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Analysis of Corporate Governance and Bank Performance: Empirical Evidence From Malaysian Banking Industry

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Abstract

Various theories and empirical studies have been applied and proposed to establish and explain how corporate governance practices are related to banks financial performance. This study concerns the relationship between corporate governance variables and bank performance in Malaysia. The data collected and analysed in this research is from quarter one year 2011 to quarter four year 2016. Various determinants have been identified namely return on equity(ROE) for bank performance measurement, CEO duality, board size, and board gender for corporate governance. Control variables are bank size and bank leverage. The methodologies adopted in this research includes descriptive analysis, correlation analysis, Pooled Ordinary Least Square (OLS) regression, Diagnostic Tests (Jarque-Bera Normality Test, Wooldridge Test and Variance Inflation Factor), Breusch-Pagan (BP) Lagrange Multiplier test, and Hausman test. In this study, the findings indicate that strong board composition and bank leverage were experience better performance.

Keywords: corporate governance, bank performance, Malaysian banking industry

Introduction

This study is designed to examine whether the corporate governance will have an influence on the local commercial banks performance in Malaysia. Malaysia bank industry is being chosen for this study for two reasons. Firstly, the Malaysian banking system is accounted for approximately 70 percent of the total assets of the Malaysian financial system, becoming the major component, and it is also play a vital role in Malaysia economic growth (Said & Tumin, 2011). Secondly, there are limited studies done on this topic for Malaysia especially in the banking industry. Particularly, the impact of corporate governance on banking industry has been almost ignored in emerging market such as Malaysia's. According to Chang,2004 , a number of studies have been taken to understand the status of corporate governance in Malaysia in relation to some compulsory provisions while some have established audit and accounting issues (Abidin, et al 2009) but very few have examined the contribution of good corporate governance in the commercial banking industry in Malaysia. Thus, there is a need and interest to provide a better understanding whether corporate governance can have an influence on the performance of Malaysian banking industry Lukas, S., & Basuki, B. , 2015). This study may lead to important policy implication for government or regulatory bodies even the executives in banks which help them in implementing better and effective corporate governance practices in order to improve bank performance.

Background of Study

Corporate Governance System and Bank Performance in Malaysia

Corporate governance has been regarded as a serious issue in various nations due to massive corporate failure and scandals after the economic crisis in 1997. Malaysia corporate governance practices have been enhanced since 1998 following the Asian Financial Crisis. Major reforms of the corporate governance include the forming of the Committee and Malaysian Institute of Corporate Governance (MICG) in 1998, the introduction of Code on Corporate Governance and ten-year Capital Market Master Plan, and the establishment of a mandatory accreditation programme. These efforts taken by the government have provided guidance on the principles and best practices in Malaysian corporate governance which lead to rapid growth for the country. According to Bank Negara Malaysia (2017), the financial sector of Malaysia mainly consists of commercial banks, Islamic banks, investment banks, insurance companies, and other financial institutions. As to date, there are 27 commercial banks, 16 Islamic banks, and 11 investment banks in Malaysia. However, among 27 commercial banks only 8 banks are local banks and the rest are foreign banks.

In the recent years, corporate governance has been given more attention in Malaysia.