

# Corporate Governance and Informational Efficiency - Evidence from the Malaysian Construction Sector

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This study is driven by the motivation to further investigate the association between corporate governance mechanisms and a firm's performance measured by return on assets (ROA) involving construction companies listed at Bursa Malaysia. In this research, corporate governance mechanisms consist of board size, board composition, remuneration committee, risk management committee, gender diversity, duality, ownership concentration and audit committee. The data is collected from 46 listed construction companies for the financial year, 2015. Descriptive statistics and Pearson correlation test are reported and model estimation is performed using logistic regression. The outcome shows that corporate governance does not affect a firm's performance. In other words, firm performance is unlikely to influence share price on the stock market which is consistent with Fama's (1965) Efficient Market Hypothesis.

**Key words:** *corporate governance mechanism, board composition, risk management committee, duality, firm performance, Bursa Malaysia.*

## Introduction

Corporate governance is a technique and structure used to control exercises of the economic system of an organization. Corporate responsibility has the extreme target of acknowledging shareholder value, whilst accounting for the interests of different stakeholders. (MFC, 2001) defines Corporate Governance as a framework that is eventually used to control and guide organizations. Top managerial staff are answerable for the governance of organizations. The shareholders' role in governance is to engage executives and auditors for the benefit of the firm and to ensure that they guarantee that a competent corporate structure is developed-

Cadbury Report 1992. Corporate governance bargains with components that guarantee that enterprises get a return based on their ventures (Shleifer et. al, 1999; Gumusgul, 2018). Corporate governance arrangements are not only the internal administration of firms, it is also a firm's relationship with their suppliers, customers, and other stakeholders. The developing need for stocks and other assets from organizations expands the need for corporate governance.

Generally, corporate governance determines those firms that defend and promote the expectations of stakeholders with the ever-expanding worldwide considerations. However, the possibilities of corporate governance vary between countries and rely upon economic and social contexts. Organizations in wealthy economies have differing forms of corporate governance such as: stable political, budgetary financial structures and developed legislative frameworks.

Corporate governance varies from entity to entity and geographical region of countries. Its' goal is to standardize, gain high rates of return and to prevent poor financial structure whilst attaining their targets at the expense of the investors (Luo, 2007). It must be acknowledged that feeble corporate governance or noncompliance of its doctrine could prompt financial abuses, corporate frauds and generate heavy losses for companies (Niamh and Jill, 2008).

The construction industry is one of the main sources of economic growth and development in Malaysia. Malaysia is a growing economy, and the construction industry is one of the backbones for its growth. Unfortunately, the Malaysian construction sectors' contribution to GDP has declined from 2013 to 2016.

The World Bank Report (2012) recognized Malaysia as a regional leader in corporate governance but stated that there is plenty of room for improvement in the area of corporate governance (Reports on Observance Standards and Codes, 2012). A high level of ownership concentration and composition, but weak corporate governance structure, means that there is inadequate shareholder control and protection for the Malaysian corporate sector (Kamini, 2003). Noordin and Haniffa (1999) claimed that the country's poor corporate governance standards are the main reason for the loss of investors' confidence in Malaysia.

The question then is whether effective corporate governance mechanisms are able to increase a firm's performance, with respect to listed construction companies in Malaysia.

## **Development of hypotheses**

### ***Risk Management Committee***

Risk management committees have the ability to immediately identify, prioritize and oversee economic risk, as well as the ability to back internal audit review functions of audit review committees (Fraser and Henry, 2007). Stakeholders can hope that their personal satisfaction of financial instrument regulations are greater in organizations with existing RMC's over those organizations who have no such committees. This view may be a result of the existence of RMC's that oversee the different financial dangers that confront a firm and the subsequent financial reporting value that may have significant improvements (Yatim 2010). Research on risk management committees are very limited. Previously and in most moments, the role of risk assessment falls under an audit committee review. However, Yatim (2010) proposes that the development of risk assessment boards in Malaysia are not just connected with the competent structure of a board, extent of the entity and the unpredictability of a company's operations, but their link with big 4 audit review firms has related to high-quality regulations. Likewise, risk management committees are identified as accounting for, or establishing, a competent board of directors (Yatim 2010). Thus, the hypothesis is established:

H1: There is a positive relationship between the establishment of the risk management committee and firm performance.

### ***Board Composition***

Masood et. al., (2013) states that board independency has a positive relationship with firm performance. Board composition is a vital mechanism of board structure, which identifies the need for executive and non-executive directors on the board. Agency theory and stewardship theory, both apply to board composition, whereby boards that have more non-executive directors are mainly grounded in agency theory. This suggests that an operational board should have a majority of non-executive directors, who are expected to perform to a higher level due to their freedom from the company's administration (Dalton et al. 1998).

On the other hand, executive director representation on boards is grounded in stewardship theory, which supports the claim that leaders are good stewards and therefore, put more effort into making profit and ensuring stakeholder returns (Donaldson and Davis, 1994). Beasley (1996) reports that boards with a majority of external directors justify their observing role in respect to financial reporting. Weir and Laing (2001) stated in their study that there are a number of reasons why practical proof might be inadequate to support the positive connection that exists between non-executive directors and enactment. This study hypothesised the following relationship:

H2: There is a positive relationship between board composition and firm performance.

### ***Gender Diversity***

Wang and Clift (2009) explain that women directorship has no significant impact on firm performance. The share of females with positions on the board of administrators decreased from 2005 til 2007 at the rate of 10.2%, 7.6%, and 5.3% respectively. This share was marginally boosted in 2008 to 7.41% (according to kpwkm). The shortage of Malaysian female directorship was disclosed in the World Economic Forum's, World Gender Gap Index 2009, where it was revealed that Malaysia gets five places to a hundred and one, out of the one hundred fifteen countries surveyed (Hunt, 2010). This is consistent with an investigation carried out by Soares, et. al., (2010) that presented Malaysia as within the 9th rank of female membership on boards of directors in Asia Pacific organizations.

Analysis by Catalyst (2008) demonstrated that on average, 4500 corporations with a large number of female administrators had accomplished more significant financial targets than those with a smaller number of females. Their findings revealed a difference of 53% over return on equity, 42% over return with sales, and 66% over return on invested capital. Julizaerna and Zulkernain (2012) identifies the policy of the Malaysian government, to have a minimum of 30% female directorship in the board decisions of financial departments. Additionally, female directorship has a significant relation with a company's' profitability in the case of categorical data (Shrader et. al, 1997 and Maran and Indraah, 2009). Julizaerna and Zulkarnain (2012) found a significant positive relation between firm performance and women directorship. Consequently, we hypothesise that:

H3: There is a negative relationship between gender diversity and firm performance.

### ***Board Size***

Masood et. al., (2013) found that board size has no significant relationship with firm performance. Using panel data regression, Ujunwa (2012) points out that the size of the board and CEO/Chairman duality functions are negatively related to firm performance, whereas board independence has a positive impact on firm performance and corporate governance. Similarly, prior corporate governance research was mainly influenced by agency theory. In this study, we analysed board size as mediated by a variable which can affect corporate governance performances plus financial statements. That is, the recognition that board size and firm size remain interconnected, (Dalton et al. 1999; Yarmack 1996) and board size is associated with firm presentation (Kiel and Nicholson 2003).

From an organization's viewpoint, bigger corporations need superior boards to observe and regulate their administration's activities (Kiel and Nicholson 2003). As proposed by agency philosopher (Jensen 1993), an ideal edge ought to be around 8 administrators. Lipton as well as Lorsch (1992) proposed that the extreme of board size ought to be 10 followers. Another vision that is significant, is the quantity of outdoor administrators (Dalton et al. 1999). Hence, we suggest the following hypothesis:

H4: There is a positive relationship between board size and firm performance.

### ***Duality***

Masood et. al. (2013) shows that an independent board, and CEO duality have a correspondingly positive, and negative, association with firm performance. Joshua and Nicholas (2007) explain that board size, board composition, management skill level, CEO duality, inside ownership, family business, and foreign ownership have significant positive impacts on profitability. Chris et. al. (2009), highlights that there is a large amount of table discussion within a board of directors in the process of financial structure decision-making but found that there is no relationship between board of directors' participation and corporate governance (board size, board independence and CEO duality). Ujunwa (2012) found that board size, CEO duality and gender diversity are negatively linked to firm performance, whereas board nationality, board ethnicity and the number of board members with a PhD qualification are found to impact positively on firm performance. This literature proposes the hypothesis:

H5: There is a negative relationship between duality function and firm performance.

### ***Remuneration Committee***

Muhammad et. al., (2009) found a positive relationship between directors' remuneration and the board executive committee, remuneration committee, the nomination committee and corporate governance committee. Board committees consist of audit, remuneration and nomination committees. It is claimed by the Cadbury report (1992) that a board should consist of separate committees for the auditing of financial statements, observation of remuneration of executive directors and engagement of new directors to the board. The existence or absence of committees is offered by dummy variables in earlier studies (Laing and Weir 1999). Dalton et al. (1998) also described that the addition of remuneration

committees leads to better enactment. Hence this study supports the board committee arrangement for better enactment. Thus, the following is proposed:

H6: There is a negative relationship between remuneration committees and firm performance.

### ***Ownership Concentration***

Foreign investors tend to speculate in corporations with smart company governance as a result of effective company governance reduces agency cost and thus, declines financial hazards (Leuz et. al. 2008). Investors of financial institutions are typically have vital number of stocks within the corporations and want to safeguard their reserves. Giant group of investors have a robust incentive to observe administrators plus also the power to discipline the managers (Chang, 2003). Lei and Teen (2005) notice a positive correlation between financial institutions possession and company governance points for community corporations in the territory. Chang (2003) stated that considerable amount of financial institution investors are middle operators for final business owners. They need quite totally different incentives plus risk preferences as a result of they are subject to scrutiny through the ultimate homeowners thus, would perform higher.

McConaughny et. al. (2001) notice that corporations transferred from spouse and family are worthy and reasonable by nature of the business. Yammeesri and Lodh (2001) notice that company profitability are positively correlated with spouse & family possession. Kole and Mulherin (1997) study corporations with federal government possession of quite thirty fifth and notice that the performances of those corporations do not seem to be considerably totally different from alternative corporations within the same trade. Hence, we hypothesise:

H7: There is a positive relationship between ownership concentration and firm performance.

### ***Audit Committee***

Higher business performance depends on legislating for good governance. However, prior researchers found that there is a blend of affiliation between the useful review work of audit committees and firm performance (Hermalin and Weisbach, 1991; Dalton et al., 1998). The observations of major stakeholders of business organizations are more concerned with financial capabilities in the establishment of audit committee team members (Davidson et al, 2004). The Malaysian Code on Corporate Governance (“MCGG”) states that members of the audit committee should have a sufficient understanding of financial reporting issues. MCGG suggested that at minimum, one member of an audit review committee should be enrolled with the local accounting legislative council, namely the Malaysian Institute of Accountants,

or should have not less than three years of experience after receiving certification from a legislative body and must hold membership of a prescribed accounting body (Shamsar and Zulkarnain, 2001). A significant relationship exists between an audit review committee with great experience in accounting and the recurrence of the meeting in a year with profitability management practices (Saleh et. al., 2007). The study proposes the following hypothesis:

H8: There is a positive relationship between the establishment of the audit committee and firm performance.

### ***Firm performance (Return on Assets)- Dependent variable***

The current study uses firm performance as the dependent variable. Saleh and Zuraidah (2012) demonstrate that firm performance is negatively related to Corporate Governance reporting. Kevin et al. (1994) states that the level of return on assets raises when concentrated ownership achieves a level of 68.2%, after that, return on assets declines. Morck et al. (1988) state that the entity role of performance increases when administration ownership rises from 0% to 5%, and it declines when administration ownership expands from 5% to 25%.

The firm performance measure investigated in this study is return on assets (ROA), which is also considered as representative for profitability and market returns. Bilal et. al., (2013) reveals that there is a significant impact of board size on CEO/Chairman Duality on ROA, and there is an insignificant impact of Board Composition on ROA. ROA is used to measure the productivity of assets engaged in firm performance (Haniffa and Hudaib, 2006). Less than 4% of Brazilian firms have “good” corporate governance practices, and firms with better corporate governance have significantly higher (return on assets) performance (Andre et. al. 2005).

### **Methodology**

The study uses a quantitative approach utilizing secondary data involving a sample size of 46 companies listed on Bursa Malaysia. Since the response variable (dependent variable) is dichotomous in nature, the study employed logistic regression (Iskandar et. al., 2011). The logistic regression model uses the predictor variables (independent variables), which can either be categorical or continuous, in order to predict the probability of specific outcomes.

The return on asset variable is analysed on a nominal scale. This variable is dichotomous in nature fulfilling the basic assumption of logistic regression. Return on asset considered 1 if increases more than 5 percent ( $ROA > 5\%$ ) and considered 0 if decreases more than 5 percent ( $ROA < 5\%$ ). Richard (2005) proposed that as a rule of thumb, investors are interested in those companies which have ROA more than 5%. Ben (2005) also stated that investors are reluctant to investment in companies whose ROA is less than 5%. Dhanuskodi (2014) also

explained that as a fixed rule, an expected level of ROA for companies that is equal to or more than 5% is considered good by the banks.

To test the relationships suggested in the hypotheses as stated in the conceptual framework, the SAS (9.4) statistical program is employed.

The final model that was fit to the data is given by

$$\text{logit FP} = \beta_0 + \beta_1 BC + \beta_2 BS + \beta_3 RC + \beta_4 RMC + \beta_5 GD + \beta_6 DU + \beta_7 OC + \beta_8 AC$$

where  $\beta_0$  is the intercept of the model,  $X_1, \dots, X_8$  are the predictor variables board size, board composition, remuneration committee, risk management committee, gender diversity, duality, ownership concentration and audit committee respectively.

The secondary data is collected from Bursa Malaysia. The study collected annual audit reports of construction companies on Bursa Malaysia. Table 1 shows variables measurement and their data sources.

**Table 1: Variables and Data Sources**

<b>Dependent variable</b>	
Return on Assets (ROA)	ROA increases more than 5% equal to 1 or Less than 5% equal to 0. <i>Data source: Richard, 2005; Ben, 2005; Dhanuskodi, 2014</i>  Percentage of profit after tax to total asset value. <i>Data source: Saleh et. al. 2012.</i>
<b>Independent variables</b>	
Board Composition (BC %)	(BCE) Ratio of number of executive to total directors in a firm's (BCNE) Ratio of number of non-executive directors to total directors in a firm's <i>Data source: Bilal et. al. 2013,</i>
Remuneration committee (RC)	Number of meetings held during the financial year <i>Data source: Muhammad et. al. 2009.</i>
Risk Management Committee Size (RMC)	Proportion of committee size to total directors <i>Data source: Hassan et. al. 2012.</i>
Gender Diversity (GD%)	Percentage of number of female directors to total directors in the firm's <i>Data source: Julizaerma and Zulkernain, 2012.</i>
Ownership Concentration (OC %)	(OC5) Percentage of largest 5 to total number of shares

	(OC3) largest 3 shareholders to total number of shares <i>Data source: Lu et. al. 2015.</i>
Audit Committee (AC)	Number of meetings of audit committee during the financial year <i>Data source: Iskandar et. al. 2015.</i>
<b>Control variables</b>	
Board Size (BS)	Total number of directors in a firm <i>Data source: Julizaerma and Zulkernain, 2012. 2012.</i>
Duality (DU)	It indicates that either the post of CEO and Chairman are being held by the same individual or by two different individuals. <i>Data source: Masood et. al. 2013; Lu et. al. 2015</i>

### Empirical Findings

This section presents corporate governance mechanisms involving eight elements: board size, board composition, remuneration committee, risk management committee, gender diversity, duality, ownership concentration, and audit committee together with the dependent variable of firm performance as measured by return on assets (ROA). Table 2 shows the descriptive statistical extractions for the variables employed in the study to measure the effect of corporate governance mechanism.

**Table 2:** Descriptive Statistics of Listed Construction Companies

Variables	Mean
ROA	34.78%
BS	7
BCE	41.36%
BCNE	58.89%
RC (No. of meetings)	Once
RMC (Committee / total directors)	44.78%
GD	15.06%
AC (No. of meetings)	5 times
OC5 (Top 5)	49.39%
OC3 (Top 3)	42.07%
DU (% of company with duality)	17.39%

The descriptive statistics show that only 34.78% firms have a ROA greater than 5% and the remaining have less than 5%. That average board size is seven directors which is consistent

with MCCG (2007) who stated that there is no desirable definition of board size and every board can examine its size regarding the effect of number upon its effectiveness. Board composition is 58% non-executive directors, and this is in compliance with Malaysian Code on Corporate Governance (MCCG) (2007), which states that one third of the board members should be independent. More than 50% of remuneration committees have more than 1 meeting during the financial year which is consistent with Malaysian Code on Corporate Governance (MCCG) 2001 which requires companies to disclose directors' remuneration.

More than 44% of the members on RMC are non-executive which is consistent with the Bank Negara policy for RMC to be composed of non-executive directors. Average female directorship is 15% which is not consistent with Malaysian Government policy whose minimum requirement is 30%. The average number of audit committee meetings are more than 5 which is consistent with Elmehdi (2007), who found that more than 5 occur on average, and Jackling and Johl (2009) found that there are about 4 to 6.32 yearly board gatherings in Tunisia and India, respectively. Earlier researchers found that US companies have a high number of meetings (Fich and Shivdasani, 2006).

49% of the top five shareholders have more ownership rights which creates a threat for minority shareholders. The establishment of the Malaysian Code on Corporate Governance (MCCG) and the Minority Shareholders Watchdog Group (MSWG) aim to ensure good corporate governance practices by Malaysian firms. 83% of firms show no duality functions, which means that two different people hold the positions of CEO and chairman which is consistent with the recommendations of the MCCG (2007).

Table 3 explains the strength of correlation between dependent and independent variables using Pearson Correlation function. This technique is chosen because of the non-discrete nature of the data. The board composition based on executive directors has significant correlation with non-executive directors. The results also show that risk management committees are strongly associated with gender diversity (with correlation coefficient 0.803). This association shows that if female directorship increases on the board, the performance of risk management committee also increases. It was also found that the top five shareholders are strongly correlated with top three shareholders. This result implies that if the top five shareholders increase their ownership, the ownership of the top three shareholders also increases. This means that the top five shareholders mainly influence the decision making of organizations. A highly negative correlation exists between board composition based on executive directors (BCE) and remuneration committee (RC), which is consistent with (Muhammad et. al., 2009; Ho et al, 2016). This means that if the number of executive directors' decreases then remuneration also decreases and has a positive effect on a firm's performance.

The results show that multivariate evaluation have less multicollinearity complications because the correlation coefficients are low (Iskandar et. al., 2011). The highest absolute correlation coefficient (-0.996) exists between board composition based on executive directors (BCE) and remuneration committee (RC).

**Table 3:** Pearson Correlation Test for the Model

	<b>RO A</b>	<b>BS</b>	<b>BC E</b>	<b>BCNE</b>	<b>RC</b>	<b>RM C</b>	<b>GD</b>	<b>AC</b>	<b>OC5</b>	<b>OC3</b>	<b>DU</b>
<b>ROA</b>	1.00 0	0.14 1	0.13 0	-0.142	0.10 1	0.22 7	0.306	0.16 7	0.01 4	0.057	0.09 4
<b>BS</b>		1.00 0	0.25 9	-0.237	0.02 3	0.25 0	0.236	0.20 3	0.05 2	-0.077	0.31 9
<b>BCE</b>			1.00 0	0.996* *	0.29 7	0.15 7	0.183	0.04 8	0.09 9	-0.094	0.01 3
<b>BCNE</b>				1.000	0.29 6	0.16 5	-0.185	0.05 4	0.11 1	0.102	0.00 6
<b>RC</b>					1.00 0	0.04 7	-0.117	0.00 3	0.03 5	0.035	0.00 9
<b>RMC</b>						1.00 0	0.803* *	0.19 6	0.16 2	-0.148	0.13 3
<b>GD</b>							1.000	0.22 6	0.14 8	-0.136	0.12 2
<b>AC</b>								1.00 0	0.05 9	-0.051	0.25 7
<b>OC5</b>									1.00 0	0.958* *	0.11 9
<b>OC3</b>										1.000	0.08 4
<b>DU</b>											1.00 0

Based on the p-value in Table 4, Cox and Snell Pseudo R square and Nagelkerke R square have a moderate value for the data. Nagelkerke R square is 0.2385 indicating that the independent variables in the model explain 24% of the change in the dependent variable.

From Table 4, the p-values of all the independent variables are insignificant. This means that the corporate governance in the secondary construction firms has no impact on a firm's performance. This is in line with the results of earlier research. Economic or financial performance is affected according to year (Haniffa and Hudaib, 2006). Hussain and Hadi (2015) also found that corporate governance has no significant impact on firm's performance. It is evident from the results that board size has no significant impact in case of secondary data which is in line with Julizaerna and Zulkernain (2012). The results suggest that board composition has no significant impact in case of secondary data which is in line with (Vafeas and Theodorou, 1998; Core and Larcker, 2002). The results also show that remuneration committees have no significant impact which is in line with Basiru (2015), which explains that risk management committees (RMC) have an insignificant relationship on firm's financial performance (ROA) and odd ratios represent that odds of a return on asset for risk management committee are 14% higher than the odds of other variables. It is clear from the findings that gender diversity has no significant impact, which is in line with Wang and Clift (2009), who found that there is no significant relationship between gender diversity (female directorship) and a firm's performance.

The empirical findings also reveal that duality has no significant impact in case of secondary data which is in line with Lam and Lee (2008), who found that CEO duality has no significant impact on a firm's performance. Results suggest that ownership concentration has no significant impact, which is in line with (Vafeas and Theodorou, 1998; Core and Larcker, 2002), who also found no significant relationships between ownership structure and a firm's performance. The findings indicate that audit committees have no significant impact which is in line with (Saleh et. al., 2007), who found that the frequency of meetings and audit committee independence show no significant relationship with a firm's performance.

**Table 4:** Logistic Regression Results

Parameter <i>Predicted sign</i>	Estimate	P- value	Odds Ratio
Intercept	-48.5218	0.5697	
BS +	-0.1723	0.5327	1.188
BCE +	48.2788	0.5704	<0.001

Parameter <i>Predicted sign</i>	Estimate	P- value	Odds Ratio
BCNE +	49.7202	0.5614	<0.001
RC -	0.4080	0.5912	0.665
RMC +	-0.1378	0.9400	1.148
GD -	-2.7025	0.2630	14.916
AC +	0.2342	0.5278	0.791
OC5 +	0.0477	0.5392	0.953
OC3 +	-0.0581	0.4489	1.060
DU -	0.0895	0.9308	0.914
Cox and Snell Pseudo R <sup>2</sup>			0.1730
Nagelkerke R <sup>2</sup>			0.2350

\*significant at 5% level

An odds ratio is a statistical technique that measures the degree of association between an exposure and an outcome (Allison, 2010). Specifically, the odds ratio makes a comparison on the occurrence of the outcome in the presence of one particular exposure with the occurrence of the outcome in the absence of a given exposure. The odds ratio of board size is 1.188 which indicates that the predicted odds of a firm's performance are being influenced by board size since this finding is 1.188 times higher than the odds in other variables. In other words, the odds of firm's performance being influenced by board size is 18% higher than the odds for other variables in the model. The odds ratio that risk management committee influences firm's performance is 1.148 implying that risk management committee is 1.148 times more likely to affect the firm's ROA. Similarly, the odds ratio of 1.06 from top three ownership concentration supports a high degree of association between a firm's performance and its substantial shareholders' ownership.

The highest odds ratio comes from gender diversity with a value of 14.916, which suggests that women's directorship is almost 15 times as likely to have a strong influence on a firm's performance as compared to other variables. The odds ratios from board composition, remuneration committee, audit committee, top five shareholders and duality are mostly staying below than the value of 1, denoting that firm's performance is highly unlikely to be influenced by these variables.

## **Discussion and Conclusion**

The results concluded that corporate governance in secondary construction firms have no impact on a firm's performance; this is in line with the results of earlier research. Economic or financial performance is affected according to year (Haniffa and Hudaib, 2006). Hussain and Hadi (2015) also found that corporate governance has no significant impact on a firm's performance. The results show that compliance with the provisions of MCCG improved considerably throughout the sample period. Moreover, the study showed a high level of compliance with the provisions regarding chairman duality and board composition, with an average of 83% and 58% respectively. The levels of compliance concerning the provisions of the risk management committee were moderate and gender diversity scored the least.

The results from the secondary data show that a firm's performance is not influenced by corporate governance mechanisms. It is clear that corporate governance does not affect a firm's performance and a firm's performance will not influence share price on the stock market. This is consistent with the Efficient Market Hypothesis (Fama, 1965). EMH focuses on the informational efficiency whereby a share price is promptly adjusted when new information is generated. Investors are unable to gain profitable returns from their investment from information available in the public domain. Thus, share price performance has no relationship with corporate governance mechanisms.

The empirical findings of the study showed similarity with prior research. The corporate governance model inspects the link between eight corporate governance variables as well as a firm's economic performance. Some of the inspected corporate governance mechanisms show an important undesirable link with ROA, which is highly specified for the construction industry Malaysia. The findings presented that the constructed governance model related negatively to ROA and there is no relation between these variables. So far, no study exists in relation to return on assets measured as a binary variable in corporate governance characteristics. This study is the first effort in explaining corporate governance issues in Bursa Malaysia listed construction companies with regards to return on assets as a binary variable.

Though the study has theoretical contributions, it also contains quite a few limitations. Firstly, the sample size in this study is limited to only one financial year. A very limited



amount of listed companies take part which makes it harder to recognize the population represented by the given sample; the results cannot be generalized. The second limitation is the use of only one accounting measure (return on assets) instead of more than one like return on equity (ROE) and Tobin's Q to increase the validity of results.

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