Impact of the Revised Malaysian Code on Corporate Governance on Audit Committee Attributes and Firm Performance

By Basiru Salisu Kallamu

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**GJMBR - D Classification**: JEL Code : M42
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I. Introduction

The Securities commission of Malaysia (SCM) as one of the regulatory authorities ensures that companies conduct their activities in line with best practice of good corporate governance. This is shown by the issue and continuous revision of the MCCG to ensure that companies in Malaysia have good corporate governance. The Asian financial crisis of 1997/1998 and prior corporate scandals affected investors’ confidence in capital market and necessitated the move to enhance the corporate governance practice by companies in Malaysia. This move was started with the setting up of a finance committee on corporate governance to deal with the issue of establishing codes and principles to guide the companies (Ghazali, 2010). One of the outcomes of the committee was the introduction of the Malaysian Code on Corporate Governance in March 2000. The finance committee also established the Malaysian institute of corporate governance which operates as a nonprofit public company limited by guarantee. This move was aimed at restoring confidence of investors in the capital market (Ghazali, 2010). Compliance with the Code developed from this initiative was initially voluntary but later made mandatory by the revised listing require-
The first version of the code encouraged the establishment of governance structures and processes for the effective running of companies as well as composition of the board, recruitment and remuneration of directors and the establishment of board committees were also emphasized. The second version emphasized on the enhancement of the role of the board of directors, strengthening the AC, stipulating the role of NC, qualification required for people to be appointed as directors, internal audit function, required AC to be composed of only non-executive directors and stressed on adherence to the scope of internal audit functions. Some of the areas focused on by the third version of the code includes; strengthening board structure and composition recognizing the role of directors as active and responsible fiduciaries, encourages high quality and timely information disclosure, risk management, strengthen relationship between firm and shareholders and recommendation for companies to have qualified company secretary. As could be observed from the above discussion the MCCG was issued and revised in order to ensure that companies have governance mechanisms that are capable of safeguarding the interest of various stakeholders especially in finance companies where there is high agency problem coupled with complex operations, structures and products. This has shown the commitment of the Securities commission of Malaysia in ensuring sound capital market which will enhance the confidence of investors in the market and attract more capital flow into the market and ensure that Malaysia remains one of the best destinations for foreign capital.

The position of finance companies in an economy is central to the accomplishment of the economic goals of the country (Kim and Rasiah, 2010). Therefore, poor governance in finance companies could come with great loss to the entire economy in the form of huge expenditure to rescue the finance companies and failure to accomplish economic goals that are accomplishable only through the financial system (Thillainathan, 1999). The finance sector performs different roles towards the proper functioning of the economy. The growth and development of companies in an economy is facilitated by the financial sector especially in emerging economies (Mahmoud, 2011). They mobilize savings from the people and sectors with surplus funds and channel them to the sectors where they are needed, facilitate various payments services for goods and services and finance development of business (Turlea, Mocanu and Radu, 2010). In addition, finance companies are characterized by high leverage, opaque operations and tendency of instability (Westman 2009). Furthermore, the need to safeguard the savings of depositors, investments of shareholders and bondholders, maintain the stability of the payment system and reduce risks emphasizes the importance of the stringent regulation of the financial institutions (Merton, 1995).

The recent global financial crisis had an impact on several companies and economies all over the world and the nature of the impact differs from one country to another (Atik, 2009). The benefit of good corporate governance practices in finance firms was re-emphasized by this financial crisis. The crisis began in 2007 and led to the filing for bankruptcies by many financial institutions in different parts of the world especially the West. This made authorities to intervene with various rescue packages to save the troubled companies. This led to the injection of the public funds into such institutions to prevent total collapse of the system. In addition, authorities set up different committees to look into reasons behind such problems and to come out with recommendations that have become laws and regulations to guide the governance of financial institutions (Becht, Bolton and Roell, 2012).

The existence of a sound financial system is needed for the attainment of the status of a developed economy (Becht et al, 2012). Such sound financial system mobilizes and allocates funds to various sectors of the economy that helps to lower the cost of capital to the firms, boost capital formation and stimulate productive activities and growth in the economy (Becht et al, 2012). In addition, financial institutions provide maturity transformation by investing very illiquid deposits into risky projects with a long payback period. This function enables the bank to reduce the risk to investors and depositors by polling of resources and diversifying investment portfolio of short-term deposit and long-term investment (Westman, 2009).

Although there are a lot of studies on AC, however, the studies largely focused on developed countries and results of the studies are contradictory. In addition, there are few studies on the impact of MCCG on corporate governance and firm performance and the studies that compared the period before and after the MCCG were issued and revised are few. Therefore, considering the role of the audit committee as the most important subcommittee of the board, this paper examines whether AC attributes have impact on firm performance in both the period before and after the MCCG was revised. Secondly, the paper examines whether the revision to MCCG had impact on AC attributes. The code was initially issued in 2000 after the Asian financial crisis and was revised in 2007 and 2012. The rest of the paper is organized as follows. Section two reviews related literature and develops hypotheses. Section three narrates the research methodology. Section four presents and discusses the findings while section five provides conclusion of the study.
II. Literature Review, Theoretical Background and Hypothesis Development

The Malaysian code on corporate governance (revised, 2007, 2012), BMB listing requirements (2007) and the corporate governance guide issued by central bank mandated all listed and licensed companies in Malaysia to form an AC of the board composed of non-executive directors and should comprise not less than three members with a majority of INED. Finance companies were the first companies to have AC in Malaysia which was made a requirement by the central bank in 1985 prior to other public companies (Sori, 2005). The requirement for the establishment of AC for other companies was introduced in 1993 (Yatim, 2009). The development of AC as a subcommittee of the board was given a boost by the Smith report of 2003 in the UK. The AC is to assist the board in discharging its responsibilities with respect to finance and accounting functions. It is responsible to ensure that the internal control function in the company is adequate and that the internal control function is discharged effectively. In addition, the AC is responsible for fair and transparent reporting, ensuring effectiveness of internal and external audit and ensuring that related party transactions are reported (MCCG, 2007). In addition, the AC is responsible for the appointment, resignation, fees and dismissal of the external auditors (MCCG, 207). The major function of audit committee is to monitor financial performance and ensure integrity of financial reporting (Yatim, 2009). The listing requirements of Bursa Malaysia (2007) and the corporate governance guide issued by the central bank requires that audit committee should include at least one member with accounting qualification or accounting experience or finance industry experience. The presence of an expert on the AC is to ensure that the AC performs its monitoring functions effectively (Brown et al., 2011).

Karamanou and Vefeas (2005) documented a positive relationship between audit committee and firm performance. Mangena and Chamisa (2008) found that the existence of audit committee in a company helps to enhance compliance with the regulatory requirements and thereby reduce the possibility of the suspension of the firm from the South African stock exchange. Furthermore, presence of AC in a company was found to be associated with less change in external auditor by companies (Kunitake, 1983) and the appointment of a reputable external auditor as a result of the network of the members of the committee (Kunitake, 1981). Audit committee may be unable to perform the monitoring role effectively due to lack of expertise and time and because of the additional responsibilities imposed on the committee by the regulatory bodies (Yatim, 2009). Through its function which includes meeting with both internal and external auditors, audit committee ensures the release of high quality financial information (Klein, 1998). Aldamen, Duncan, Kelly, McNamara and Nagel (2011), reported that small AC composed of directors with experience and financial expertise and interlock of directors is positively associated with performance based on market measure of performance.

a) Agency Theory

Agency relationship results from the separation of ownership and control which was brought by the industrial revolution that led to the emergence of large organizations and therefore the delegation of responsibility and authority (Jensen and Meckling, 1976; Bhandari, 2010). In addition, agency problem resulting from the self-interest of the managers is more complex in the finance companies as there are multiple interests the company needs to address. The shareholders as the primary principals appoint managers to act as agents to manage the business on their behalf. This separation of ownership and control could lead to the agents taking decisions that are not in the interest of the principal.

b) Hypotheses Development

i. Committee Composition

The independence of AC members enhances the financial reporting quality and reduces the incidence of restatement (Abott, Parker and Peters, 2004). Independence of the AC members enhances monitoring due to the absence of any association between committee members and the management and because the directors will monitor effectively the activities of management in order to protect their image and enhance their chances of getting further appointments (Carcello and Neal, 2003). Furthermore, the independence of AC enhances the effectiveness of the committee in monitoring by improving internal control and by providing internal audit with an opportunity to communicate to a committee composed of independent directors (Raghunandan, Read and Rama, 2001). Abott, Peters and Raghunandan (2003) reported that independent AC is associated with greater scope of work of the external auditor which could help to detect fraudulent practices. Lam (1975) found that management and auditor are more honest in reporting when there is AC of independent directors. Beasly (1996) found the presence of independent AC to be negatively related with financial statement fraud. Klein (2002) reported that AC with a majority of non-independent directors is associated with increase in abnormal accruals, implying that AC composed of mainly INED is more effective in monitoring financial reporting and related functions. The independence of AC improves the powers of the committee and reduces agency problem and chances for expropriation by insiders (Yeh, Chung and Liu, 2011). Although active AC
composed of INED enhances performance through enhanced monitoring and by providing independent channel for the external and internal auditors to communicate any issues, some prior studies have shown that independence of AC does not enhance independence of the external auditor (Gul, 1989) while mixed results were reported by Cottel and Rankin (1988). Therefore our fist hypothesis is stated as follows:

H1 There is a significant relationship between audit committee composed of independent directors and firm performance.

ii. Independent Committee Chair

Woidtke and Yeh (2013) reported that audit committee composed of mainly independent directors and the presence of an independent chair enhances the quality of financial reporting. Akhigbe and Martin (2006) reported that independent AC chair enhances quality of reported financial result and fraudulent financial reporting is reduced when there is independent chair. In addition, better monitoring of accounting and financial reporting activities of the company will be ensured when committee chair is independent (Tao and Hutchinson, 2012). Although committee chair enhances committee independence, such independence may not bring the desired improvement in enhancing the effectiveness of the committee in monitoring the activities of management if the CEO is involved in the directors’ selection (Carcello et al., 2011). They further added that independence of the committee chair alone will not enhance the confidence of the investors in the companies’ financial statement but the presence of independent directors in addition to independence of the committee chair will ensure that the market has confidence in the reported figures of companies especially where the ownership is concentrated. Thus we hypothesized as follows;

H2 There is a significant relationship between independent chair of audit committee and firm performance.

iii. Expert Directors

The need for the presence of expert directors on the AC was emphasized as a result of the recent financial crisis and the previous corporate scandals (Güner, Malmendier and Tate, 2008). Davidson, Xie and Xu (2004) report that market valuation of a firm is positively related with appointment of a director with finance expertise on AC. Ghafran and Sullivan (2012) found that investors value the presence of AC and they perceive the appointment of expert director on AC positively. According to Dickins, Hillson and Plaut (2009) the reliability of the financial statement of a company to analysts is enhanced when the AC has a member with financial expertise. This is the case because the presence of finance expert will enhance the quality of the financial report. Krishnan and Visvanathan found that expert directors on audit committee reduce the audit fees charge by the external auditors. Therefore we hypothesized as follows:

H3 There is a significant relationship between audit committees’ expertise and firm performance.

iv. Executive Experience

Evidence from prior studies has shown a positive relationship between AC composed of directors with prior experience and firm valuation (Aldamen et al., 2011). The industry experience of directors may be more beneficial to a small finance company in its early stage of development since the directors could serve ‘as a resource to management’, by providing a link to outside resources such as contacts and connections. While an established company at the declining stage of its development and with dispersed shareholdings may benefit more from directors with technical or financial expertise who will concentrate on monitoring of the company (Carcello et al., 2011, p. 22). Thus, the following hypothesis was tested;

H4 There is significant relationship between presence of NED with executive experience on audit committee and firm performance.

v. Executive Membership

The presence of executive directors on board committees will reduce information asymmetry between the executive and non-executive directors and provide the committees with valuable and high quality inside information which could be difficult to obtain by outsiders (Aguilera et al., 2011). On the other hand, the presence of executive especially the CEO and CFO on AC could hinder the effective functioning of the committee with regards to financial reporting activities (Carcello, 2011). Since the CEO and CFO were involved in most of the prior accounting frauds (Beasley, Carcello, Hermanson and Neal, 2010) their presence on the committee could mean a weak control environment and the need for more vigilance by the external auditor (Carcello, 2011). Therefore our fifth hypothesis is stated as follows:

H5 There is a significant relationship between membership of executive on audit subcommittee and firm performance.

vi. Interlock of Directors

The multiple membership of directors on subcommittees reduces information asymmetry, enhances coordination and communication among the subcommittees (Jensen and Meckling, 1976). Hou and Wang (2013) found that interlock of directors enable directors to provide more effective monitoring of the executive due to their reputation and expertise which they gained from serving on different committees. Interlock of directors on board subcommittees will enhance the coordination and communication among subcommittees in a firm thereby reducing the chances of decisions that will contradict each other and ultimately
enhance performance (Tao & Hutchinson, 2012). Therefore multiple memberships on committees by directors especially monitoring committees will result in better performance through more efficient coordination of the appointments, compensation package, risk level and the monitoring of financial reporting process (Laux and Laux, 2009). Hoitash and Hoitash (2009) on the other hand found negative impact of interlock of directors on firm performance. Therefore our last hypothesis is as follows:

H6 There is a significant relationship between dual membership of directors on audit and other monitoring committees and firm performance.

III. METHODOLOGY

The sample comprise of all finance companies listed on the finance sector of the main board of Bursa Malaysia which consist of 37 companies spread across the various segments of the finance sector. The observation period covers 2004 to 2006 for the period before revision while the period after the revision comprise of year 2009 to 2011. The study used secondary data that was collected from the annual report of the companies available from the website of Bursa Malaysia or the company’s website. In addition to the annual reports, financial information about the companies was obtained from Bloomberg data source. The annual report was used to obtain information on corporate governance variables while information on the dependent variable and control variables was obtained from financial information available from Bloomberg database. Multiple regression analysis was used to analyze the relationship between the dependent and independent variables. Specifically, the study was operated based on the following research model:

\[ F_{pt} = \alpha + \beta_1 \text{INED}_{it} + \beta_2 \text{CINED}_{it} + \beta_3 \text{FE}_{it} + \beta_4 \text{EE}_{it} + \beta_5 \text{EP}_{it} + \beta_6 \text{AC}_{RMCit} + \beta_7 \text{AC}_{RCit} + \beta_8 \text{AC}_{NCit} + \beta_9 \text{FS}_{it} + \beta_{10} \text{LEV}_{it} + \text{YD}_{it} + \epsilon_{it} \] (1)

The variables in the research model were measured as follow:

- **Firm Performance** = returns on assets (ROA) and Tobin’s Q.
- **INED** = proportion of independent directors to total number of directors on the committee
- **CINED** = dummy variable of one if subcommittee chair is independent director zero otherwise
- **FE** = proportion of directors with accounting qualification or finance industry experience on the subcommittee
- **EE** = proportion of directors with executive experience on the subcommittee
- **EP** = proportion of executive on the committee
- **AC_{RMC}** = proportion of directors on both audit and risk subcommittee to total number of directors on the audit subcommittees
- **AC_{RC}** = proportion of directors on both audit and remuneration subcommittee to total number of directors on the audit subcommittees
- **AC_{NC}** = proportion of directors with dual membership of audit and nomination subcommittee to total number of directors on the audit subcommittee
- **FS** = Log of total assets
- **LEV** = Ratio of total debt to equities

IV. EMPIRICAL RESULTS AND DISCUSSION

**a) Descriptive Statistics**

The result of the descriptive statistics was used to test the assumptions of regression analysis. As indicated by the skewness and kurtosis values, the data for all the variables under the model are normally distributed since the skewness and kurtosis values are within the ±3.00 and ±10.00 range. In addition, the group normality test was performed and the values obtained are 0.823 and 3.232 for skewness and kurtosis respectively which indicates that the data is normally distributed. The result from the Q-Q plot indicates that the assumption of linearity is fulfilled since the Q-Q plot indicates that the values fall within ±3.00 threshold. The result indicates that there are companies with AC composed of 100% independent directors while some have no independent director and an average of 69% and 83% for the period before and after the revised code respectively. This indicates that more independent directors are appointed to AC after the revised MCCG was issued. The proportion of AC chaired by an independent director has also increased from 94% before the revised code to 98% after the revised code. This indicates that the revision of the code has made an impact on the composition of the AC. The result also indicates that more directors with expertise are appointed to AC as shown by the increase from a maximum of 75% to 100% with an average of 32% and 42% for the period before and after the revision respectively.
Table 1: Descriptive statistics for the period before the revision to MCCG

<table>
<thead>
<tr>
<th>CC</th>
<th>CINED</th>
<th>FE</th>
<th>EE</th>
<th>EP</th>
<th>AC/RMC</th>
<th>AC/RC</th>
<th>AC/NC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.696</td>
<td>0.945</td>
<td>0.320</td>
<td>0.298</td>
<td>0.115</td>
<td>0.204</td>
<td>0.512</td>
</tr>
<tr>
<td>Median</td>
<td>0.667</td>
<td>1.000</td>
<td>0.333</td>
<td>0.333</td>
<td>0.00</td>
<td>0.000</td>
<td>0.666</td>
</tr>
<tr>
<td>Maximum</td>
<td>1.00</td>
<td>1.00</td>
<td>0.750</td>
<td>0.800</td>
<td>0.333</td>
<td>1.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.210</td>
<td>0.227</td>
<td>0.237</td>
<td>0.247</td>
<td>0.151</td>
<td>0.339</td>
<td>0.341</td>
</tr>
<tr>
<td>Skewness</td>
<td>-1.474</td>
<td>-3.944</td>
<td>0.193</td>
<td>0.247</td>
<td>0.151</td>
<td>0.339</td>
<td>0.341</td>
</tr>
<tr>
<td>OBS.</td>
<td>111</td>
<td>111</td>
<td>111</td>
<td>111</td>
<td>111</td>
<td>111</td>
<td>111</td>
</tr>
</tbody>
</table>

NOTE: ROA=return on assets measured as EBIT divided by total assets, CC=committee composition defined as the proportion of Independent directors to total number of directors on AC, CINED=chair independent non-executive director defined as a dummy variable that takes one if committee chair is independent zero otherwise, FE=finance expertise measured as the number of directors with accounting expertise or finance industry experience divided by the total number of directors on AC, EE=executive experience measured as the number of directors with executive experience divided by the total number of directors on AC, EP=membership of executive defined as the number of executive directors on AC divided by total number of directors on AC, A/RC=audit/remuneration committee interlock, A/RMC=audit/risk committee interlock, A/NC=audit/nomination committee interlock, interlock is defined as the number of directors on AC and other monitoring committee divided by total number of directors on AC, FS=firm size (log of total assets), LEV=leverage measured as total debt divided by equity.

The percentage of directors with executive experience on AC has changed from a maximum of 80% to 100%, a minimum of zero and an average of 29% and 27% for the period before and after the revision. Although based on the average for the two periods there is decrease, there is an increase in case of the maximum percentage in the period after compared to the period before the revision. In addition, less number of executive directors are appointed to AC this is indicated by an average of 11% in the period before to one percent in the period after the revision as recommended by the revised code. The proportion of directors with dual membership on AC and other subcommittees ranges from a minimum of zero to a maximum of 100% for both periods. In case of interlock of directors on AC and risk management committee, the average has increased from 20% to 26% for the period before and after respectively. The average for AC and remuneration committee interlock has also increased from 51% to 55% while average for AC and nomination committee interlock has increased from 57% to 66% for the period before and after the revision respectively.

Table 2: Descriptive statistics for the period after the revision to MCCG

<table>
<thead>
<tr>
<th>INED</th>
<th>CINED</th>
<th>FE</th>
<th>EE</th>
<th>EP</th>
<th>A_M</th>
<th>A_C</th>
<th>A_N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.8340</td>
<td>0.981</td>
<td>0.423</td>
<td>0.272</td>
<td>0.012</td>
<td>0.269</td>
<td>0.551</td>
</tr>
<tr>
<td>Median</td>
<td>0.8333</td>
<td>1.00</td>
<td>0.333</td>
<td>0.250</td>
<td>0.00</td>
<td>0.000</td>
<td>0.600</td>
</tr>
<tr>
<td>Maximum</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>0.333</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.1963</td>
<td>0.133</td>
<td>0.246</td>
<td>0.283</td>
<td>0.062</td>
<td>0.366</td>
<td>0.319</td>
</tr>
<tr>
<td>Skewness</td>
<td>-1.4303</td>
<td>7.246</td>
<td>0.126</td>
<td>0.695</td>
<td>4.978</td>
<td>0.933</td>
<td>-0.205</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>6.6231</td>
<td>53.51</td>
<td>2.568</td>
<td>2.446</td>
<td>25.78</td>
<td>2.333</td>
<td>2.072</td>
</tr>
<tr>
<td>OBS.</td>
<td>111</td>
<td>111</td>
<td>111</td>
<td>111</td>
<td>111</td>
<td>111</td>
<td>111</td>
</tr>
</tbody>
</table>

The result of correlation analysis indicates no collinearity between the predictor variables since none of the bivariate correlation exceeds 0.7. Therefore, there is no multicollinearity problem. The heteroskedasticity test also indicates that the null hypothesis of no heteroskedasticity is rejected indicating the presence of heteroskedasticity problem in the model. White’s heteroskedasticity-consistent standard error was used to correct the heteroskedasticity problem. Autocorrelation was corrected by using the white diagonal method.

b) Multiple Regression Analysis for the Period Before and After Revision to MCCG Based on ROA

The result of the Hausman’s test presented in table three indicates that REM is suitable for the period before while FEM is appropriate for the period after. The adjusted $R^2$ (0.0199 and 0.7969) based on ROA for both periods indicates that the independent variables explain approximately two percent and 80% of the variation in ROA. The F-statistics is 1.1867 for the period before and 9.9940 for the period after. The corresponding p-value is highly significant or lower than the alpha value of 0.05 in case of the period after while it is insignificant for the
period before the revision and the crisis. In terms of the individual predictor variables none of the variables is significantly related with ROA in the period after the revision while executive experience is significant (p<0.1) and positive and firm size is significant (p<0.01) and negatively related with ROA in the period before the revised code.

| Table 3: Multiple regression for the period before and after the revision |
|---------------------------------|-----------------|
| **Period before**               | **Period after**|
| **Constant**                    | 0.0634(3.5417)*** | 2.3257(1.6973)* |
| **Composition**                 | 0.0044(0.2236)    | -0.1725(-0.0839) |
| **INED**                        | -0.0014(-0.4530)  | -1.1864(-0.4509) |
| **Finance expertise**           | -0.0120(-0.7489)  | 0.9509(0.5965)   |
| **Executive experience**        | 0.0259(1.6625)*   | 0.2776(0.1759)   |
| **Executive membership**        | -0.0079(-0.2791)  | -0.3221(-0.0451) |
| **Firm size**                   | -1.1128(-2.5333)*** | -0.3802(-0.3787) |
| **Leverage**                    | 0.0193(1.4145)    | 1.0030(0.5247)   |
| **A_RMC**                       | 0.0245(1.8554)*   | 0.3952(0.2479)   |
| **A_RC**                        | 0.0159(1.2590)    | 21.096(1.2818)   |
| **A_NC**                        | -0.0183(-1.4608)  | -4.3247(-0.8308) |
| **Year dummies**                | -0.0059(-1.1865)  | -0.0501(-0.1658) |
| **Year dummies**                | -0.0037(-0.7307)  | -0.0422(-0.1374) |
| **R²**                          | 0.126877          | 0.885549         |
| **Adj. R²**                     | 0.019964          | 0.796941         |
| **F-statistics**                | 1.186736          | 9.994061***      |
| **Durbin-Watson stat**          | 1.608559          | 3.253233         |

**NOTE:** *****, **, * indicates significant at 1%, 5% and 10% respectively. The definition of the variables has been given in the table presented earlier.

c) Multivariate Regression Analysis for the Period Before and After Revision to MCCG Based on Tobin’s Q

As indicated by the result, the adjusted R² obtained is approximately 46% and 2% for the period before and after the revision and the financial crisis. The f-statistics obtained is 2.9409 and 1.1291 while it is significant at one percent in the period before, it is insignificant in the period after the revision. In terms of the individual variables, dual membership of directors on AC and risk committee is significant and negatively related with Tobin’s Q at five percent level in the period before the revision. The negative direction of result is contrary to agency theory which suggests that interlock of directors on subcommittees will reduce information asymmetry among the directors about the activities of various committees thereby enhancing coordination among the committees and their activities. The negative sign is however in line with findings by Hoitash and Hoitash (2009) who argued that interlock of directors on committee will create conflict as a result of the conflict in objectives of the committees. The remaining variables are statistically insignificant.

| Table 4: Multivariate regression for the period before and after the revision of MCCG based on Tobin’s Q |
|---------------------------------|-----------------|
| **Period before**               | **Period after**|
| **Constant**                    | 0.007855(3.211020)*** | 0.009211(2.821944)*** |
| **Composition**                 | 0.001744(0.779707)  | 0.003927(1.126581)  |
| **INED**                        | -0.000102(-0.251324) | -0.006398(-1.489284) |
| **Finance expertise**           | -0.003075(-1.418343) | 4.87E-05(0.020639)  |
| **Executive experience**        | 0.001115(0.487080)  | 0.000980(0.410375)  |
## V. Conclusion

Using a sample of 37 listed finance companies, this paper investigates the impact of audit committee attributes on firm performance based on the data for the period before and after the MCCG was revised. The result indicates that interlock of directors on audit and risk committee influence market valuation of firms negatively. The result is contrary to agency theory which suggests that separating directors on committees will create information asymmetry between the directors and lead to poor coordination in the decisions of the committees thereby negatively affecting firm performance. Overall, the result has shown an improvement in the corporate governance of finance companies in the period after the revision when the result for both periods is compared. Therefore, regulators should constantly review the corporate governance code to make it in line with market needs. The result has provided evidence on the impact of revision to MCCG on corporate governance in the finance companies and the impact on the performance of the firms. The study is limited to only listed finance companies and examined only some attributes of the audit committee. Future studies could examine other companies in other sectors or other locations. In addition, future studies could look at committee attributes which were not examined in this study such as personal characteristics of the directors.

## References

Impact of the Revised Malaysian Code on Corporate Governance on Audit Committee Attributes and Firm Performance


Appendix A: Heteroskedasticity test

<table>
<thead>
<tr>
<th>Statistical Test</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Sq statistics</td>
<td>76.50001</td>
</tr>
<tr>
<td>F-statistics</td>
<td>7.7215</td>
</tr>
<tr>
<td>P-value</td>
<td>0.9033</td>
</tr>
<tr>
<td>H0 (null=no heteroskedasticity problem)</td>
<td>Reject</td>
</tr>
</tbody>
</table>