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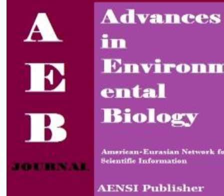

The Impact of Corporate Governance on Firm Performance: Banking Industris in Malaysia

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ABSTRACT

Corporate governance plays an important role in the structure of organization. For this study, we examine the relationship of corporate governance and firm performance of banking industries in Malaysia. Besides that, it were highlight about the variables that used such as board size (BOS), roles and responsibilities board of director (BOD), audit committee (AC) and board independence (BID) to relates with the return on assets (ROA). The study will analyze the impacts of corporate governance by using three methods of statistical analysis include descriptive analysis, correlation analysis and multivariate analysis to view the significant that exits between ROA and BOS, BOD AC and BID. Besides that, it will investigate the effectiveness of banking industry in Malaysia through the annual report of each bank in Malaysia that recorded from 2008 to 2011.

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INTRODUCTION

The concept of governance is being defined by the 1999 OECD Principles of Corporate Governance as the system by which business corporations are directed and controlled. The good of corporate governance has been long seen as shareholder rights, transparency and board accountability. The modern of corporate governance movement arguably started with the Cadbury and Greenburg reports in the UK in 1990s. Bank Negara Malaysia's banking sector restructuring the effort that was substantially complete. In Malaysia, Tan Sri Dato' Sri Dr Zeti Akhtar Aziz, the Governor of Bank Negara Malaysia (2003) said that the corporate governance in banks involve they range of practices covering proper conduct business, values, ethics and the whole culture of organizational and staff behavior. It not only involves the process and financial targets to serve the interest of the shareholders but also the best practice of conduct with depositors, customers and other stakeholders. The major contribution of corporate governance was enhancing operating performance of firms and preventing the fraud. According to Black, *et al.* found that companies with better corporate governance has a better financial performance than companies with poor corporate performance.

During the development of the banking system in Malaysia, there are some of implications on the costs and revenues that focus on the profit of the Malaysian commercial banks. According to Foyston & Almeida, it indicate that there are fundamental shifts taking place in the Malaysian banking industry, which being driven by changes in both supply and demand. Supply side changes are influenced by radical deregulation, internationalization of local banks and increasing legitimacy of capital markets. On the other hand, the demand side changes are influenced by rapid economic growth, expanding middle-class society and the rise of consumerism. From the crisis of the Asian Financial crisis that occur in 1997 that caused by the poor of corporate governance make researcher to find some interesting part to research about the situation. Corporate Governance is considered as the most critical factor that influences the firm performance. This study is focuses on the corporate governance in the banking industries. This is because banking industry plays an important role in the economic system as it become of the facilities of capital allocations and the risk management of the business. As a result, the corporate governance in the banking industries is very important in influencing the business of the bank with their business customer. This study also aims to investigate of corporate governance and firm performance towards banking industry.

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Literature Review:

The Malaysian high level finance committee [1] defines corporate governance as the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value whilst taking into account the interest of other stakeholders. According to Mathiesen, corporate governance is a field economics that investigates how to secure or motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational design and legislations. In the preceding study that made by Cornelius [16], corporate governance can be defined as the stewardship responsibility of corporate director to provide oversight for the goals and strategies of a company and to foster their implementation. Whereas, Cornelius & Kogut define corporate governance as, corporate governance system consists of those formal and informal institutions, law, values, and rules that generate the menu of legal and organizational forms available in a country and which in turn determine the distribution of power on how the ownership is assigned, managerial decision are made and monitored, information is audited and released, and profit and benefit allocated and distributed.

Millstein describe corporate governance as the relationship between managers, directors and shareholders. This definition also focuses on the relationship of the corporation to stakeholders and society. In broader version, she said that, corporate governance encompasses the combination of laws, regulation, listing rules, and voluntary private sector practices that enable the corporation to attract capital, perform efficiently, generate profit and meet both legal obligations as well as the expectations of society generally. In addition, she said that, no matter what definition are for, corporate governance refer to which a corporation assures investors that it has in place well performing management who ensure that corporate asset provided by investors are being put to appropriate and profitable use. Corporate governance is all about running an organization in a way that guarantees that its owner or stockholders receive a fair return on their investment, while the expectation of other stakeholders are also met [23]. The ultimate outcomes of the corporate governance benefits are generally higher of cash flows and superior performance for the firm. [27].

On previous study, researches related the Corporate Governance use either market-based or accounting-based measure to assess firm performance. Klein uses return on assets (ROA) and Lo uses return on equity (ROE) as an operating performance indicator. According to Epps& Cerola, they can measure the ROA ratio which shows the amount of earnings have generated from invested capital assets, while ROE use in measured to shows an investor on how much profit of a company that generated from the money invested from its shareholders. ROA allow the user to assess how well a firm's of Corporate Governance mechanisms is in securing and motivating the efficient management of the firm. In this study, we focus on ROE and ROA as a use to measure the firm performance which ROA defines as net income before interest expense for the fiscal period divided by the total assets for the same period while ROE defines as the income before interest expense for the fiscal period divide by total shareholders' equity for that same period. This study also recognized the relationship between corporate governance and firm performance. [13].

Most of studies on the link between corporate governance and firm performance. This is because there is evidence that indicates between a strong and weak relationship of corporate governance and firm performance. On previous studies, Black, found a strong correlation between corporate governance and firm performance as represented by stock valuation. Based on Love [27], he was documented several other studies that have demonstrated these varying positive relationship include Bebchuk, Cohen and Ferrell, Bruno and Claessens Chhaochhria and Laeven, El Mehdi, Gompers, Ishii and Metrick, Kalpper and Love, Kyereboah- Coleman [15], Lacker, Richardson and Tuna, Nevona and Wahab, How and Verhoeven. However, there were also some studies that argued on the relationship between corporate governance and firm performance [21].

According to, Bocean & Barbu [9] conducted a study entitled: "Corporate Governance and Firm Performance". The purpose of this paper was to develop the understanding of corporate governance and its effect s on corporate performance and firm performance. In doing so, it addresses some of the underlying factors that promote efficient corporate governance, and examined some of the economic implications associated with various corporate governance systems. The study provides a framework for understanding how corporate governance can affect the firm performance. It was found that, corporate governance matters for firm performance, insider ownership matters the most, outside ownership concentration destroys market value, direct ownership being superior to indirect. Their main approaches to firm level performance were found in social science research: research based on market prices, accounting ratios and total factor profitability. Finally, measuring performance by Tobin's Q and operationalizing it as market to book is consistent with agency theory and the study was found that large outside owners destroy market value, while inside owners create it unless the stakes are unusually big, and that direct ownership is more beneficial than indirect. [9].

There is an overview whereas corporate governance should be adopted in the case of banking institutions because of the peculiar contractual form of banking which demand that corporate governance mechanisms for banks should encapsulate depositors as well as shareholders [28]. The Basel Committee on Banking Supervision (1999) states that, from a banking industry perspective, corporate governance involves the manner in which the

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business and affairs of individual institutions are governed by their board of directors and senior management, affecting on how banks:

i. Set corporate objectives (include generating economic returns to owner)
ii. Run the day-to- day operation of the business
iii. Consider the interest of recognized stakeholders
iv. Align corporate activities and behaviors with the expectation that banks will operate in safe and sound manner, and in compliance with applicable laws and regulations; and protect the interest of depositors.

On a theoretical perspective, corporate governance has been seen as an economic discipline, which examines how to achieve an increase in the effectiveness of certain corporation with the help of organizational arrangements, contracts, regulations and business legislation. It is not disputed facts that banks are crucial element to any economy; in case they have strong and good corporate governance if their positive effect were to be achieved [8]. Donald Brash the Governor of the Reserve Bank of New Zealand when addressing the conference for commonwealth central banks on corporate governance for the banking sector in London, June 2001 observed that:

"Improving corporate governance is an important way to promote the financial stability. The effectiveness of a bank's internal governance arrangement has a very substantial effect on an ability of a bank to identify, monitor and control its risk. Although banking crisis is caused by many factors, some of which are beyond the control of bank management, almost every bank failure is at least partially the result of mis-management within the bank itself. And mis-management is ultimately a failure of internal governance."

David Carse, Deputy Chief Executive of the Hong Kong Monetary authority, observed that:

"Corporate governance is of course not just important for banks. It is something that needs to be addressed in relation to all companies'... sound corporate governance is particularly important for banks. The rapid changes brought about by globalization, deregulation and technological advances are increasing the risk in banking systems. Moreover, unlike other companies, most of the funds used by banks to conduct their business belong to their creditors, in particular to their depositors. Linked to this is the fact that the failure of a bank affects not only its own stakeholders, but may have a systemic impact on the stability of other banks. All the more reason is try to ensure that banks are properly managed."

Therefore, this study broader view and defines the corporate governance in the context of banking as which it involved with the systems, procedures, processes and practices of a bank as to allow the positive relationship between corporate governance and banking industries.

1 Research Methodology:

1.1 Research Design:

Sample Selection:

Most previous studies used annual report from the listed companies as their sample as a study. This study is utilized as secondary data as the main source of information analysis. The information regarding board of director, board of size, audit committee and board of independence were collected form the annual report form the annual report form 2008 until 2011. Out of 56 listed of financial institution, (annual report downloaded on 15 February 2013), a sample of 54 financial institutions were selected. The sample selection process consider about the annual report that were collected from 2008 until 2011.Unfortunately annual report from each of financial institution for 2012 currently not available yet. The study sample comprised in a three main category is shown in the following table 4.1. Previous studies show that there are the positive relationship between corporate governance and the firm performance in banking industries. In this study, it will focus on the independent variable that consists of board size, audit committee, board of directors and board independence. Besides that, the dependent variable used a return on assets (ROA) as measurement of firm performance.

Table 1: Financial Institutions categories applied in this study.

Category (Financial Institution)	Frequency (%)
Commercial Bank	24 (44.4)
Islamic Bank	16 (29.6)
Investment Bank	14 (25.9)
Total (N)	54

Independent Variables:

Board Size (BOS):

Precious studies found that there is a direct relationship between firm performance and board size. When there is a big size in the board, there is an opportunity to have an effective in the performance. Therefore, increase in a board size, make the effective of the board, hence, the firm performance is also improves. However, some argue that, there is a less effective and are easier for a CEO to control. Smaller size of a board will reduce the possibility of free-riding and therefore have the tendency of enhancing firm performance.

Therefore, it measure that the size of the board by the number of directors serving on such board and expect this to have a negative relationship with firm performance.The develop hypothesis are as follow:

H1: There is a negative relationship between the firm performance and board size in banking industries

Board of Director (BOD):

In this study, having the large size of board of director, will be able to improve the firm performance in a way that more members can contribute to positive things.Therefore, the board's facilities will be better in monitoring of the operation of the firm. However, based on their roles, it shoes a deep concern that a lack of independent leadership creates a difficulty for board to respond to failure in top management. Fama and Jensen argued that, the concentration of decision management and decision control in one individual hinders boards' effectiveness in monitoring top management. Some previous research argue that there is a positive relationship between firm perfomance and the roles of board of directors because each board of director having a separates function.The developed hypothesis as follow:

H2: There is a positive relationship between the firm performance and board of director in banking industries.

Audit Committee (AC):

It was found that, there is a negative correlation between the audit committee and firm performance. However, some studies argue that, there is a positive relationship between firm performance and audit committee. This is because, the increase in the audit committee size, will increase the performance of the banking industries, therefore it also increase the firm performance. According to Joe Duke II (2011), there is a significant relationship between the existence of an effective audit committee and firm performance as measured by return on assets. The developed hypothesis is as follow:

H3: There are a positive relationship between firm performance and audit committee.

Board Independence (BID):

According to Kutubi, there a proportion of board independent is positively related to firm performance. Board independence is the person who does not having a conflict interest which any party include their family. Therefore, the increase of the board independence will increase the good relationship among the management and result to the increase in the firm performance. According to Adams &Mehran they said that, board independence refers to the entry of outsiders into the board. Increase in the proportion of outside directors on the board should increase the firm performance as this could provide a more effective monitoring of managers. The developed hypothesis is as followed:

H4: There is a positive correlation between firm performance and board independence

1.2 Dependent Variable:

Firm Performance (ROA):

ROA equals after tax net income divided by average total assets of a bank. This aims to examine the amount of after tax net income that can be earned for every dollar of assets in the banks. It reflects whether the bank uses affectively in order to produce its income, so it is an important profitability indicator. This study applies return on assets (ROA) as the measurement of firm performance. According to Clarkson et.al, says that, ROA could be used in the measurement because it incorporate firm's profitability and efficiency. As a result, many past of the international studies used the ROA to represent the organization's performance including Malaysia context.

This study suggest to use ROA because based on the corporate governance by International Federation of Accountants (IFAC) (2004), it emphasizes on the responsibility of the management in managing the organizations' resources responsibly in creating additional value to the organizations. So, it depends very much on how the organizations utilize their resource for example assets in order to generate the higher returns. As a result, it is not surprise that many past of international studies have used ROA as their measurement of firm performance.

Results:

1.3 Regression Model:

$$ROA = \beta 0 + \beta 1\ (BOD) + \beta 2\ (BOS) + \beta 3\ (AC) + \beta 4\ (BID) + \varepsilon$$

1.4 Descriptive Analysis:

The descriptive analysis includes the univariate tests and Pearson's correlation tests between the dependent variable, return on assets (ROA) and independent variables which consisted of board of directors based on their role and responsibilities (BOD), board size (BOS), audit committee (AC) and board independent (BID). This chapter discusses descriptive statistics and regression results based on secondary data. The descriptive statistics

report the means and standard deviations of regression variables. The regression results report the simultaneous equation model using general method. This section also shows the hypothesis result that being tested. Table 5.1 shows the descriptive statistics of a study sample which comprises of the values of the minimum, maximum, mean and standard deviation of each of the variable tested based on year from 2008 until 2011 separately.

Table 2 Regression Model Variables

Variables		Operational Measures
Dependent Variables	Return on Assets (ROA)	Total of net profit after tax and provision to the total assets at the end of the each year
Independent Variables	Board of Directors (BOD)	The total number of directors in the top management position
	Board of Size (BOS)	Total number of directors on the board as the end of each year
	Audit Committee (AC)	The total number of the size of audit committee
	Board Independence (BID)	The number of independent directors to the board size as at the end of each year.

Table 3: Descriptive Statistic for 2008.

Variables (N= 41)	Minimum	Maximum	Mean	Standard Deviation
ROA	-115.80	597.02	91.27	125.90
BOS	5.00	19.00	8.63	2.77
BOD	.30	1.50	.77	.30
AC	.20	.67	.46	.12
BID	.20	.79	.50	.13

Note: **ROA**= Total of net profit after tax and provision to the total assets at the end of the each year; **BOS**= Total number of directors on the board as the end of each year; **BOD**= The total number of roles and responsibilities based on board of director; **AC**= The total number of the size of audit committee; **BID**= The number of independent directors to the board size as at the end of each year.

Table 2008 presents sample means, standard deviations (SD) of regression variables. It's revealed that on the average, the banks included in our sample generate Return on Assets (ROA) of about 91.27% and a standard deviation of 125.90%. The maximum and minimum values of ROA are -115.80% and 597.02% respectively. From the model, the average board size from the 41 observations is about 8.63 suggesting that banks in Malaysia have relatively moderate board size with a maximum board size 19 while minimum board size 5 and deviation of 2.77. The implication is that banks in Malaysia have relatively similar board sizes.

Table 4: Descriptive Statistics for 2009.

Variables (N= 41)	Minimum	Maximum	Mean	Standard Deviation
ROA	-127.42	2324.69	181.05	364.02
BOS	4.00	19.00	8.80	3.19
BOD	.22	2.25	.79	.38
AC	.19	.75	.46	.12
BID	.19	.75	.51	.13

Note: **ROA**= Total of net profit after tax and provision to the total assets at the end of the each year; **BOS**= Total number of directors on the board as the end of each year; **BOD**= The total number of roles and responsibilities based on board of director; **AC**= The total number of the size of audit committee; **BID**= The number of independent directors to the board size as at the end of each year.

Table 2009 presents sample means, standard deviations (SD) of regression variables. It's revealed that on the average, the banks included in our sample generates Return on Assets (ROA) of about 181.05 and a standard deviation of 364.02 The maximum and minimum values of ROA are -127.42 and 2324.69 respectively. From the model, the average board size from the 41 observations is about 8.80 suggesting that banks in Malaysia have relatively moderate board size with a maximum board size 19 while minimum board size 4 and deviation of 3.19. The implication is that banks in Malaysia have relatively similar board sizes.

1.5 Correlation Analysis:

From table 2008 result, there is no significant between board size and firm performance (ROA). While there is a negative correlation of coefficient of – 0.406 that exits between board size and board of director and – 0.628 between board size and audit committee. However, the result also show there is a positive correlation of coefficient of 0.290 between board of director and audit committee and 0.289 between board of director and board independence

Table 5: Descriptive Statistics for 2010.

Variables (N= 41)	Minimum	Maximum	Mean	Standard Deviation
ROA	-144.21	839.91	104.86	141.40
BOS	5.00	19.00	9.20	3.27
BOD	.24	1.80	.79	.36
AC	.17	.80	.46	.14
BID	.22	.86	.48	.13

Note: **ROA**= Total of net profit after tax and provision to the total assets at the end of the each year; **BOS**= Total number of directors on the board as the end of each year; **BOD**= The total number of roles and responsibilities based on board of director; **AC**= The total number of the size of audit committee; **BID**= The number of independent directors to the board size as at the end of each year.

Table 2010 presents sample means, standard deviations (SD) of regression variables. It's revealed that on the average, the banks included in our sample generate Return on Assets (ROA) of about 104.86 and a standard deviation of 141.40. The maximum and minimum values of ROA are -144.21 and 839.91 respectively. From the model, the average board size from the 41 observations is about 9.20 suggesting that banks in Malaysia have relatively moderate board size with a maximum board size 19 while minimum board size 5 and deviation of 3.27. The implication is that banks in Malaysia have relatively similar board sizes.

Table 6: Descriptive Statistics for 201.

Variables (N= 41)	Minimum	Maximum	Mean	Standard Deviation
ROA	-17.01	670.80	147.20	151.97
BOS	5.00	19.00	9.00	3.26
BOD	.22	1.80	.83	.35
AC	.21	.71	.45	.12
BID	.25	.86	.50	.14

Note: **ROA**= Total of net profit after tax and provision to the total assets at the end of the each year; **BOS**= Total number of directors on the board as the end of each year; **BOD**= The total number of roles and responsibilities based on board of director; **AC**= The total number of the size of audit committee; **BID**= The number of independent directors to the board size as at the end of each year.

Table 2011 presents sample means, standard deviations (SD) of regression variables. It's revealed that on the average, the banks included in our sample generate Return on Assets (ROA) of about 147.20 and a standard deviation of 151.97. The maximum and minimum values of ROA are -17.01 and 670.80 respectively. From the model, the average board size from the 41 observations is about 9.00 suggesting that banks in Malaysia have relatively moderate board size with a maximum board size 19 while minimum board size 5 and deviation of 3.26. The implication is that banks in Malaysia have relatively similar board sizes. The next sections of the report provide further investigation of corporate governance between firm performances; board size, board of directors, board independence and audit committee. The analysis focuses on the relationship of corporate governance between with different type of banks.

Table 7: Pearson's Correlation for 2008.

	ROA	BOS	BOD	AC	BID
ROA	1	.065	-.030	.050	-.109
BOS		1	-.406**	-.628**	-.041
BOD			1	.290*	.289*
AC				1	.108
BID					1

Note: **ROA**= Total of net profit after tax and provision to the total assets at the end of the each year; **BOS**= Total number of directors on the board as the end of each year; **BOD**= The total number of roles and responsibilities based on board of director; **AC**= The total number of the size of audit committee; **BID**= The number of independent directors to the board size as at the end of each year.

From table 2009 result, there is no significant between board size and firm performance (ROA). While there is a negative correlation of coefficient of – 0.513 that exits between board size and board of director and – 0.682 between board size and audit committee. However, the result also show there is a positive correlation of coefficient of 0.447 between board of director and audit committee and 0.464 between board of director and board independence. Same situation between audit committee and board independence with positive correlation of coefficient of 0.280.

Discussion:

Previously, the result shows whether the hypothesis is accepted or rejected. During discussion in descriptive analysis for 2008 to 2011, regression analysis for 2008 to 2011, and correlation analysis for 2008 to 2011, it

shows that differences of the result. For overall performance in descriptive analysis from 2008 through 2011, its shows that the good of ROA in year 2009. It's seems most of the banks that use their assets more effectively than other banks. It appears that banks with large amount of assets should work effectively and efficiently and must have a competitive advantage when they need to competitive with other banks in Malaysia each year. However, the average of the ROA exhibiting changing over time that was not in ascending order. Besides that, in terms of numbers of members in the board of director from 2008 to 2011, the good of BOS shows from 4 to 19. And the average number of board of director is 8.80. It concludes that, in 2009, the corporate governance for this year's shows the good performing of each bank. The good of corporate governance in the banks plays the important role for overall performance in the organization.

Table 8: Pearson's Correlation for 2009.

	ROA	BOS	BOD	AC	BID
ROA	1	-.067	-.132	.036	-.137
BOS		1	-.513**	-.682**	-.151
BOD			1	.447*	.464**
AC				1	.280*
BID					1

Note: **ROA**= Total of net profit after tax and provision to the total assets at the end of the each year; **BOS**= Total number of directors on the board as the end of each year; **BOD**= The total number of roles and responsibilities based on board of director; **AC**= The total number of the size of audit committee; **BID**= The number of independent directors to the board size as at the end of each year.

From table 2010 result, there is no significant between board size and firm performance (ROA). While there is a negative correlation of coefficient of – 0.541 that exits between board size and board of director , – 0.628 between board size and audit committee and board size and board independence with coefficient of -0.349. However, the result also show there is a positive correlation of coefficient of 0.277 between board of director and audit committee and 0.442 between board of director and board independence.

Table 9 Pearson's Correlation for 2010.

	ROA	BOS	BOD	AC	BID
ROA	1	.025	-.051	.087	-.073
BOS		1	-.541**	-.609**	-.349*
BOD			1	.277*	.442*
AC				1	.100
BID					1

Note: **ROA**= Total of net profit after tax and provision to the total assets at the end of the each year; **BOS**= Total number of directors on the board as the end of each year; **BOD**= The total number of roles and responsibilities based on board of director; **AC**= The total number of the size of audit committee; **BID**= The number of independent directors to the board size as at the end of each year.

From table 2011 result, there is negative significant correlation of coefficient of -0.286 between board size and firm performance (ROA). While there is a negative correlation of coefficient of – 0.537 that exits between board size and board of director, – 0.615 between board size and audit committee and coefficient of -0.302 between board size and board independence. However, the result also show there is a positive correlation of coefficient of 0.304 between board of director and audit committee and 0.362 between board of director and board independence.

Table 10: Pearson's Correlation for 2011.

	ROA	BOS	BOD	AC	BID
ROA	1	.210	-.043	-.040	-.286*
BOS		1	-.537**	-.615**	-.302*
BOD			1	.304*	.362*
AC				1	.142
BID					1

Note: ROA= Total of net profit after tax and provision to the total assets at the end of the each year; BOS= Total number of directors on the board as the end of each year; BOD= The total number of roles and responsibilities based on board of director; AC= The total number of the size of audit committee; BID= The number of independent directors to the board size as at the end of each year.

The results indicate that, a bank will perform better if there are a larger number of members in the board of directors within the sample range of board of directors from 5 to 19 members. Thus, H1 in Chapter 3 should be accepted. However, it's different with the roles and responsibilities of board of director, because the larger number of roles and responsibilities with the unbalance size of board of director shows a negative relationship.

Board of directors must play an important role for the bank for long term performance. This is because BOD is a collective people that responsible in approving the strategy and business plan of the bank. The best is the number of roles and responsibilities of board of director should be balance with the size of board of director to fill the gap of the organization besides it necessary to coordinate the conflict between shareholders and managers in the organization. Thus, H2 in Chapter 3 were accepted.

For overall performance in correlation analysis from 2008 to 2011, to investigate the impact of corporate governance and independent variable on the firm performance, it should need to evaluate the influences of corporate governance and firm performance on ROA, how it's affected by its corporate governance and how its effect through its performance does. Based on four different tables, it shows that, the increase in size of board of director with increase in ROA. Table 5.12 shows there is a relationship between ROA and BOS. For overall performance in multivariate analysis, it shows that the relationship between corporate governance and firm performance could have a good influence based on the results that show by each year. Based on the result, it could be estimating that, the relationship between corporate governance and firm performance was changing over the time since the result that occurs in this study. Even this study does not have any prove from previous research, it shows the differences between the three methods that used in this study to examine the condition of banking industries from time to time.

For overall finding result, it shows from Hypothesis H1 stated that there is a positive relationship between ROA and BOS. According to the result for each of the year, the ratio is 3:1. Therefore, there is a positive relationship between ROA and BOS for overall performance. According to previous research, big size of the board will have an opportunity to become an effective firm performance. Thus, **H1 were accepted.** Hypothesis H2 stated that there is a positive relationship between ROA and BOD. According to the result for each of the year, the ratio is 2:2. Therefore, there is a positive relationship between ROA and BOD for overall performance. According to previous research, there is a positive relationship between firm performance and the roles of board of directors because each board of director having a separates function. Thus, **H2 were accepted.**

Hypothesis H3 stated that there is a positive relationship between ROA and AC. According to the result for each of the year, there is shows positive relationship all the year. Therefore, there is a positive relationship between ROA and AC for overall performance. According to Joe Duke II (2011), there is a significant relationship between the existence of an effective audit committee and firm performance as measured by return on assets. Thus, **H3 were accepted.** Hypothesis H4 stated that there is a positive relationship between ROA and BID. According to the result for each of the year, there is shows negative relationship all the year. Therefore, there is a negative relationship between ROA and BID for overall performance. Petra (2005) argued that independent directors may play a role in controlling management in aspects such as takeover threats, CEO compensation, and nomination of directors. Thus, **H4 were rejected.**

Conclusion:

Based on this study, it suggest that an improvement of corporate governance should be increase more as from the research conclude that a board sizes of number of director should be balances with total of roles and responsibilities of each of the number of board of director. Firm performance that based on banking industries involved so much in profitability, therefore, in achieve their profit, they must to be manage their organization and the management team to do what they need to be achieve. Good of corporate governance should be define in the way they focus on their roles and responsibilities, what they expert to and what the target of each of them need to be achieve. It will be good if they can manage their roles and responsibilities. In addition, board independence also help in make the firm very well in their performance. It help in reduce a lot of problem as they have no conflict interest in the organization and no become such biased to improve the quality of the firm. While audit committee plays an important roles as to become the internal efficiency of organization and create some solution about the mismanagement activities that occurs in the organizations. Besides that, audit committee also helps in the financial management as they can measure the performance of the firm. Therefore, audit committee need to in a smaller size range about 3-5 in one organization as to make the flow of financial, management of the organization become smoothly.

Based on this study, it can be extended and modified in several ways as to make sure the high of good implication of corporate governance structure that could influence the firm performance. In the further studies, it may consider as additional mechanisms of corporate governance such as board meetings, compensation committee, proportion of board ownership and internal and external audit function in order to examine for overall influence of corporate governance on ROA (return on assets). Further studies should add up more variables as could look the real performance of the firm should be estimate. Since the study include the finance-related banking in the sample, future research should examine the competitive each of the financial firm in Malaysia as to gain knowledge about the superior of the financial institution in Malaysia. Other further studies could also examine long period or longitudinal study regarding about 10 to 20 years backs as to look further on the impact and improvement of each of the financial institution in Malaysia. Some further studies may consider comparing Malaysia's banking industries with other nation countries.

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