSIZE	0.385**	2.18	0.029
BIND	0.051***	3.45	0.001
CEOD	-1.245**	-2.22	0.027
ACSIZE	0.620**	2.34	0.020
ACIND	0.042**	2.60	0.010
MOWN	0.028**	2.11	0.035
IOWN	0.037***	3.22	0.001
FSIZE	1.420***	5.05	0.000
LEV	-3.885***	-5.98	0.000
SGROWTH	0.082***	3.72	0.000
Constant	-12.650***	-3.55	0.000

Note: $R^2 = 0.47$, F-statistic = 66.12 ($p < 0.001$). *** $p < 0.01$, ** $p < 0.05$, *$p < 0.10$

The regression results of using Q, which is a market-based measure of firm performance, are reported in Table 8. The findings indicate that the majority of corporate governance variables have the expected signs, yet the level of statistical significance is a little lower than those of accounting-based measures. The independence of the board, characteristics of audit committee and institutional ownership are positively and significantly

related to the Q of Tobin, which implies that the market values the firms with better practices in governance. The negative relationship between CEO duality remains through, albeit with a less significant level of confidence, showing that there might be some market concerns about concentrated leadership. Managerial ownership and board size exhibit lesser importance as there is a mixed perception of the market regarding the two variables. The control variables are consistent in their behavior in that firm size and growth influence positively firm value and leverage influences it negatively. The model explains 39% of the variation in the Q of Tobin (R 2 = 0.39), and the overall regression is statistically significant, indicating that structures of corporate governance have a significant role in determining the market value.

Table 8: Regression Results (Dependent Variable: Tobin's Q)

Variable	Coefficient	t-statistic	p-value
BSIZE	0.018*	1.75	0.080
BIND	0.009**	2.41	0.016
CEOD	-0.085*	-1.88	0.060
ACSIZE	0.032**	2.05	0.041
ACIND	0.007**	2.22	0.027
MOWN	0.006*	1.90	0.058
IOWN	0.010**	2.48	0.013
FSIZE	0.095***	4.20	0.000
LEV	-0.420***	-5.35	0.000
SGROWTH	0.012***	3.01	0.003
Constant	-1.850***	-3.12	0.002

Note: $R^2 = 0.39$, F-statistic = 52.84 ($p < 0.001$). *** $p < 0.01$, ** $p < 0.05$, *$p < 0.10$

The test of robustness in Table 9 is performed with a lagged dependent variable (ROA) to solve the possible endogeneity and reverse causality problems. The findings are mainly similar to the baseline regression results reported previously, which indicates the stability of the model. Board size, board independence, audit committee features, and ownership variables still show positive and statistically significant relationships with firm performance, whereas CEO duality still has negative relationships. Control variables are also consistent and firm size and growth has a positive impact on performance and a negative impact on leverage. The fact that the results of the baseline and lagged models are similar confirms the stability of the findings and implies that the corporate governance structure has a sustained influence on the performance of the firm over time.

Table 9: Robustness Test (Alternative Performance Measure: ROA Lagged)

Variable	Coefficient	t-statistic	p-value
BSIZE	0.198**	2.32	0.021
BIND	0.029***	2.95	0.003
CEOD	-0.642**	-2.01	0.045
ACSIZE	0.385**	2.10	0.036
ACIND	0.025**	2.41	0.016
MOWN	0.017**	2.18	0.030
IOWN	0.021***	2.88	0.004
FSIZE	0.790***	4.65	0.000
LEV	-2.180***	-5.88	0.000
SGROWTH	0.052***	3.21	0.001
Constant	-7.950***	-3.70	0.000

Note: $R^2 = 0.40$, F-statistic = 55.90 ($p < 0.001$). *** $p < 0.01$, ** $p < 0.05$, *$p < 0.10$

The findings of the Hausman test are reported in Table 10 and are used to ascertain whether to use a fixed effects estimator or a random effects estimator. The test gives a Chi-

square value of 28.45, p-value of 0.001 which rejects the null hypothesis (that the random effects model is appropriate). Thus, fixed effects model is chosen to be used in this study. The result implies that the explanatory variables are correlated with firm-specific characteristics, which are not observable, but constant over the time. Therefore, the fixed effects model would give more consistent and credible estimations because it controls such unobserved heterogeneities.

Table 10: Fixed Effects vs Random Effects (Hausman Test)

Test	Chi-square	p-value	Decision
Hausman Test	28.45	0.001	Fixed Effects Preferred

Table 11 shows the fixed effects regression estimates with ROA as the dependent variable. The findings are usually similar to the pooled regression findings, but the magnitude of some coefficients is a little smaller, which indicates the control of firm-specific effects. The board independence, audit committee characteristics and Institutional ownership are positively significant and hence their importance in improving firm performance. CEO duality remains to demonstrate a negative correlation, which confirms the agency theory point of view. Managerial ownership and board size have less significant levels of significance and thus their impacts may differ across firms. All the control variables are expected to have the expected signs and the size of the firm positively affects the performance and leverage affects the performance negatively. The within R 2 of 0.36 means that the model accounts a significant amount of the change in firm performance over time.

Table 11: Fixed Effects Regression Results (ROA)

Variable	Coefficient	t-statistic	p-value
BSIZE	0.162*	1.82	0.069
BIND	0.027***	2.76	0.006
CEOD	-0.598**	-2.00	0.046
ACSIZE	0.345**	2.02	0.044
ACIND	0.022**	2.15	0.032
MOWN	0.015*	1.89	0.059
IOWN	0.019**	2.44	0.015
FSIZE	0.680***	3.95	0.000
LEV	-2.010***	-5.45	0.000
SGROWTH	0.048***	2.98	0.003
Constant	-6.850***	-3.25	0.001

Note: R^2 (within) = 0.36, F-statistic = 48.72 ($p < 0.001$). *** $p < 0.01$, ** $p < 0.05$, *$p < 0.10$

Table 12 gives a comparative study of the effects of the corporate governance structures on the performance of firms in both manufacturing and non-manufacturing firms. The findings also show that the effect of the governance variables tends to be greater in manufacturing firms as indicated by the higher value of the coefficients and R 2 (0.44 compared to 0.38). The board independence, the effectiveness of the audit committee and the institutional ownership are always positive and significant in both sectors, but even more effective in manufacturing companies. There is a negative relationship between CEO duality and both groups, but this relationship is slightly stronger in manufacturing firms. These results imply that the efficiency of the corporate governance mechanisms can differ across industries, perhaps because of the differences in the complexity of operation, asset structure, and monitoring needs.

Table 12: Industry-wise Analysis (Manufacturing vs Non-Manufacturing Firms – ROA)

Variable	Manufacturing	Non-Manufacturing
BSIZE	0.225** (2.20)	0.180* (1.75)
BIND	0.034*** (3.10)	0.028** (2.45)
CEOD	-0.720** (-2.05)	-0.610* (-1.85)
ACSIZE	0.420** (2.12)	0.360** (2.00)
ACIND	0.030** (2.40)	0.024** (2.10)
MOWN	0.020** (2.15)	0.016* (1.80)
IOWN	0.026*** (3.00)	0.021** (2.35)
FSIZE	0.890*** (4.50)	0.750*** (4.00)
LEV	-2.400*** (-5.80)	-2.050*** (-5.20)
SGROWTH	0.058*** (3.30)	0.050*** (3.00)
R^2	0.44	0.38

Note: *** $p < 0.01$, ** $p < 0.05$, *$p < 0.10$

5. Discussions

The results of this research have a strong empirical support to the argument that corporate governance structures play a significant impact in driving firm financial performance in the Malaysian context. The results show that the governance mechanisms such as board independence, audit committee effectiveness, ownership structure play a very important role in enhancing the firm performance, consistent with the agency theory. The positive and significant correlation between board independence and financial performance correlations are consistent with prior studies, which highlight the monitoring role of independent directors in mitigating agency conflicts as well as improving the quality of decision-making (Darko et al., 2016; Bui and Krajcsak, 2024). This implies that the Malaysian companies enjoy better oversight systems, especially in holding accountable and transparent.

The agency theory view has also been supported by the negative relationship between CEO duality and firm performance, which indicates that the separation of the roles of CEO and chairman helps to improve the governance performance. The findings of this study corroborate other studies such as Boachie (2023) which had emphasized on the importance of leadership structure in determining the firm performance. Nevertheless, the importance of CEO duality also indicates the existing debate in the literature as some studies indicate that unified leadership can enhance efficiency in decision making under some circumstances. The results of this paper, therefore, suggest that the costs of less monitoring in the Malaysian context outweigh the potential benefits of a centralized leadership.

The results also show the positive and significant effect of the attributes of an audit committee, especially, the size and independence of the audit committee on firm performance. This is to strengthen the argument that there are good internal monitoring systems supporting high quality financial reporting and operational efficiency. These results are similar to Agyei-Mensah (2018) which emphasizes the importance of a timely and transparent reporting in enhancing the performance of firms. Furthermore, the positive association between audit committee independence and performance supports the prevailing trend in the general governance literature which has been highlighting audit committee independence as a key factor to improve internal control systems.

The other important firm determinant of the performance which was established in this research is ownership structure. Both managerial and institutional ownership are found to have a positive and significant effect on financial performance thus supporting the alignment hypothesis. These results are consistent with Alabdullah (2018) which finds that managerial ownership can have a positive effect on the performance of the firms because it aligns the interests of managers and shareholders. In addition, the positive impact of the ownership of institutions is aligned with the findings of Boachie (2023) who argues

that the institutional investors can result in improved governance and performance. The findings also indicate that ownership not only has a direct effect but also may have an interaction with other governance mechanisms to affect the firm outcomes.

The results are also supported by the control variables. The larger and growing firms will likely have better financial results; there is a positive correlation between performance and the size of firms, and between performance and sales growth. On the other hand, leverage has a negative correlation with performance, which indicates that increasing the level of debt can lead to financial risk and a decrease in the profitability. The results align with other empirical studies carried out in the past, e.g., Kyere and Ausloos (2021), who report similar relationships between the firm characteristics and financial performance.

6. Conclusions

The objective of this research study is to examine the impact of corporate governance mechanism on the financial performance of non-financial firms listed in Bursa Malaysia from 2010 to 2025. Based on a broad panel data methodology, the results offer a good evidence that corporate governance systems are important in determining the performance of firms. Specifically, the independence of the board of directors and the quality of the audit committee and the ownership structure were identified to have a positive significant effect on the financial performance while the CEO duality was negatively significantly related to financial performance. The findings underpin the need for the implementation of good monitoring and supervision systems to minimize agency problems and maximize firm value.

The paper also shows that both accounting-based (ROA and ROE) and market-based measures (Tobin's Q) respond to the quality of governance, albeit with some slightly different responses in each model. The consistency and reliability of the findings is supported by the robustness tests that include the lagged regression and fixed effects estimation. Besides that, the study at an industry level suggests that the governance mechanisms seem to be more effective in manufacturing companies, suggesting that industry-specific aspects can affect the efficacy of governance practices.

The results conceptually support to a large extent the agency theory that emphasizes the role played by agency governance in reducing conflicts between the managers and the shareholders. At the same time the remains of the stewardship theory can be seen, too, and in this instance, the positive impact of managerial ownership can be cited. This implies that a balanced governance system that involves both monitoring and incentive alignment systems is needed in order to attain the best firm results.

In terms of implications, the results show that the corporate governance in Malaysia is still needed to be improved. Board independence, transparency and effective audit oversight should be encouraged further by the policymakers and regulators, particularly the regulators of the Malaysian Code on Corporate Governance (MCCG). The other area that firms should consider is the optimization of their governance arrangements, including the need for proper balance in the composition of independent directors, audit committee and shareholder incentives to align the interests of the managers and shareholders.

This study has a number of drawbacks, regardless of its contributions. Only the non-financial firms are analyzed which may limit the extrapolation of the results to other industries. Also, the research is done with the selected governance variables and it does not consider other potentially relevant variables like board diversity, corporate social responsibility or ESG practices. Some future research can be done to add these variables, compare and contrast the findings between countries or examine the impact of recent changes in the Malaysian regulations on their findings.

Declarations

Ethics and Guidelines: The study was conducted in accordance with the Declaration of Helsinki. The ethical approval specifically covers the research procedures and data collection activities conducted for this study.

Consent to participate: Written informed consent was obtained from all participants prior to data collection. Consent was obtained using a standardized written form, signed by each participant before participation in the survey.

Consent to publish: The authors have provided consent to publish.

Competing interests: The authors declare no competing interests.

Data availability statement: Data will be made available on reasonable request from the corresponding author.

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Declaration of using generative AI: During the preparation of this work the author(s) used ChatGPT in order to correct the grammatical errors. After using this tool/service, the author(s) reviewed and edited the content as needed and take full responsibility for the content of the published article.

Author Contributions: M.H.A.: Conceptualization, methodology, writing—original draft preparation, writing—review and editing. All authors have read and agreed to the published version of the manuscript.

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