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RESEARCH ARTICLE

Board Characteristics, Company of Origin and Performance: A Study of Malaysian Shari'ah-Compliant Listed Companies

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Abstract

The Shari'ah compliance advocates accountability and transparency in governance through Islamic principles whereby those Shari'ah companies have to portray good example to their non-Shari'ah compliant. This study aims to investigate the relationship between board characteristics and company of origin with Shari'ah-compliant companies' performance by employing multi regression analysis of 1000 companies for the year 2007 to 2010. Using ROA, the finding shows that company of origin has significant negative association with company performance while Tobin's Q revealed insignificant result. The result also revealed that only duality role has significant negative association with company performance by using Tobin's Q whereas insignificant result appears for ROA. This study contributes to the corporate governance literature from the perspective of Shari'ah-compliant companies. It is envisaged to assist Bursa Malaysia, Securities Commission and regulators in improving effective corporate governance and stringent screening procedures specifically for non-compliant companies that opt to Shari'ah compliant. Furthermore, the results would be as a baseline to the organizations to attain the corporate objectives by emphasizing a greater accountability in the governance practice.

Keywords: *Board of directors, Malaysia, performance, Shari'ah.*

Introduction

It is almost four decades since Islamic finance had been introduced in the market and its development is parallel with the conventional finance around the world. One of the main requirements of an Islamic Finance is to be Shari'ah-compliant. There are quite number of countries in the world that practice Shari'ah laws and regulations which will provide avenues for Islamic Finance to grow further. Due to the rapid market, many global financial institutions have focused their effort to expand their Shari'ah-compliant products. The popularity of Islamic finance has also flown to Malaysia as evidenced in many Shari'ah-compliant products introduced in the Malaysia market. In Malaysia, Shari'ah compliance was started when the Islamic Capital Market was first introduced in Malaysia around 1992 [1]. Shari'ah compliance was further improvised to be in line with Quran and Sunnah. This was evidenced from enactments approved by the Securities Commission (SC) for companies within the ambit of Shari'ah guidelines to be in accordance with Quran and Sunnah. The development of Shari'ah compliance in Malaysia reached its peak when the Shari'ah index was launched in year 1999 [2]. In respect of the selection process Shari'ah-compliant organizations, this method is crucial in determining the eligibility criteria of the organizations. It is to ensure the Shari'ah compliances have been adhered strictly through fair judgement. Globally, Shari'ah methodology via screening process is seen similar in terms of their sector-based and accounting-based screens. In general, Shari'ah approved organizations must provide their services or transact the businesses which are free from three elements such as interest (riba), gambling (maisir) and ambiguity (gharar) as underlined by Islam religion. The two criteria's, sector-based and accounting-based screens have been adopted and applied by three major regions of equities market in U.S, Europe and Japan. The aims of corporate governance are not merely to assist top managers in making the most effective decision towards company's objectives and to ensure the quality of the financial reporting process [3], resolve agency problem [4], to distinguish between ownership and control from conventional corporations by the nature of business [5], notably Shari'ah-complaint companies and it facilitates access to external finance, enhances the firms operational performance, improves systemic financial stability and contributes to the community welfare. Thus, Shari'ah-compliant companies are expected demonstrated accountability and transparency in complying rules and promulgating information to the stakeholders which is purposely aimed for mutual interest. Despite the studies having not been specifically mentioned on the Shari'ah-compliant companies, we believe that by practicing Shari'ah guidelines, it is considered as a value-added to the companies as they are expected to govern better especially in conforming to the standards particularly the mandatory guidelines as prescribed by Bursa Listing Requirement. Hence, this study expected to answer the following research questions; is the Shari'ah-compliant companies are really effective in practising the corporate governance or are the effectiveness of corporate governance reflected by the company of origin factor either local or foreign originated; and is the corporate performance influenced by the corporate governance mechanisms being adopted? Hence, the objective of this study is to investigate whether the effectiveness of corporate governance practices among Shari'ah-compliant companies are more likely affect the performance of the company if the company of origin factor is taken into consideration. Apart of that, the study would like to examine the relationship between board attributes and company's performance and then to assess whether there is any relationship between companies of origin with company performance.

Literature Review

Corporate Governance and Shari'ah Compliances

It is undeniable that Islamic finance and corporate governance (CG), both are needed to each other as the principles of governance mostly are grounded by religion of Islam [6] stated that public has high perception towards Shari'ah-compliant companies due to fact that their well-governed corporation since they are expected to embed best practices in line with the corporate governance code and Shari'ah requirements. Those companies are visible as successful as they execute the Islamic beliefs as best as possible compared to their conventional counterparts. There was a study proved that the performance of companies with Islamic practices are affected by the adoption of best practices in the organizations [6] whereby better governed Islamic financial institutions have shown superior operating both in higher profits and sales growth. The Islamic Financial Institutions (IFIs) also have improved stock performance and enjoy higher valuations in the market rather than those that underperformed due to lack of internal governance. Moreover, in the presence of Shari'ah rules may lead to better disclosures along with CG requirements. In view of the specialty belongs to the Shari'ah-compliant companies, the selective of directors based on their education background and specific qualification might be given high priority in ensuring the responsibilities are being carried out faithfully as the climate, culture and environment of the organization is patterned by their leadership [7]. Apart of that, the independent directors who are holding position in the board exist to assist the other executive directors of the organizations in monitoring and making decision transparently with the alignment of shareholders' interest. However, the principles of Islam espoused by Islamic organizations specifically those Shari'ah-compliant companies which are recognised by virtue of the name of the company or the major shareholder or perhaps the nature of businesses, has flawed the Muslim community's perception. In fact, implied that Bank Islam Malaysia Berhad (BIMB) had lagged behind the other major conventional banks in terms of sound CG practices and its disclosures. Likely, it was resulted from the issue aroused when this first Islamic bank in Malaysia had declared losses of RM774 million with respect to the high non-performing loan due to lack of internal control and inconsistency in its regulatory for few years back [8].

Recently, when Sime Darby Berhad one of the giant conglomerates Government Linked Company (GLC) which is also embracing Shari'ah compliances, again has shaken the business world by its litigation case of the overrun cost amounted to RM964 million in Qatar projects. The question is whether this so-called Malaysian mini-Enron would prolong to other Shari'ah-compliant companies one someday again. Therefore, it has encouraged this study to envisage that effectiveness of CG might be influenced by other factor such as the origin of the company.

Board Characteristics

None of the studies has specified the minimum number of directors should sit on the board and even MCCG does not highlight or provide guideline on limiting the number of board members. [9] stated that the larger board size the better corporate performance due to various skills, knowledge, as well as expertise among the directors. The bigger board overseeing the company, the possibility to shirk is higher and difficult decision could be made as cross opinion arise. In addition, more members on the board would cause variety in sheltering critical resources and contacts [10]. Therefore, it would suggest a company to have board size at minimum as possible for effective monitoring rather than encompassing too many people observing the company. Basically, the board of directors themselves is expected to carry out an observant supervision over the management towards achieving mutual interest between shareholders and managerial practices [11]. Their vital accountability and thorough responsibilities, in particular understanding and approving the corporation's long-term strategies and direction; understanding the issues, forces, and risks that imply the company's business as well as supervising the performance of management [12] are prominent to the whole company's stability. Although board of directors are observed to mitigate agency problems through monitoring, they are more likely adhered to the managers who have selected them to be on the board and hence the directors are no longer appear independently.

Another aspect of corporate governance that has become a debatable issue is the duality role. According to Bursa Listing Requirements, it gives mandate to all companies listed on the Bursa Malaysia to separate between CEO and chairman duality task by same person on the same time and allows the combination of the roles of chairman and chief executive officer as long as the power and authority can be balanced and it must be disclosed and explained publicly [13]. expressed the combining and splitting of these two roles as CEO duality (or simply duality) and non-duality, respectively depending on the structure of the company. Despite the differences concept and understanding of the studies, review of the literature on the relationship between role duality and company performance reported mixed results. There are also some findings on the significant result on the role duality [9,10]. According to [14], by combining the two roles of power may arise conflict of interest although both individuals are dependent to each other in monitoring and evaluating performance of other directors [12] highlighted that although the functionality of the CEO is overseeing the company's future direction and in the meanwhile managing the board matters including the CEO, obviously conflict interest will come into place and it is impossible the CEO cum chairperson will evaluate himself fairly and objectively.

Company of Origin

Company of origin referred to a company which is headquartered or acquired by foreign parent company in abroad. From their stability and successful history, it portrays that those foreign companies might practice effective governance as being successfully adapted in their home country. Thus, the effectiveness and availability of CG where the subsidiary operates may influence the CG of home country and host country respectively [15]. As for theory came out by [16] relating to home bias namely corporate ownership theory which comprises two elements which firstly explains on the "direct effect" of poor governance is foreign portfolio investors. It exhibits a large home bias against countries with poor governance due to limited by high optimal ownership by insiders and domestic monitoring shareholders (the "in- direct effect"). Secondly, foreign direct investors from "good governance" countries are cited having a comparative advantage as insider monitors in "poor governance" countries.

Hypotheses Development

The various views on the effect of board size towards performance have led to inconclusive issue. Different directions of relationship between board size and company performance have different justification but however it depends on the industry or regulation of the company. There are few predictions on positively related between board size firm's market value [17]. Several studies have concluded that board size has negative effects on company performance as the board goes larger [18]. As most studies find inverse relationship, [19] concluded that board size and profitability will only show significantly negative relation when the number of directors sitting on the board becomes larger but not in moderate board size [10] found that composition of non-executive directors on the board does not influence company performance, unlike MCCG that requires a minimum one third of the boards are INEDs as they presume that Malaysian corporations may not essential to the requirement due to its nature as developing countries. They further explain that most INEDs are preferably for political purposes to legitimise business activities and due to contacts and contract wise rather than based on their expertise and experience. Similarly, there are still number of companies that not fulfilling the minimum amount of INEDs which does not correspond with the performance of company in Malaysia [9]. Lam TY [12] mentioned that outside independent directors do not contribute much towards company performance and in improving earning market and found that since company's policy or even legislation could not change the moral, the outside independent directors themselves must ensure that they able to monitor and control the top management mainly in a favorable environment. In the study of Petra ST [18] also promoted the significant effect of the board constitutes more independent directors which attributes to the company performance as they refer to other opinions on the importance of higher proportion outside directors especially when the company experienced financial distress and face performance declined, less bankruptcy was reported during their appointment as independent directors. From our naked eyes, we could say that CEO and the chairperson are the persons who will bring the company to directive way in line with corporate vision and mission. Lam TY [13] had defined the responsibilities of the CEO as accomplishing company's policies and operating the company's business. Unlike the chairman of the board, he is responsible for managing the board, supervising and evaluating managerial activities. Due to fruitful ideas from previous literatures in respect of CEO duality, there were some results that documented on the significant association between corporate performance and role duality. By looking at its negative relationship, [10] agreed that the combination of two roles may benefits himself (the independent CEO and Chairman) through performance as he or she be the top leader will need to endeavor in such manner and obviously in the absence of financial interest, either compensation or ownership. Besides, it was proven by Mohd Ghazali [9] via his survey among few listed companies in Malaysia noted that 75% of them were identified chairmen who were not independent directors especially for those closely held or family controlled companies. In contrast, [20] defined the CEO duality in the other way around as the two titles should be separated by different individual in form of leadership structure to execute its fiduciary duties. The argument why the separated leadership is required due to honestly remains in the management while the outside independent directors who serve on the board committees may limit behavior opportunism and managers' action towards better directive mission and vision rather than served by inside directors. From the above argument, the first hypothesis is as follow:

H1: The larger numbers of directors in the board, the chairman is also performed as CEO of the company will deteriorated the company's performance, whereas the higher number of independent non-executives directors in the board, the higher company's performance, measured by ROA and Tobin's Q.

There are fair studies done on corporate governance according to origin of the company. However, this study attempts to relate with other research that highlighting on the multinational corporations which have similar characteristic in terms of the origin or home base of the company. However, there is a researcher claimed that company of origin is not an attributor to the performance of organization as he believes that market globalization does affect companies from all countries instead of companies from one country [21]. as they examined on the correlation between home biases with the effectiveness of corporate governance which implies negative relationship significantly. Nonetheless, shows that there are mixed results in research among Asian corporations whereby they found that some indicates positive correlation as the profitability performance is caused by country of origin. Foreign based companies with good governance will normally deploy the management and governance policy through their management talent and skill to improve the value of the subsidiaries companies in other countries [14]. Hence, the second hypothesis is as below:

H2: There is a positive relationship between the company of origin and company's performance, measured by ROA and Tobin's Q.

Research Methodology

Sample and Data Collection

There were 717 active listed companies of Shari'ah-compliant as determined by the Shari'ah Advisory Council (SAC) of the Securities Commission for the year 2011 which represented approximately 72% of the total 996 Malaysian public listed companies (PLCs) at Bursa Malaysia and only 705 companies with market capitalization data were available. Those companies which have incomplete annual reports, insufficient data and financial institutions due to different regulation are excluded from the study during the initial stage of selecting 250 top ranking companies making the final sample was 1,000 firm-year observations for the year 2007 to 2010. The four years period are chosen because the Code (Malaysian Code on Corporate Governance) was revised in year 2007 to strengthen the eligibility criteria for directors appointment, the composition of the board of directors as well as to ensure the responsibilities of the directors, nominating committees and audit committees are discharged effectively [22]. Secondly, because of limited sources in obtaining latest annual reports for the year 2011 due to different financial year ended whereby some companies' reports have yet to announce neither in Bursa Malaysia nor in the respective companies' websites, particularly for recent financial year 2011. Then, the selected companies are being classified based on place of incorporation (company of origin) of their headquarters regardless ultimate or penultimate holding companies. By differentiating the originality, the group could be identified as local and foreign company. The origin of the company is distinguished via information provided in the corporate information as disclosed in their annual report. The information has been screened out manually since there is the only way to extract the detail of the company. All the information in relation to board of directors and company of origin are manually extracted from the annual reports of each selected Shari'ah-compliant companies for the year 2007 to 2010.

Variable Measurement

This study measured company's performance by Return on Asset (ROA) [10,13,18] and Tobin's Q [9,14, 23]. ROA was used to evaluate how effective and efficient the company at using its assets to generate earnings and assess companies performance [10]. ROA is also deemed as a better medium in order to support company business activities through its assets utilization. Tobin's Q is used as a proxy for market return. Tobin's Q compares the market value of the company with the replacement cost of the company's assets. It also implies that the greater the real return on investment, the greater the value of Q. Based on its formula, the Q-ratio or the company's market value is calculated as the total market value of the firm divided by the total assets of the company. Otherwise, the market value could be defined as market value of ordinary shares (is estimated by multiplying the number of ordinary shares by the share price at the end of the fiscal year) plus the market value of long-term bonds and the book value of preference shares. As suggested by O'Connell V, Cramer N [18], Tobin's Q is deemed as a measure of corporate performance. The board size is measured by the number of board members. Those executive directors are included in a functional organisational structure since they are the boards who have supervisory function. Next, the board composition of board of directors is measured by the proportions of non-executive. The number of independent directors must at least two directors or one third of the boards [18]. The CEO duality explains that the CEO to the chair of the board which joins two titles into one position [4] and normally in the controlled family structure [13]. As for country of origin, we identified through the country base (place of incorporation) of its ultimate or penultimate holding company. In general, the information is provided in the company's annual report at the face of corporate information in the notes to the accounts. This study includes company size effect as a control variable which measured by natural log of the annual total assets of the company. The summary of variable used in this study is summarized as below:

Table 1. Variable Measurement

Variables	Definition
Dependent variables:	
ROA	Return on assets, profit beforeinterest and tax over total assets.
Tobin's *Q*	*Q*Ratio, Market value of equity plus the book value of debt divided by the book value of total assets
Independent variables:	
BSIZE	Board size, total of directors sitting on the board
INED	Independent non-executive directors, proportion of INED to total number directors on the board
DUALDummy	CEO Duality, 1 if a director is a Chairman but not a CEO and 0 otherwise
ORIGIN	Company of origin, country of incorporation of ultimate or penultimate company which is 1 if based in Malaysia (Local) and 0 if otherwise (Foreign)
Control variable:	
FSIZE	Company size, natural log of the annual total assets

Research Models

Following previous studies [9,18], we employed multiple regression model is used to test the effect of between board characteristics and company of origin on corporate performance. Therefore, our research models are developed as follows:

$$ROA_{it} = \beta_0 + \beta_1 BSize_{it} + \beta_2 INED_{it} + \beta_3 DUALDummy + \beta_4 ORIGIN_{it} + \beta_5 FSize_{it} + \varepsilon_{it} \quad (1)$$

$$QRatio_{it} = \beta_0 + \beta_1 BSize_{it} + \beta_2 INED_{it} + \beta_3 DUALDummy + \beta_4 ORIGIN_{it} + \beta_5 FSize_{it} + \varepsilon_{it} \quad (2)$$

Where;

β_0 is a constant term or intercept across cross sectional observations

$\beta_{1...5}$ is aregression coefficients

ROA isreturn on assets, proxy for accounting measure of performance

$QRatio$ isTobin's Q-Ratio, proxy for market measure of performance

$BSize$ is thetotal of directors sitting on the board

$INED$ is a proportion of independent directors to total number directors on the board

$DUALDummy$ iscategorised as "1" if the Chairman and CEO is separate person, and "0" otherwise

$ORIGIN$ is a country of incorporation of ultimate or penultimate company, categorised as "1" if based in Malaysia (Local) and "0" otherwise (Foreign)

$FSize$ is a natural log of the annual total assets of the company

ε is error term

Results and Discussion

Descriptive Statistics

Table 2 present descriptive results of the sample companies. A number of directors sitting on the board show a range between 4 to15 members with an average value of 7.98. A proportion of independent non-executive directors on the board present a mean value of 0.45 which indicates that the practices of Shari'ah-compliant companies are higher than the listing requirements of at least one-third of the membership. As for duality role, the result shows that separation roles between CEO and chairman reveals as most favourable among Shari'ah-compliant companies in Malaysia with 85.7 percent as compared to those choose to have duality role which is 14.1 percent and the result also shows that 91.2 percent of the Shari'ah-compliant companies is origin based.

Table 2:Descriptive Statistics

Variables	Minimum	Maximum	Mean
BSize	4	15	7.98
INED	0.17	0.86	0.45
DUAL Dummy	85.7%	14.1%	0.00
ORIGIN	91.2%	8.8%	0.00

Notes: The sample comprises of 984 (listwise) observations for Malaysian *Shari'ah*-compliant listed companies for four year period 2007 to 2010. BSize is total of directors sitting on the board; INED is proportion of independent non-executive directors to total number directors on the board; DUALDummy is an indicator variable with a value of "1" if a director is a Chairman but not a CEO and "0" otherwise; ORIGIN is country of incorporation of the ultimate or penultimate company which is denoted as "1" if based in Malaysia (local) and "0" if otherwise (foreign); FSize is natural log of the annual total assets of the company.

Correlations Analysis

Table 3 and Table 4 indicate the correlations relationship between company performance using ROA and Q-ratio respectively. Table 3 shows that ORIGIN correlate negatively with ROA and positively with QRatio r=0.106 and r=0 .057 respectively. Both are significant at p< 0.01 and p<0.05 accordingly. However, only DUALDummy and variable of FSize have significant correlation with QRatio (r=0.092 and r=0.078, p< 0.01) but none with ROA. Furthermore, all correlation coefficients shown are below 0.80 which means no multicollinearity problem raised in this study.

Table 3:Pearson correlations between company performance: Return on Assets (ROA)

Variables	ROA	BSize	INED	DUALDummy	ORIGIN	FSize
ROA	1.000					
BSize	-0.029	1.000				
INED	0.018	-0.324**	1.000			
DUALDummy	-0.044	0.121**	-0.025	1.000		
ORIGIN	-0.106**	0.014	0.059*	-0.104**	1.000	
FSize	0.000	0.076**	0.039	0.049	-0.175**	1.000

Notes: ROA (Return on Assets) is calculated as profit before interest and tax over total assets. The sample comprises of 984 (listwise) observations for Malaysian *Shari'ah*-compliant listed companies for four year period 2007 to 2010. B Size is total of directors sitting on the board; INED is proportion of independent non-executive directors to total number directors on the board; DUALDummy is an indicator variable with a value of "1" if a director is a Chairman but not a CEO and "0" otherwise; ORIGIN is country of incorporation of the ultimate or penultimate company which is denoted as "1" if based in Malaysia (local) and "0" if otherwise (foreign); FSize is natural log of the annual total assets of the company; significant at *0.05 or at **0.01 level (1-tailed).

Table 4: Pearson correlations between company performance: Tobin's Q (QRatio)

Variables	*Q*Ratio	BSize	INED	DUALDummy	ORIGIN	FSize
*Q*Ratio	1.000					
BSize	-0.002	1.000				
INED	-0.024	-0.324**	1.000			
DUALDummy	-0.092**	0.121**	-0.025	1.000		
ORIGIN	0.057*	0.014	0.059*	-0.104**	1.000	
FSize	-0.078**	0.076**	0.039	0.049	-0.175**	1.000

Notes: *Q*Ratio; Tobin's *Q* calculated as Market Value (market value of equity plus the book value of debt divided by the book value of total assets). The sample comprises of 984 (listwise) observations for Malaysian *Shari'ah*-compliant listed companies for four year period 2007 to 2010. BSize is total of directors sitting on the board; INED is proportion of independent non-executive directors to total number directors on the board; DUALDummy is an indicator variable with a value of "1" if a director is a Chairman but not a CEO and "0" otherwise; ORIGIN is country of incorporation of the ultimate or penultimate company which is denoted as "1" if based in Malaysia (local) and "0" if otherwise (foreign); FSize is natural log of the annual total assets of the company; significant at *0.05 or at **0.01 level (1-tailed).

Linear Multiregression

We employed regression analysis to examine the relationship between board characteristics and company of origin to Malaysian Shari'ah-compliant companies' performance. Table 5 and Table 6 presents the regression results for ROA and QRatio shows weak effect of R2 is 1.5 percent and 1.6 percent respectively. The results however are significant at $p < 0.01$. This implies that only 15 percent of ROA and 16 percent of QRatio could explain performance among Shari'ah-compliant companies in Malaysia. Whereas, for general rule of thumb, the residual value of R2 as indicated in this study shows almost 99% of the variation in performance is influenced by other variables that are not included in the study. The relative low of R2 due to potential of endogeneity problem arises at this point, as one of the reasons for endogeneity is driven by the possible omitted variables which are not embedded in the equation models. Based on table 5 of ROA against board characteristics and ORIGIN, the results demonstrate that board size negatively insignificant to companies' performance which consistent with [18] and inconsistent with [10] which found that board size positively and significantly related to. While in terms of market value performance (Tobin's Q), table 6 shows that the coefficient relationship between BSize is positively insignificant to companies performance. Therefore, our result is consistent with conclusion made by [10]. It shows that larger or small number of directors on the board does not reflect to the performance of the company instead on how the company is ethically managed and hence reduce agency problem.

Table 5 and 6 revealed that the positive direction of INED on the ROA and consistent with [10] which also found that the composition of INED not to be significant to accounting performance (ROA). Again, the opposite effect as shown in INED towards Tobin's Q is against the expectation direction. Despite in the presence of independent board of directors are seen positive sign to the corporate governance practices, the effectiveness of having them in the board is not portrayed through the result given. Our results support argument by [11] stated that the outside directors did not play their role in all key decisions. As for duality roles, we have expected that there is negative effect of CEO duality on performance. Table 5 and table 6 reveal insignificant negative relationship with companies' performance on both ROA and Tobin's Q. Our result however similar with [13] found that neither family nor non-family controlled company shows significant relationship between CEO duality and accounting performance and inconsistent [10] which found significant result. As for company of origin, the result shows that there is significant negative relationship ($p < .001$) to company performance in terms of ROA. In contrast, table 6 present insignificant positive relationships to company performance. Thus, we reject the hypothesis H2.Yet this study attempt to prove that the company with foreign origin (based on parent company' origin) may portray linear relationship with performance. In ROA perspectives, our result consistent with [21] which found that country of origin that influences both performance and capital structure. We include company size to see any moderating effect on companies' performance. The result shows negative regression coefficients for both ROA and QRatio (Tobin's Q) but statistically significant only against Tobin's Q measure performance at $p < .05$. It is contrast with other study indicates positively related to companies' performance [13].

Table 5: Standard multiple regression between ROA and independent variables

Variables	B	Std. Error	β	t	Sig.
Constant	0.317	0.131		2.423	0.016
BSize	-0.001	0.004	-0.013	-0.396	0.692
INED	0.036	0.062	0.020	0.584	0.560
DUALDummy	-0.033	0.020	-0.053	-1.644	0.101
ORIGIN	-0.090	0.025	-0.116	-3.567	0.000**
FSize	-0.007	0.013	-0.017	-0.535	0.593
R^2	1.5				
F- statistics	3.059** 0.010				

Notes: ROA = $\beta_0 + \beta_1 BSize_{it} + \beta_2 INED_{it} + \beta_3 DUALDummy_{it} + \beta_4 ORIGIN_{it} + \beta_5 FSize_{it} + \varepsilon_{it}$; performance is measured by ROA (Return on Assets) is calculated as profit before interest and tax over total assets. The sample comprises of 984 (listwise) observations for Malaysian *Shari'ah*-compliant listed companies for four year period 2007 to 2010. BSize is total of directors sitting on the board; INED is proportion of independent non-executive directors to total number directors on the board; DUALDummy is an indicator variable with a value of "1" if a director is a Chairman but not a CEO and "0" otherwise; ORIGIN is country of incorporation of the ultimate or penultimate company which is denoted as "1" if based in Malaysia (local) and "0" if otherwise (foreign); FSize is natural log of the annual total assets of the company; significant at *0.05 or at **0.01 level (1-tailed).

Table 6: Standard multiple regression between QRatio and independent variables

Variables	B	Std. Error	β	t	Sig.
Constant	1.008	.108		9.349	.000
BSize	.000	.003	.005	.143	.886
INED	-.037	.051	-.024	-.714	.475
DUALDummy	-.044	.016	-.086	-2.674	.008**
ORIGIN	.024	.021	.038	1.169	.243
FSize	-.023	.011	-.067	-2.062	.039*
R^2	1.6				
F- statistics	3.158** 0.008				

Notes: QRatio = $\beta_0 + \beta_1 BSize_{it} + \beta_2 INED_{it} + \beta_3 DUALDummy_{it} + \beta_4 ORIGIN_{it} + \beta_5 FSize_{it} + \varepsilon_{it}$; performance is measured by Tobin's Q calculated as Market Value (market value of equity plus the book value of debt divided by the book value of total assets). The sample comprises of 984 (listwise) observations for Malaysian *Shari'ah*-compliant listed companies for four year period 2007 to 2010. BSize is total of directors sitting on the board; INED is proportion of independent non-executive directors to total number directors on the board; DUALDummy is an indicator variable with a value of "1" if a director is a Chairman but not a CEO and "0" otherwise; ORIGIN is country of incorporation of the ultimate or penultimate company which is denoted as "1" if based in Malaysia (local) and "0" if otherwise (foreign); FSize is natural log of the annual total assets of the company; significant at *0.05 or at **0.01 level (1-tailed).

Discussion of Result Endogeneity

As highlighted in the beginning of this chapter, there is a possibility that some of the explanatory variables are endogenous as indicated via low value of R2 in both performance measures ROA (15 percent) as well as Tobin's Q (16 percent). The indication of the endogeneity problem is explained when one or more of the explanatory variables are seen to be correlated with the error term in the regression equation [24]. From the regression coefficient analysis, this study concludes that basically all the board characteristics tested do have similar direction as expected earlier. However, all three of the results imply statistically insignificant on the performance. The results provide indication that corporate governance nowadays does not affect the company performance and relatively not relevant to the profitability of the company.

Accordingly, it has answered the question why established giant Shari'ah-compliant company has being caught in the no end fiasco. The result also reveals that duality role show opposite significant relationship with performance. This indicates that although foreign origin is expected to bring better governance compliance and would be adopted by its subsidiary, the effect on performance provides unsatisfactory relationship. In turn, local Shari'ah-compliant companies would contribute better performance. For market value measure of performance, it shows that BSize and INED are contrary with expectation result whereby the result revealed positive and negative association towards performance respectively with insignificant effects while DUAL Dummy appear significant negative result (p<.01). ORIGIN however presents insignificant positive result. It means that size of board and composition of independent non-executive directors still could not enhance company performance. Either small or huge number of directors sitting on the board, it still depends on enthusiasm and commitment of the directors themselves towards company performance. Further, regardless how well the parent company performs in its country, it will not influence or affect to the subsidiaries operation in the other country.

Conclusions and Implications

This study attempts to examine the relationship between board characteristics and company of origin to performance of Shari'ah-compliant companies in Malaysia. We expected that there are negative relationships between board size and duality roles to company performance while positive relationship between independent non-executives directors and origin of company towards company's performance. From the results, we find that only variable of DUAL Dummy and ORIGIN revealed negatively and significantly to company's performance for Tobin's Q and ROA measurement respectively whereas not significant with their counterparts. Significant negative relationship between ORIGIN and company's performance indicates that foreign parent company implement good governance practices and not for local subsidiary which represent poor governance practices. In other words, there is weak evidence to show that companies with good governance practices perform better than others. Accordingly, we have rejected all hypotheses, H1 and H2 as posted earlier.

Therefore, we concluded that some of the corporate governance mechanisms may not relevant to performance or either profitability of the company. The compliance of corporate governance is obviously only the form not owing to the substance at all. The tendency of companies which are fully complying corporate governance to have bad performance is high in the absence of moral ethics. In addition, the identity of Shari'ah-compliant companies might be questioned whether the requirements to obtain the title of complying Shari'ah principles are fulfilled the Shari'ah governance framework as well.

Our result consistent with [19] suggested that the larger size of the board more risky and difficult to made decision which then lead to inconsistency in direction [4] due to cross opinion among of the directors. Further, too many external directors with lack of related industry knowledge which in turn leading to the issues of performance [22]. However, the results are partial supported when role duality is only found to be significantly negative on market performance (Tobin's Q) but statistically insignificant on accounting performance (ROA). An overall, this study reports inconsistent relationship between board characteristics, company of origin and company's accounting performance and its market value.

This study is not free from limitations. We have selected limited number of samples based on top ranking of market capitalization. It is more likely to examine among the large size companies which should cover all size of the companies regardless of their insignificant total assets, revenue or so forth. Secondly, we does not examine on the Shari'ah governance which may differently affect to the company performance and the disclosure on the compliance of Shari'ah principles. Therefore, it would be questioned on the Shari'ah governance framework compliance. Future research may consider all companies at the Bursa Malaysia whereby it could represent the whole group and made an analysis accurately without bias. Further, a study on Shari'ah compliances itself should have look into in order to examine whether the companies that fulfil the Shari'ah requirements as strictly enforced to Islamic financial institutions. The cross-check on the disclosure of adopting and complying Shari'ah should be carried out to ensure the title is not only on the name but the practices also should remain.

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