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## THE INFLUENCE OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE MEDIATED BY GENDER DIVERSITY



 Lee Siew Tee<sup>1</sup>

 Ismail Nizam<sup>2+</sup>

<sup>1</sup>MBA Student, Anglia Ruskin University & FTMS College Malaysia.

<sup>2</sup>Head of Business School, FTMS College Malaysia.

Email: [nizam@ftms.edu.my](mailto:nizam@ftms.edu.my)



(+ Corresponding author)

### ABSTRACT

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Corporate governance (“CG”) practices have raised a concerned issue by many countries worldwide particularly Asian countries following the Asian Financial Crisis in 1997 including Malaysia. Malaysian Code on Corporate Governance (MCCG) was first introduced in year 2000, revised in 2007, 2012 and culminating in the new supercharged 2017 version. CG has form part of the Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Securities) that must be complied with by a listed issuer and its directors. The aim of this survey-based research administered 250 questionnaires to the middle and top-level managers of Malaysian firms to examine the influence corporate governance practiced in the country. Many researches on corporate governance in Malaysia are based secondary data and hence the questionnaires are designed to critically examine the corporate governance (board structure, CEO duality, audit/risk management committee and corporate reporting) on financial performance of Malaysian organisations in terms of sales, profitability, return on equity and share price. Further research on mediating effect of gender diversity may help to provide a basis for paradigm shift and result in better representation of gender at the level of decision making and in influencing corporate governance on the performance of the companies. The research found that the corporate governance variables overall have no significant impact to explain the performance of the listed companies. It suggests future researchers to explore into other factors that could possibly affect the company performance.

**Contribution/ Originality:** The paper's primary contribution is finding that the empirical evidence contributed to support the mediation effect of gender diversity in the impact of corporate governance on financial performance.

## 1. INTRODUCTION

Corporate governance (“CG”) is a vital mechanism through which Board can ensure that the behaviours of their workforce are aligned to the organisation’s purpose and principles and that corporate goals and values are translated into their people’s decisions and actions. Meanwhile, generating financial and economic returns to its stakeholders is the key goal of business (Clements, Franses, & Swanson, 2004). According to Harrison and Wicks (2013) investors, both current and future, decide their investments decision in a firm by evaluating the firm performance. Despite it is a hot debate topic on the relationship between a firm's CG with financial performance, definitely a good CG practice provides reliable and dependable framework for a firm's board of directors so that they may timely respond to different situations that affect the firm's value (Wruck, 1990). Due to lack of good CG, corporations might be vulnerable and prone to collapse due to structure deficiency of not able to deal with economic distress, new financial or managerial challenges (Jensen, 2001) and hence undermine the general economic development of the country.

CG became the focus of attention especially after Asian crisis 1997 and recent crisis and scandals such as Malaysian Airlines System Bhd, Renong Bhd, Perwaja Steel Sdn Bhd (Chong, 2018; Zainal, Azizah, & Ahmad, 2007). The Malaysian government and regulators such as Securities Commission (“SC”), Bursa Malaysia Securities Berhad (“Bursa Securities”), Bank Negara Malaysia (“BNM”), Companies Commission of Malaysia (CCM) have started to set up Malaysian Code on Corporate Governance (the “Code” or MCCG), which evolved from 2007 till 2017 to enhance good corporate governance by adopting corporate reforms that comprise the introduction of the new code of corporate governance.

In past researches, majority studies conducted had primarily focused on the post implementation of MCCG 2007 and MCCG 2012. Many researchers examined the impact of the governance structure on PLC’s profitability during the period from 2008 to 2012 (Latif, Kamardin, Mohd, & Adam, 2013). In this regard, the effects of the implementation of MCCG 2012 are not extensively studied (Wong, 2018) and there is minimal research found on MCCG 2017 (Chong, 2018).

Therefore, it is important for organisation to understand the variable of CG that is attributable to the performance (Chong, 2018; Javed, Iqbal, & Hasan, 2006) and to establish the relationship between gender diversity and financial performance (Lee-Kuen, Sok-Gee, & Zainudin, 2017). This study can also help the organisation to better understand the importance of CG, gender diversity to release the organisational objectives and goal to its stakeholders.

The aim of this study is to examine the corporate governance and its impact on financial performance, and the mediating effect of gender diversity in organisation in Malaysia.

Objectives of this study are as follows:

- To examine the effect of corporate governance on organisational financial performance.
- To examine the effect of corporate governance on gender diversity.
- To examine the effect of gender diversity on financial performance.
- To examine the causal impact of corporate governance on organisational financial performance mediated by gender diversity.

This study is conducted based on 3-Principles, i.e. Board leadership and effectiveness, effective Audit, Risk Management and internal controls and corporate reporting set out in the MCCG 2017 on the contribution to the performance of Malaysian companies and it is significant in many ways. First, it will contribute to the body of knowledge of corporate governance by examining how different aspects such as board structure, role of CEO interplay, audit and risk management committees and corporate reporting and how these affect the financial performance of organisations in Malaysia. Furthermore, the study looks at CG in general from various organisations and therefore will contribute in establishing the best approaches to adopt. Also, the study is significant since it will contribute to the managerial knowledge that can be used in shaping the decision-making process of managers and policy makers in relation to CG.

## 2. LITERATURE REVIEW

### 2.1. Definition of Key Concepts

#### 2.1.1. Corporate Governance

Although the term Corporate Governance (“CG”) has been used widely and recognised universally, there is no single precise definition of its usage (Ismail, Dunstan, & van Zijl, 2010). Various authors have described CG differently and associated it with various range of corporate issues. Their descriptions are surrounded by agency relationship and linked between CG and the governance of organisation. According to Shleifer and Vishny (1997) CG is “a mechanism which aims to protect shareholders’ interests to assure themselves of getting a return on their investment”. Clarke (2007) further defined CG as a “a set of systems, principles and processes by which a company is governed to achieve its goals and thus enhance firm performance”. According to OECD, there is no single model of good corporate governance; nonetheless there are some common elements underlie good corporate governance. OECD has outlined a set of principles which are fundamental to good corporate governance and most widely accepted practices where The World Bank’s CG assessments of counties are based on these principles (Chong, 2018). In Malaysia, the new MCCG 2017 has unveiled new features and enhancements to facilitate the application of CG practices in substance and drive meaningful reporting.

#### 2.2. Financial Performance

Firm’s financial performance can be analysed in terms of profitability, sales turnover, asset growth, dividend growth, capital employed among others (Almajali, Alamro, & Al-Soub, 2012). Many previous studies used Return on Assets (ROA) and Return on Equity (ROE) (Cheng, 2008; Klein, 1998; Marimuthu & Kolandaisamy, 2009) as their firm performance measures. However, there is other debates on how firm’s performance should be measured and the relevant factors affecting financial performance (Liargovas & Skandalis, 2008). A single factor cannot reflect every aspect of a company performance and therefore the use of several factors allows a better evaluation of the financial profile of firms.

#### 2.3. Gender Diversity

In recent years, various researchers have been performed on the issues of women in the boardroom where they contribute towards knowledge, ideas, innovation and decision making (Nzulwa & Wagana, 2016; Robinson & Dechant, 1997). According to Westphal and Milton (2000) and Raver and Schneider (2005) women are important for firms as they offered a fresh perspective in problem solving. Having gender diversity in the boardroom can also improve the quality of board’s discussion and the ability to provide effective oversight of a firm’s financial reporting and disclosure (Gul, Srinidhi, & Ng, 2011). This is because female directors are found to be more active in monitoring activities (Adams & Ferreira, 2009) and cautious in decision making (Huang & Kisgen, 2013; Levi, Li, & Zhang, 2014).

#### 2.4. Critical Review of Related Theories

##### 2.4.1. Stakeholder Theory

Stakeholder theory views management is required to fulfill their fiduciary duties to the stakeholders and safeguard their interest and therefore influences the roles of the board. According to Abrams (1951) it specifies that a corporate entity consistently seeks to deliver a balance stakeholder interest so that each interest constituency may obtain degree of satisfaction (Reguera, Laffarga, & Fuentes, 2011). Sundaram and Inkpen (2004) contended that stakeholder theory focuses on relationship management with group of stakeholders for individual benefits and those groups who require management’s attention. Stakeholder theorists agree that for companies to survive, it is important for them to manage the network relationships and take care of the interests of its stakeholders, i.e. suppliers, business partners and employees, and it was also argue that this group of network is critical other than owner-manager-employee relationships as in agency theory (Wanyama & Olweny, 2013). As there are increasing pressured by shareholder activists, institutional investors (Fields & Keys, 2003) and regulators for appointing more women directors or officers using the contentions of stakeholder theory, that a more diverse board will

have a social heterogeneity that will place the company in a better position to connect with various stakeholder groups, hence enjoy a better result.

### 2.5. Human Capital Theory

Becker (1964) suggested that individual's education, experience, skills, training or capability is valuable to an organisation in improving productive and cognitive capabilities that promote individual and the firm. Each appointed director brings a unique set of human capital resources including expertise, networking and reputation and ties to other organizations (Hillman, Shropshire, & Cannella, 2007) which are beneficial for the board and the firm (Kesner, Victor, & Lamont, 1986). This theory suggests that women's appointment on boards is vital as they have the skills, or the resources needed by the firm which their male counterparts may not possess. According to Singh, Terjesen, and Vinnicombe (2008) human capital profiles of appointed women on boards were found more likely to drive international diversity. Furthermore, they do have significant experience as directors on boards of smaller firms, although less likely as CEO (Daily, Certo, & Dalton, 1999). Peterson and Philpot (2007) showed that actual women directors in US Fortune 500 companies are as highly qualified as male directors. Therefore, it is not surprising to find that women can integrate into boards at a faster rate than their male counterparts (Hillman, Cannella, & Harris, 2002).

### 2.6. Feminist Theory

Feminist theory is an outgrowth of the general movement to empower women worldwide. Feminism is a women-centred socio-political movement derived from the idea that 'women should share equality in society's opportunities and scarce resources' with the aims to reveal the importance of women, to acknowledge the historical reality that women have been subordinated to men (inequalities) and to establish gender equality (Delaney, 2005). Development feminism made an important theoretical contribution in equating women's status with control of economic resources economy (Lorber, 2011). Although females constitute more than half of society, yet they are under-represented in the labour market today as well as top level management in levels of organisational hierarchy (Powell, 2000). Women make up for 10% of boards and only 3% of CEO positions (Burke & Davidson, 2004). Due to the general tendency which has regarded men as better than women in terms of managerial success, a feminist approach aims to renew and systematically change the male dominated organisational structures. Woman presence can assist to evolve stereotypes embedded in others' expectations and individual gender identities, and therefore feminist theory supports the increased presence of women on boards and argued that female presence on board addressing public expectations.

### 2.7. Critical Review of Empirical Research

Sanda, Mikailu, and Garba (2005) stated that small board size was found to be positively correlates with firm performance. This is supported by Haniffa and Hudaib (2006) who found that board size has a significant negative relationship with Tobin's Q, and further concurred by Ibrahim and Samad (2011) that smaller board size can improve the performance of public listed companies in Malaysia.

Staikouras, Staikouras, and Agoraki (2007) find that board composition does not affect firm performance although its relationship with performance was found to be positive. These findings were similar to those of Adusei (2010) who found no relationship between board composition and bank performance in Ghana although board composition was found to have positive effect on bank efficiency.

At the same time, Alonso and Vallelado (2006) studied 66 banks in OECD countries from 1996 to 2003. They established an inverted U-shaped relation between the measures of bank performance (Tobin's Q, ROA, the annual market return of a bank shareholder) and board size which they posit justifies a large board but imposing an efficient limit on size.

Adams and Ferreira (2004) argued that boards of directors tend to be more homogeneous when firms operate in riskier environments. This might happen, because social homogeneity breeds trust (an argument put forward by Kanter (1977) and trust is in high demand when a crisis hits. The study also suggests that diverse boards receive additional compensation to palliate the

decrease in homogeneity, which in turn may reduce firm value. Yet, the authors acknowledge that firms with more diverse boards hold more frequent board meetings and female directors have fewer attendance problems, which would rather contribute to board effectiveness. The net effect of gender diversity thus remains unclear.

Devi, Hassan, and Hamza (2015) conducted research to investigate whether presence of woman on board has impact on financial performance by studying 52 Malaysian's PLC for the period of five years using simple random sampling and the information and data are collected through secondary data method from company's published annual reports from Bursa Malaysia. Multiple linear regression analysis is employed to find significant of the factors on financial performance. The independent variables are number of women on board; percentage women on board and number female non-executive directors and ROA, ROE and return on capital employed (ROCE) are the dependent variables. It was found that all the independent variables are found to be significant and influencing towards the three financial measure of firm's performance concluding that those variables has impact on the financial performance, except for the factor of percentage of woman on board has insignificant findings towards the ROA. This insignificant relationship can be concluded that both variables do not correlate to each other in determining the impact of women presence on board in the listed companies in Malaysia.

2.8. Conceptual Framework and Hypotheses

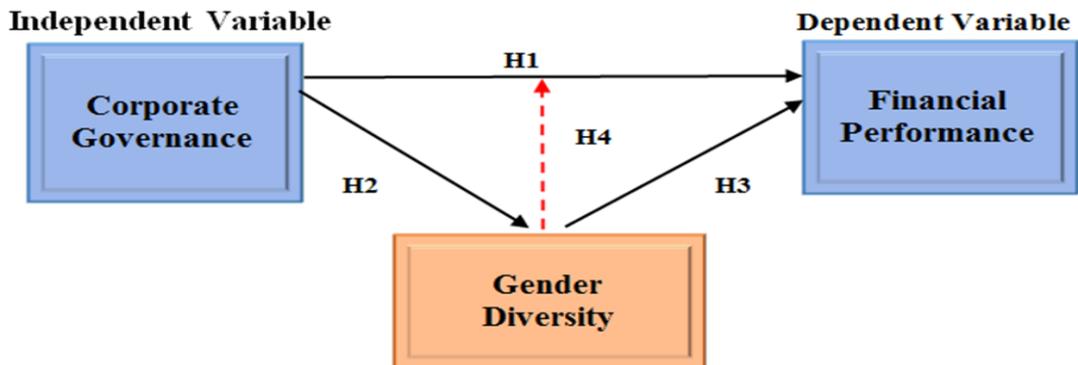


Figure-1. Conceptual framework.

Figure 1 presents the conceptual framework of this study which includes three constructs. The independent variable (Corporate Governance), dependent variable (Financial performance) and mediating variable (Gender Diversity).

Corporate governance and its impact on financial performance have been discussed and well conceptualized in literature (Eisenberg, Sundgren, & Wells, 1998; Mak & Kusnadi, 2005). There are many dimensions in corporate governance; however four major dimensions, i.e. board structure and board size, CEO duality, audit and risk management committee, corporate reporting dimensions in MCGG 2017 will be discussed in this study.

The results of previous studies that investigated the relationship between board composition and firm performance are inconsistent. Dehaene, De Vuyst, and Ooghe (2001); Al-Janadi, Rahman, and Omar (2013) and Rhoades, Rechner, and Sundaramurthy (2000) found that NED has a positive relationship with financial performance. Krivogorsky (2006) and Lefort and Urzúa (2008) also found a positive relationship between board composition (the proportion of independent directors on the board) and firm performance. Kamardin (2009) showed that non-executive director is significantly related to firm performance that is measured by ROA. On the other hand, Coles, McWilliams, and Sen (2001) and Erickson, Park, Reising, and Shin (2005) demonstrated that there is a negative impact of greater board independence and firm performance. Bhagat and Black (2002) and De Andres, Azofra, and Lopez (2005) found no significant relationship between the composition of the board and the value of the firm. Based on Shukeri, Shin, and Shaari (2012) commented that there is a significant relationship between the board size and the company's

performance on the Return on Assets. In addition, the difference number of board members (board size) has a direct relationship with the company's performance (Haniffa & Hudaib, 2006).

Empirical analyses of the impact of duality on various corporate performance measures have yielded conflicting results. Coles et al. (2001); Sanda et al. (2005); Bhagat and Bolton (2008) found negative significant relationship between CEO duality and firm performance. In contrast, Wan and Ong (2005); Carapeto, Lasfer, and Machera (2005) and Schmid and Zimmerman (2007) found no significant difference in the performance of companies with or without role duality.

Empirical studies have shown that disclosure of compliance based on best practice positively impacts the stock market (Rashid, 2008) improves corporate performance and as well assists a country to continue with a positive economic growth (Baysinger & Butler, 1985). Eccles and Krzus (2010) stated that disclosure of an integrated report implies greater transparency for a company's performance. Haji and Ghazali (2013) indicated that there is a positive relationship between integrated corporate reporting and the company's performance.

Based on above discussion and in the light of the agency theory, the following hypothesis can be empirically tested:

*H1: There is a significant positive impact of Corporate Governance on firm performance.*

Previous studies recognised that gender diversity might help boards overcome some impediments to effective functioning in certain cases and make boards more effective. Listed companies in Malaysia have experienced significant change in MCCG 2017 to strengthen the board composition for safeguarding stakeholders' interests and reinforce public confidence (Lee-Hwei & Liao, 2018). Board gender diversity also receives considerable attention within the issues of corporate governance (Zainal., Zulkifli, & Saleh, 2013). In order to achieve the national target of 30% woman on board by year 2020 in Malaysia, gender diversity on board and senior management remains the current key priority in the SC's corporate governance. Therefore,

*H2: There is a significant positive impact of Corporate Governance on gender diversity.*

Results from various empirical studies on the relationship between diversity and business performance are not consistent. Some studies have found a positive relationship between diversity and financial performance, while others have found no relationship or even a negative relationship (Rose, 2007). For example, Carter, Simkins, and Simpson (2003) looked at the relationship between Tobin's Q and the presence of women in the boards of the Fortune 1,000 companies and found a statistically significant positive relationship. Adams., Gupta, and Leeth (2009) also concurs that female directors perform better in monitoring effort since they are more actively participate in monitoring committee. However, Rose (2007) did not find a relationship between board diversity and Tobin's Q for Danish listed companies. Higher ROE is consistently and statistically significant for companies with female directors compared to companies without female directors (Lückerath-Rovers, 2013). Therefore, the following hypothesis is tested:

*H3: Gender Diversity has a significant positive impact of financial performance.*

We generally expect the gender diversity to mediate the relationship between corporate governance and financial performance via resource dependency theory in current governance environment in Malaysia. It is also important to be aware of effect of gender diversity which is the mediator of CG - financial performance relationship. Hence, Hypothesis H4 is formulated as follows:

*H4: CG has a significant positive impact on financial performance mediated by gender diversity.*

### 3. RESEARCH DESIGN AND METHODOLOGY

#### 3.1. Research Paradigm

Positivism, a structured and commonly used method of collecting data is adopted in this research in order to achieve neutrality and objectivity (Creswell & Creswell, 2017). The researcher is able to use scientific theories to analyse the primary research data (Wilson, 2010) using systematic process to test the hypothesis and confirm the theory (Creswell & Creswell, 2017; Hudson & Ozanne, 1988) besides finding relationship or casual effects between the variables (Chilisa & Kawulich, 2012). Furthermore, positivism paradigm supports quantitative methodology, and via population sampling, the researcher can test the variables which are more reliable (Kauber, 1986). The use of statistical tool for analysis of the data enables the structured research techniques

to uncover single and objective reality (Crouch & Pearce, 2012). Besides, the researcher is independent and not affected by the research subject/topic (Saunders, Lewis, & Thornhill, 2016).

### 3.2. *Research design and Approach*

Explanatory research design is used in this study to analyse and test the cause-and-effect relationship between the studied variables (Zikmund, Carr, & Griffin, 2013). By adopting explanatory research, the researcher can test the proposed hypotheses and examine the influence of different dimensions of corporate governance (independent variables) on financial performance (dependent variables), mediated by gender diversity (mediating factor) in Malaysia. This is achieved by using structured online questionnaires distributed among the management staffs of organisations in Malaysia. Empirical data is collected and tested before reaching a conclusion to the hypothesis.

Therefore, deductive research approach is adopted in this study, as a set of hypotheses is formulated at the beginning of the research based on existing theories and relevant research methods are applied to test the hypotheses (Wilson, 2014). In this study, a set of dependent and independent variables have been reviewed to form the conceptual framework and hypotheses (Saunders, Lewis, & Thornhill, 2009) and data collection is used to support or contradict the theory (John, Clark, & Green, 2007).

### 3.3. *Research Method*

Primary data collection method is used for this study. Most empirical research in corporate governance in Malaysia is conducted based on secondary data (Shukeri et al., 2012; Wong, 2018). There is currently lack of availability of primary data on this research topic, and hence it is the main motivating factor for the researcher to use primary data collection. Besides, the primary data collection which gathers original and relevant data allows researcher to collect large sample size in a short period of time and helps to explore the objective with the set of variables derived from relevant theories and the empirical research (Creswell., 2014). This research is cross-sectional for analysing the current state of factors which support the strategic management research (Saunders et al., 2009). The data was collected at a point in time with specified duration of several weeks (Creswell., 2014).

### 3.4. *Data Collection*

Primary data was collected using self-administered questionnaires without researcher intervening which are distributed via online survey in the month of August to September 2019. Some respondents were asked to forward the online survey form to their acquaintances and thus creating a snowball sample (Goodman, 1961). The purpose of survey method for data gathering is to assess the hypotheses and by answering questions about respondents view on this research topic.

### 3.5. *Population and Sampling*

In this study, non-probability convenience sampling method is used to gather data due to time limitations and lack of access to the senior management and directors of public listed companies in Malaysia. Convenience sampling is a fast, efficiently available and cost-effective techniques (Henry, 1990) and it allows researcher to gather required data for the study from respondents who meet the requirement such as accessibility and geographic proximity (Dörnyei, 2007).

The target population for this study comprising middle managers, senior managers to top executives, directors and owners of the firms, both listed on Bursa Malaysia stock exchange and non-public listed organisations from various sectors in Malaysia who involve in the practice of corporate governance. The research instruments used in this study comprised 27 items, and sample size used was 255 respondents, which is sufficient for multivariate research (including multi regression analysis) where sample size is several times as large as the variables in the study (Alreck & Settle, 1995).

## 4. RESULTS AND DISCUSSION

### 4.1. Descriptive Statistics and Normality Analysis

The most commonly used method in explaining the central tendency in research is “mean” which is used to measure the dependent variable and dependent in this descriptive analysis (Krishnaswamy & Ranganathan, 2006). Overall, the overall mean value of between 3.658 to 3.917 and standard deviation of between 0.5590 and 0.7480 are (+/-) with positive values and can be continued with the research (Saunders et al., 2009).

Table 1 is generated from SPSS to measure the normality statistic from the gathered data. Normality of variables was tested by assessing skewness and kurtosis (Mallery & George, 2003). The above table depicted the consolidated four components of independent variables of CG used for this study and for dependent variable - financial performance shows positive values which are within the range of -2 to 2.

### 4.2. Reliability Analysis

Table 2 shows the outcomes of Cronbach's Alpha coefficients for all variables used in this study recorded co-efficient of more than 0.70 which concludes that the study questionnaires (items of the instrument) have good internal consistency, and therefore reliable in constructing good outcome of corporate governance's impact on financial performance (Hair, Black, Babin, & Anderson, 2010).

### 4.3. Assumptions for Multiple Regression

#### 4.3.1. Normality of the Dependent Variable

From Figure 2, the assumption of normality has been met, and samples are symmetrically distributed on the independent variables of CG as all bars in the histogram are nearly close to bell shaped curve, with the peak in the middle and fairly symmetrical (Hair et al., 2010). The standard deviation measurement of 0.990 indicates that the variation coefficient is low (Kothari, 2004).

### 4.4. Non-Existence of Autocorrelation

According to Norušis (1999) values ranging from 1.5 to 2.5 are relatively normal while values less than 1 or more than 3 caused for concern (Field, 2013). The Durbin-Watson statistic below is 2.089 which are between 1.5 and 2.5 and hence the data is not autocorrelated and the assumption is satisfied.

### 4.5. Non-Existence of Multicollinearity

As demonstrated in the coefficients table below, all tolerance coefficients for independent variables are above 0.10, which indicate no multi-collinearity. For VIF, all values are below 10, the highest value is 2.082 which indicate no multi-collinearity, and thus confirm the assumption of no correlation between independent variables.

Table-1. Descriptive statistics and normality analysis.

Descriptive Statistics										
	N	Range	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
CG_BS1	255	4.0	1.0	5.0	3.675	1.0117	-.668	.153	.196	.304
CG_BS2	255	3.0	2.0	5.0	3.867	.7924	-.332	.153	-.288	.304
CG_BS3	255	3.0	2.0	5.0	4.078	.7329	-.486	.153	.039	.304
CG_BS4	255	4.0	1.0	5.0	3.616	1.1054	-.552	.153	-.230	.304
CG_BS5	255	4.0	1.0	5.0	3.455	.9375	-.388	.153	.172	.304
CG_BS6	255	4.0	1.0	5.0	3.467	.9167	-.380	.153	.090	.304
CG_BS7	255	4.0	1.0	5.0	3.447	.9496	-.278	.153	-.267	.304
CG_CEO1	255	4.0	1.0	5.0	4.079	.9460	-1.118	.153	1.241	.304
CG_CEO2	255	3.0	2.0	5.0	4.145	.7361	-.474	.153	-.274	.304
CG_CEO3	255	4.0	1.0	5.0	3.720	.8917	-.465	.153	-.138	.304
CG_CEO4	255	4.0	1.0	5.0	3.522	.8686	-.212	.153	-.299	.304
CG_ARM1	255	4.0	1.0	5.0	3.667	.9974	-.635	.153	.164	.304
CG_ARM2	255	4.0	1.0	5.0	3.808	.8455	-.765	.153	1.136	.304
CG_ARM3	255	4.0	1.0	5.0	3.859	.7708	-.376	.153	.177	.304
CG_ARM4	255	4.0	1.0	5.0	3.933	.8959	-.795	.153	.676	.304
CG_CR1	255	4.0	1.0	5.0	3.929	.6779	-.601	.153	1.415	.304
CG_CR2	255	3.0	2.0	5.0	4.055	.7767	-.553	.153	-.006	.304
CG_CR3	255	3.0	2.0	5.0	3.918	.7768	-.415	.153	-.106	.304
CG_CR4	255	3.0	2.0	5.0	3.847	.7556	-.125	.153	-.486	.304
GD1	255	4.0	1.0	5.0	3.788	.8616	-.545	.153	.317	.304
GD1_A	255	4.0	1.0	5.0	3.624	.9090	-.419	.153	-.184	.304
GD1_B	255	4.0	1.0	5.0	3.690	.8289	-.580	.153	.696	.304
GD1_C	255	4.0	1.0	5.0	3.553	1.0020	-.383	.153	-.316	.304
FP1	255	4.0	1.0	5.0	3.647	.8834	-.592	.153	.410	.304
FP2	255	4.0	1.0	5.0	3.749	.8647	-.558	.153	.294	.304
FP3	255	4.0	1.0	5.0	3.690	.8289	-.538	.153	.452	.304
FP4	255	4.0	1.0	5.0	3.714	.8135	-.403	.153	.444	.304
CG_BS	255	3.1	1.9	5.0	3.658	.5590	-.172	.153	.195	.304
CG_CEO	255	3.0	2.0	5.0	3.866	.5980	-.109	.153	.154	.304
CG_ARM	255	4.0	1.0	5.0	3.817	.7480	-.637	.153	.702	.304
CG_CR	255	3.3	1.8	5.0	3.937	.6108	-.395	.153	.384	.304
GD	255	3.3	1.8	5.0	3.664	.6765	-.262	.153	-.105	.304
FP	255	4.0	1.0	5.0	3.700	.7673	-.575	.153	.737	.304
Valid N (listwise)	255									

Source: Field survey, 2019.

Table-2. Reliability analysis.

Variables	No. of items	Cronbach's alpha
All variables	27	0.926
Corporate Governance	4	0.941
Gender Diversity	4	0.834
Financial Performance	4	0.740

Source: Field survey, 2019.

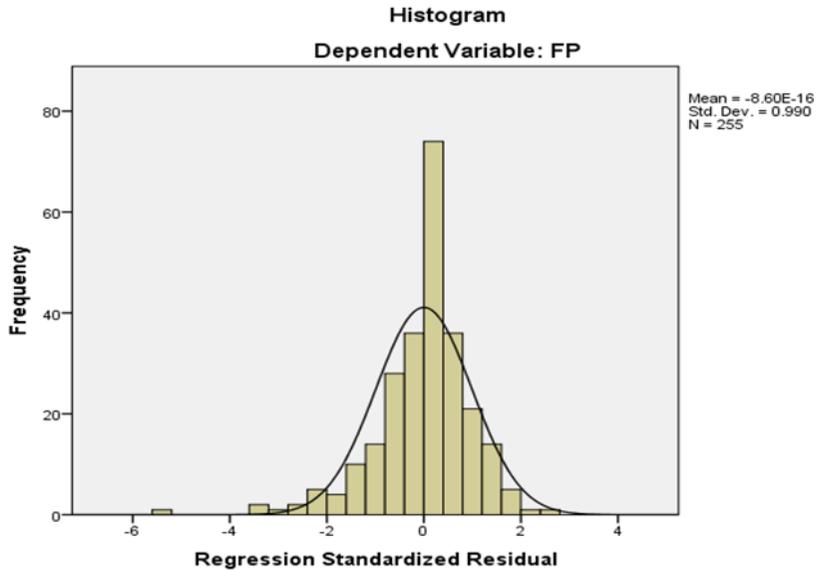


Figure-2. Normality of the dependent variable.

Source: Field survey, 2019.

Table-3. Autocorrelation.

Model Summary<sup>b</sup>

Model	R	R square	Adjusted R square	Std. Error of the estimate	Durbin-Watson
1	.624 <sup>a</sup>	.389	.377	.6058	2.089

a. Predictors: (Constant), GD, CG\_CEO, CG\_ARM, CG\_CR, CG\_BS.

b. Dependent variable: FP.

Table-4. Multicollinearity.

Coefficients<sup>a</sup>

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.	Collinearity statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.388	.306		1.268	.206		
	CG_BS	-.047	.098	-.034	-.481	.631	.480	2.082
	CG_CEO	.031	.078	.024	.394	.694	.656	1.525
	CG_ARM	.099	.071	.096	1.391	.165	.512	1.951
	CG_CR	.455	.090	.363	5.081	.000	.482	2.075

a. Dependent variable: Financial performance.

4.6. Non-Existence of Homoscedasticity

This study uses scatterplots to test the homoscedasticity of metric variables based on Hair et al. (2010). The dependent variable (financial performance) is positively correlated with the independent variable (corporate governance). Scatterplots and partial regression plots were generated for all models, and the outcomes are shown below:

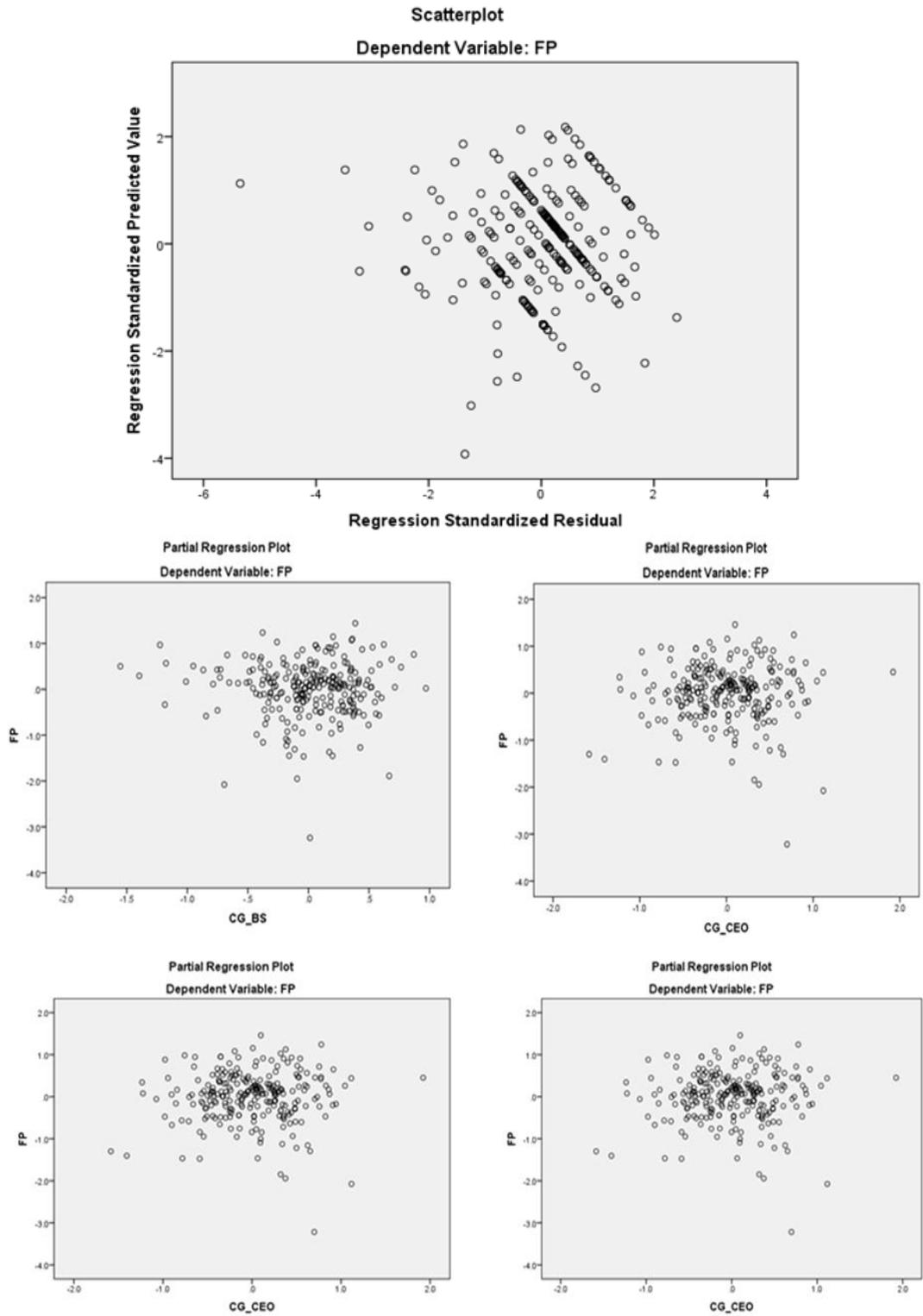


Figure-3. Homoscedasticity.

Source: Field survey, 2019.

All the scatterplots for dependent variable normality are met with the standardised residual and equally distributed points as depicted in Figure 3. Partial regression plots also showed that there is no specific pattern of data points and therefore there is no homoscedasticity error in data for this study (Hair et al., 2010).

4.7. Normality of the Residuals

P-P Plot is used in this study where observed Cum Prob of the standardized residual is compared to expected Cum Prob of the normal plotted, indicates closely two datasets of the distribution and shows a positively skewed distributed that financial performance is significant dependent variable.

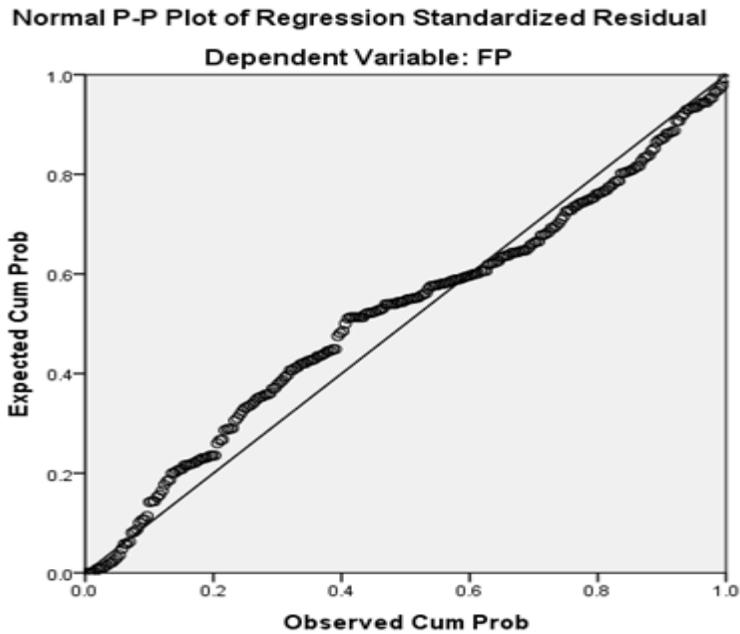


Figure-4. Normality of the residuals.

Source: Field survey, 2019.

4.8. Regression Analysis

4.8.1. Model Fitness

This study observed the fitness of the model by following Hair et al. (2010) rule of thumb for R square values. As shown in model summary in Table 5, the coefficient of determination (R square) is 0.389 which indicates that 38.9% of any change in financial performance is explained by corporate governance. The results below indicates that the Adjusted R-Square was 0.377 (37.7%) means that if the most extreme observations that still lie within the lower and upper limits of the data set were attuned or adjusted closer to the regression line to minimise the influence on the results, corporate governance would have accounted for 37.7% of the variance in financial performance and not 38.9% as indicated in R Square. Hence, both R square value of 0.389 and Adjusted R Square of 0.377 indicate moderate fitness of the model.

Table-5. Model fitness (Model Summary).

Model summary <sup>b</sup>					
Model	R	R square	Adjusted R square	Std. Error of the estimate	Durbin-Watson
1	.624 <sup>a</sup>	.389	.377	.6058	2.089

a. Predictors: (Constant), GD, CG\_CEO, CG\_ARM, CG\_CR, CG\_BS

b. Dependent variable: Financial performance.

#### 4.9. Model Significance

In this study, model significance is determined by observing the F-statistic and the p-value, where value at the significance level of 0.05 (alpha value) or lower are considered statistically significant (Saunders et al., 2009). The ANOVA in Table 6 indicated that F-statistic is at 31.705 with sig. value of 0.000 which is less than alpha value (0.05), meaning the independent variables of CG simultaneously affected the dependent variable (financial performance). This demonstrated that this model is extremely significant for this study.

Table-6. Model significance (ANOVA).

	Model	Sum of squares	df	Mean square	F	Sig.
1	Regression	58.174	5	11.635	31.705	.000 <sup>b</sup>
	Residual	91.376	249	.367		
	Total	149.550	254			

a. Dependent variable: Financial performance.

b. Predictors: (Constant), GD, CG\_CEO, CG\_ARM, CG\_CR, CG\_BS.

#### 4.10. Hypothesis Testing

Hypothesized relationship is statistically significant when probability value (p) is 0.05 or lower (Hair et al., 2010) whereas a significant relationship confirms the hypothesis and rejects the null hypothesis (H0). Standardised beta coefficient values are used in this study to assess the level of impact of the independent variables over the dependent variables (Hair et al., 2010) the higher than value, the higher the impact.

Table-7. Coefficients table.

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.	Collinearity statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.388	.306		1.268	.206		
	CG_BS	-.047	.098	-.034	-.481	.631	.480	2.082
	CG_CEO	.031	.078	.024	.394	.694	.656	1.525
	CG_ARM	.099	.071	.096	1.391	.165	.512	1.951
	CG_CR	.455	.090	.363	5.081	.000	.482	2.075
	GD	.326	.069	.288	4.696	.000	.654	1.528

a. Dependent variable: FP.

The result is based on the regression analysis which creates the beta coefficient results and significant values. Constant = 0.388 in Table 7 shows that if there is no corporate governance, the firms' performance would be 0.388 which is a weak performance.

#### 4.11. Discussion of Findings

Based on the above analysis, the researcher has presented and systematically analysed the collected data and explained the statistical results of the previous research study. The demographic result includes male and female respondents who are working in public listed companies and private companies whom have participated in this survey. Further, all hypotheses of the study are accepted as supported by significant level lower than 0.05.

In general, all CG variables developed based on 3-Principals of MCCG 2017 (board structure, CEO duality, function of audit and risk management committee, corporate reporting and disclosure) are found to be positive and significantly related to financial performance as hypothesised. The said results answered all the research questions and were in line with the hypothesis development. The findings were supported by the correlation and multiple regression results. It also showed corporate governance is found to explain 52.94% of variance in financial performance and 55.31% in gender diversity. Meanwhile, gender diversity is also found to be

positively impact financial performance, with variant of 31.95%, while gender diversity mediates by 17.67% in impact of corporate governance on financial performance. This study supports resource dependency theory and human capital theory where woman on board contributes to better synergy via interaction between male and female directors, and hence gaining competitive advantage and achieve better performance (Carter et al., 2003; Hillman et al., 2007; Powell, 2000).

Table-8. Hypotheses testing summary.

Hypotheses		Beta coefficient	Significant (P<0.05)	Decision	Interpretations
H1	Corporate Governance has significant impact on financial performance	0.5294	0.000 Significant as p-value is < 0.05	Accepted	H1 is accepted as the p-value (0.000) is less than 0.05. Therefore, there is a 52.94% significant positive impact of Corporate Governance on Financial Performance.
H2	Corporate Governance has significant impact on Gender Diversity	0.5531	0.000 Significant as p-value is < 0.05	Accepted	H2 is accepted as the p-value (0.000) is less than 0.05. Therefore, there is a 55.31% significant positive impact of Corporate Governance on Gender Diversity.
H3	Gender Diversity has significant impact on financial performance	0.3195	0.000 Significant as p-value is < 0.05	Accepted	H3 is accepted as the p-value (0.000) is less than 0.05. Therefore, there is a 31.95% significant positive impact of Gender Diversity on Financial Performance.
H4	Corporate Governance has significant impact on financial performance mediated by Gender Diversity	0.1767	LLCI = 0.0925 ULCI = 0.2623	Accepted	H4 is accepted as the zero (0) falls outside the range of LLCI and ULCI. Therefore, Gender Diversity mediates by 17.67% in the impact of Corporate Governance on Financial Performance.

Source: Field survey, 2019.

## 5. CONCLUSION

### 5.1. Limitations and Suggestions for Further Research

There are several limitations related to this study, including limitations related to research design and sampling.

Firstly, in the research instrument, respondents were asked to perform self-evaluation on the financial performance of the organisation, however, the respondents could have different level of understanding on the financial performance particularly assistant manager, and some may not be financially literate and this possibly lead to heterogeneity in the observed constructs which may not be controlled for (Bamert, 2004). If time is permitted, it is recommended to collect respondents from senior management, company director or company secretary of PLCs which allow for more accurate examination.

Secondly, there could be limitation on generalization as samples consist of university students and academics that are not familiar nor involve in corporate governance activities and therefore,

replicating the study across different industries and creating a more representative sample could have increased the validity of the findings.

Other limitation of this study includes there is no direct comparable on cross country measure of the gender diversity of the board as the data is gathered via survey conducted in Malaysia. Different geographical and country have different gender diversity policy and impact to the financial performance are different. Besides, this study considers only four dimensions of corporate governance, i.e. board structure, CEO duality, audit and risk management committee and corporate disclosure and reporting. There could be other factors that should be studied to explain the effects on the company performance. Also, the regression analysis of this study suggests that there is a linear relationship between diversity and performance; however, it may be impossible to confirm how diversity could affect organisational performance as diversity representation increased.

The recommendations for the future research include comparing the Malaysian PLCs with other countries in the region to determine the variances in organisation performance. Furthermore, indicators such as Tobin's Q to measure firm's market value and economic value added can be used as performance measure to assess the value created by the managers. Analysing the actual performance of the firms using actual financial data from the annual reports a period of years would reflect better results in terms of financial performance.

## 6. CONCLUSION

Despite the above limitations, this study has contributed valuable information relating to corporate governance, gender diversity and their effects on financial performance. This study confirms the importance of corporate governance and its impact on financial performance and gender diversity of organisations. The mediating role of gender diversity also has positive relationship on financial performance of organisation in Malaysia.

Considering this, it is an imperative task for corporate board members and management to understand the framework of MCCG 2017 to achieve long-term sustainability of the organisation. Effective CG will increase and promote better performance and encourage investors to invest in the company (Harrison & Wicks, 2013; Shleifer & Vishny, 1997). The implementation of CG and gender diversity shall not be limited to PLCs, and private entities are also encouraged to execute good CG that increases the efficiency.

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