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Board Characteristics and Financial Performance: Evidence from Bursa Malaysia Financial Times Stock Exchange (FTSE) Top 100 Index Firms

(*Ciri-Ciri Lembaga Pengarah dan Prestasi Kewangan: Bukti dari Firma-Firma 100 Indeks Teratas Bursa Saham Malaysia Financial Times (FTSE)*)

Nur Hafizah Abdul Puhat
(Tax Division, Ministry of Finance, Malaysia)
Suhaily Hasnan
Khairul Ayuni Mohd Kharuddin
(Faculty of Accountancy, Universiti Teknologi MARA)
Hafizah Marzuki
(Internal Audit Office, Universiti Sains Islam Malaysia)
Mazurina Mohd Ali
(Faculty of Accountancy, Universiti Teknologi MARA)

ABSTRACT

Research on the relationship between corporate governance and firm financial performance in Malaysia is inconclusive, and only covers the period before the implementation of Malaysian Code on Corporate Governance (MCCG) 2017. Therefore, this study examines the relationship between corporate governance and the financial performance of 80 non-financial firms listed on the Financial Times Stock Exchange (FTSE)Bursa Malaysia Top 100 Index between the years of 2018 and 2020. The descriptive statistics reveal that on average, the 23% composition of female directors on the board is still below the recommended MCCG 2017 and 2021 threshold of 30%. The small percentage of politically-connected directors (19%) and military-experienced directors (5%) reported in this study can be viewed favourably in line with the recent MCCG 2021 recommendation that the appointment of the directors should be apolitical or politically neutral without having any executive powers in politics. In addition, the multiple regression results indicate that board size and board meeting frequency are negatively related to firm financial performance. Female directors show a positive and significant relationship with firm financial performance. However, the effects of board independence, board alumni, board financial expertise, politically-connected directors, and military-experienced directors on firm financial performance, are insignificant. This study is beneficial to academicians, policymaker/regulators, and firm managers, in considering the contributions of corporate governance mechanisms to large listed companies' financial performance, particularly in an emerging market.

Keywords: Corporate governance; firm performance; political; military

ABSTRAK

Kajian berkenaan hubungan antara tadbir urus korporat dan prestasi kewangan firma di Malaysia adalah tidak konklusif dan hanya meliputi tempoh sebelum pelaksanaan MCCG 2017. Maka, kajian ini menganalisa hubungan antara tadbir urus korporat dan prestasi kewangan 80 firma bukan kewangan yang disenaraikan di Bursa Saham Financial Times (FTSE) Indeks 100 Teratas Bursa Malaysia antara tahun 2018 dan 2020. Statistik deskriptif mendedahkan bahawa, secara purata, indeks 23% komposisi pengarah wanita dalam lembaga pengarah syarikat masih di bawah ambang Kod Tadbir Urus Korporat Malaysia (MCCG) 2017 dan 2021 yang disyorkan iaitu 30%. Peratusan kecil pengarah berkaitan politik (19%) dan pengarah berpengalaman ketenteraan (5%) yang dilaporkan dalam kajian ini boleh dilihat dengan baik selaras dengan saranan MCCG 2021 baru-baru ini bahawa pelantikan pengarah harus berkecuali dari segi politik tanpa mempunyai sebarang eksekutif kuasa dalam politik. Di samping itu, keputusan regresi OLS menunjukkan bahawa saiz lembaga pengarah dan kekerapan mesyuarat lembaga pengarah berkaitan secara negatif dengan prestasi kewangan firma. Komposisi pengarah wanita menunjukkan hubungan yang positif dan signifikan dengan prestasi kewangan yang kukuh. Walau bagaimanapun, kesan kebebasan lembaga pengarah, alumni lembaga pengarah, kepakaran kewangan lembaga pengarah, pengarah berkaitan politik dan pengarah berpengalaman ketenteraan dilaporkan tidak begitu ketara. Kajian ini bermanfaat kepada ahli akademik, pembuat dasar/pengawal selia, dan pengurus firma dalam mempertimbangkan sumbangan mekanisme tadbir urus korporat ke arah prestasi kewangan syarikat tersenarai yang besar, terutamanya dalam pasaran baru muncul.

Kata kunci: Tadbir urus korporat; prestasi firma; politik; ketenteraan

INTRODUCTION

The Asian financial crisis in 1997/1998 and the accompanying business failures as well as economic crises impacted Malaysia's economic development, resulting in corporate governance being carefully reconsidered in Malaysia in order to restore shareholders' confidence in the financial market (Rosli et al., 2019). The call to improve corporate governance was also made in response to several high-profile breaches by public listed companies (PLCs) (Singh 2012). The High-Level Finance Committee issued a detailed report on corporate governance, to serve as the foundation for corporate governance reforms in Malaysia in 1999 (Bhatt 2016), and this initiative was followed through by the Securities Commission (SC) Malaysia through the establishment of the Malaysian Code on Corporate Governance (MCCG) in 2000. This Code provides guidelines and best practices in terms of structure and procedures that firms may utilise to create the best governance framework for their operations. A review of the MCCG 2000 was deemed as necessary, for example in 2007 and 2012, to guarantee its relevance and to ensure good corporate governance practices. The SC announced the fourth revision of the MCCG on 26 April 2017~~,~~ in which the Comprehend, Apply, and Report (CARE) approach was adopted, shifting from the 'comply or explain' method in the 2012 Code to a 'apply or explain an alternative' method. The MCCG 2017 also outlined certain practices that are only applicable to 'Large Companies', in reference to the companies listed on the FTSE Bursa Malaysia Top 100 Index, or companies with market capitalisation of RM2 billion and above. In these Large Companies, the board must now comprise a majority of independent directors and at least 30% women directors. The MCCG was further revised on 28 April 2021 (MCCG 2021), with a focus, amongst others, on board policies and practices for the selection and nomination processes/criteria for directors, and the role of the board and senior management in addressing sustainability risks and opportunities of the company. The MCCG 2021 also recommends that appointed directors should be politically neutral without having any executive powers in politics.

Empirical research has evinced that an effective board of directors contributes to higher audit quality and "good" financial reporting outcomes (Kharuddin et al. 2021). In addition, board characteristics play a vital role in the implementation of prudent corporate governance practices that could lead to better firm performance (Bathia et al. 2015; Harun et al. 2020; Kharuddin & Liu 2023). Better financial performance is an indication of the superior capability of the firm in maximising shareholders' value.

The Malaysian economy is evolving and becoming more diverse over time, and a sustainable and attractive capital market is expected to provide opportunities for wealth creation and distribution. Market capitalisation is commonly used to establish a firm's size, and is used to compare a firm's financial performance to that of other firms of varying sizes. The FTSE Bursa Malaysia Top 100 Index firms represent the top 100 firms in Malaysia based on market capitalisation. Firms with larger market capitalisation are safer for investment because they are more established firms, often with a longer history of operations (Fernando 2022). Regulators, including the SC and Bursa Malaysia, as well as the markets, put pressure on the FTSE Bursa Malaysia Top 100 Index firms, which are regarded as high-value firms. For these reasons and the fact that the more recent MCCG (2017, 2021) now gives more attention to the corporate governance practices of the Large Companies, it is worthwhile to study the top 100 firms in Malaysia.

In Malaysia, most prior studies on corporate governance and firm financial performance have focused on the period before the implementation of MCCG 2017 (Derayat et al. 2022; Jaafar et al. 2021; Johl et al. 2015; Nasiri & Ramakrishnan 2020). However, there appears to be a dearth of studies on the effects of corporate governance on firm financial performance from the perspective of FTSE Bursa Malaysia Top 100 Index firms. Nasiri and Ramakrishnan (2020) examined how corporate governance impacts the relationship between earnings management and firm performance of the FTSE Bursa Malaysia Top 100 Index firms from 2011 to 2015. Furthermore, Jaafar et al. (2021) studied the effects of the board of directors' characteristics on the financial performance of 30 firms listed on the FTSE Bursa Malaysia Kuala Lumpur Composite Index (KLCI) Index from 2011 to 2019. Hence, this study examined the relationship between corporate governance and firm financial performance using a sample of 80 non-financial firms listed on the FTSE Bursa Malaysia Top 100 Index from 2018 to 2020, with 240 firm-year observations. The findings indicate that board size and board meeting frequency negatively influence firms' financial performance. Meanwhile, female directors on the board are found to be positively related to a firm's financial performance. These findings support the agency theory, where bigger boards and frequent board meetings increase agency costs, while female directors on the board are found to lower agency costs and enhance the quality of corporate governance and financial performance of a firm. On the other hand, the effects of board independence, board alumni, board expertise, politically-connected directors, and military-experienced directors, are insignificant. In addition, the study finds that on average, the 23% female directors on the board, is still below the recommended MCCG 2017 and 2021 threshold of 30%. However, board independence has surpassed the 50% recommended best practices threshold. The small percentage of politically-connected directors (19%) and military-experienced directors (5%) reported in this study can be viewed favourably in line with the recent MCCG 2021 recommendation that the appointment of the directors should be apolitical.

This study contributes to the existing literature in several ways. Firstly, to the best of the authors' knowledge, this is the first study to examine the effects of military-experienced directors in Malaysia. Cai et al. (2021) posited that military experience produces distinctive qualities in directors that are likely to evoke behaviours, that in turn, can affect corporate outcomes. Several studies have investigated the effect of military connections on the financial performance of firms in China, the United States (U.S.), and developing countries, including Indonesia and Thailand (Benmelech & Frydman 2014; An et al. 2020; Cai et al. 2021; Li & Rainville 2021; Lin et al. 2021; Suriyapongprapai et al. 2022). Malaysia is a country with a strong tradition of civilian control over the military, which is enshrined in its Constitution and legal framework. This is relatively different from other developing countries in ASEAN, like Indonesia and Thailand, where a more complex relationship exists between the military and the governance of those countries, as military directors wield significant political power and influence (Harymawan 2020; Suriyapongprapai et al. 2022). Despite this, there is growing trend of Malaysian PLCs to appoint military directors to independent directors' positions on their boards. For example, Dato' Seri DiRaja Tan Sri (Dr.) Mohd Zahidi Bin Hj Zainuddin (R) who was the former Malaysian Chief of Defence Forces and former Chief of the Malaysian Army with a distinguished career in the Malaysian Armed Forces for about 38 years, was appointed as the Chairman of Genting Plantations, Group Chairman of Cahya Mata Sarawak Bhd., independent non-executive director of Genting Malaysia Bhd., and Only World Group Holdings Bhd., as well as the Chairman and independent non-executive director of AHAM Asset Management Bhd. (Genting Plantations Annual Report 2022).

The appointment of military-experienced directors could be demonstrative of a firm's commitment to good and ethical business strategy, as it may positively influence firms' decision-making process and outcomes (Jaroenjitrkam et al. 2023). The military-experienced directors may provide valuable insights into matters related to complex security issues, and assist in the development of effective policies and strategies. Consistently, The Edge (2024) reported that the appointment of General Tan Sri Affendi Buang as the Executive Chairman of G Capital Bhd. was because "*Tan Sri Affendi is armed with strong leadership and accountability in his distinguished military disciplines… that will spur G Capital's growth positioning in the renewable energy battlefield*". Hence, this contention motivates this study to examine whether or not there is any relationship between military-experienced directors and firm financial performance in Malaysia.

Secondly, this study extends the limited literature on board alumni. This study is the first to examine the effect of board alumni on firm performance in Malaysia. Following Darmadi (2013), board alumni is measured based on the ratio of directors who are alumni of the top 50 world-ranked universities published by Quacquarelli Symonds (QS) Website for the year 2022 to the total number of directors. Although Jaafar et al. (2021) examined the relationship between the board members' educational background and Return on Assets (ROA) for 30 firms listed on the FTSE Bursa Malaysia KLCI Index between the 2011 to 2019 period, they only considered the board members' educational background in terms of Master's and PhD qualifications, but not their alma mater.

Thirdly, this study adds to the body of knowledge on how politically-connected directors affect corporate performance in an emerging market. Nasih et al. (2019) posited that firms will continue to consider appointing directors with political connections and/or military experience to their boards as long as they abide by the law and offer certain benefits. Government subsidies, tax breaks, market dominance, and other benefits, are a few reasons why firms typically keep close ties with politicians or the government (Al-dhamari & Ku Ismail 2015). There is mixed empirical evidence on the relationship between political connections and firm performance, and this study fills the gap in the body of knowledge.

Although the rest of the board characteristics, such as board size, board independence, female directors on the board, board meeting frequency, and board financial expertise, have been examined in prior studies, the empirical findings remain inconclusive. Furthermore, the revised MCCG (2017, 2021) now requires that companies listed on FTSE Bursa Malaysia Top 100 Index comprise a majority of independent directors, and at least 30% women directors. Hence, a more recent study is warranted to investigate whether or not this is the case, and this study fills the gap in extant literature on this area.

The rest of the paper is organised as follows. The literature review section explains the underpinning theories adopted by this study and the development of research hypotheses. This is followed by the research methodology section, which describes the sample selection, data collection, variables measurement, and model specification. This is followed by the results and discussion section, where the empirical findings are presented. Finally, the conclusion section provides a summary of the study findings, together with the study implications, limitations, and recommendations for future research.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

UNDERPINNING THEORIES

In explaining the relationships between the variables, this study adopted two primary theories, namely the agency theory and the private interest theory. The agency theory is widely used to comprehend the significance of sound corporate governance principles in a firm. Numerous internal and external control measures have been proposed to reduce agency issues and agency costs, which have primarily been covered under the term, "corporate governance" (Andoh et al. 2022). Corporate governance is a system used by businesses to safeguard investors, increase corporate value, and ultimately, improve firm performance. Thus, the agency theory was employed to examine the relationship between the independent variables: board size, board independence, female directors on the board, military-experienced board, politically-connected board, board meeting frequency, board alumni, and board financial expertise, and the dependent variable, i.e., firm performance. The next theory is the private interest theory or the economic interest group theory by Peltzman (1976) and Stigler (1971). According to Deegan (2014), this theory weakens the assumptions that politicians or regulators are objective arbiters who are not motivated by self-interest, and that regulations are implemented to safeguard public interest. Braun and Raddatz (2009) suggested that under the private interest hypothesis, bankers and politicians benefit more from political influence than industry regulations, and thus, offering a board position to someone involved in these regulatory issues would be more desirable. Therefore, the private interest theory was applied to evince whether or not politically-connected directors have a tendency to serve their own interests instead of the public interest, and if firms benefit from these types of directors from the perspective of firm financial performance.

BOARD SIZE

Based on the agency theory, larger boards may be less effective in monitoring when compared to smaller boards (Lipton & Lorsch 1992). To date, the MCCG has not established any particular ideal board size as a recommended best practice. The Companies Act of 2016 has only established a minimum but not a maximum number of directors; while corporations normally set a cap in their Articles of Association. According to Minority Shareholders Watch Group (MSWG), a typical board has seven directors (MSWG 2018). MSWG (2020) applied the ASEAN Corporate Governance Scorecard to assess governance practices among PLCs, and discovered that a typical board has six members. Lipton and Lorsch (1992) stated that the preferred number of directors on a board is eight or nine members, and should be kept to a maximum of 10. Marashdeh et al. (2021) reported that larger boards increase firm financial performance, measured by ROA and return on equity (ROE), as larger boards connect board members to external resources, which may include raw materials, markets, and new and improved technologies. On the other hand, Yermack (1996) evinced that smaller boards are more successful when he found an inverse association between board size and firm value in a study involving a sample of industrial enterprises in the U.S. between 1984 and 1991. Similarly, Elmghaamez and Akintoye (2020) and Jaafar et al. (2021) revealed that more board members would have a detrimental impact on profitability using United Kingdom (U.K.) data. Due to the contradicting results, this study examined the pertinent question of whether or not firm financial performance is impacted by board size. The following hypothesis is proposed:

H_1 There is a significantly negative relationship between board size and firm financial performance.

BOARD INDEPENDENCE

According to the agency theory, external board members are one of the oversight mechanisms employed in corporate governance to safeguard shareholders from self-serving agenda, and are thought to have a favourable impact on firm performance (Jensen & Meckling 1976). Under the enhanced framework in the MCCG (2017, 2021), it is recommended that at least half of the board consists of independent directors, while large companies are recommended to have a majority of independent directors on their boards (SC 2017). Outside directors appear to be more willing to use their power than inside directors, especially when questioning top management's judgement and performance (Conger & Lawler 2001). The appointment of independent directors in Saudi enterprises has a significant impact on firm performance only when they are truly independent (Boshnak 2021). According to Elmghaamez and Akintoye (2020), the higher number of independent directors on a board shows a significant and negative association with earnings per share (EPS) of the top FTSE 100 firms in the U.K., but is insignificant when measured by ROA. Rahman and Saima (2018) found that there is an insignificant effect of board independence on firm performance in Bangladesh unless their function is effectively monitored. Johl et al. (2015) found that the coefficient for board independence was negative and insignificant for 700 PLCs in Malaysia for the year 2009 because independent directors may lack managerial oversight abilities and inside information regarding how the business is being run. Using the extant literature review above, it can be said that findings on the relationship between board independence and firm performance are inconsistent. Therefore, this study proposes the following hypothesis:

H_2 There is a significantly positive relationship between board independence and firm financial performance.

FEMALE DIRECTORS

The MCCG (2017, 2021) proposes having 30% female directors on the board, and the SC's objective is also to have 30% women directors in listed firms by 2020 (SC, 2017). Andoh et al. (2022) suggested that having women on the board can increase firm financial performance as they bring in many innovative ideas, and develop new products to fulfil the needs of diverse stakeholders. Besides that, Derayat et al. (2022) discovered that female directors on the board of FTSE Bursa Malaysia Top 100 Index firms from 2009 to 2013 had a positive and significant relationship with firm performance, suggesting that the market rewards firms that promote female directors on the board. According to Hsu et al. (2019), the inclusion of female board members can enhance the comprehensiveness of discussions, improve the quality of decisions, and the firm's image, and consequently, firm financial performance. It has been argued that gender diversity can help boards overcome 'groupthink' and improve the firm's understanding of the market and its customers. Andoh et al. (2022) asserted that female board members had a positive and significant impact on Ghana's non-financial firm performance from 2004 to 2016. According to the findings, having more women on the board may considerably improve these firms' market and financial performance. On the contrary, despite numerous efforts to reform corporate governance in Malaysia, Jaafar et al. (2021) found that gender composition on the board has insignificant impacts on the success of firms. Furthermore, Marashdeh et al. (2021) found no link between women on the board and firm financial performance (i.e., ROA and ROE), which could be due to firms having less female representation on the board. Therefore, this study suggests that having female directors on the board has an impact on firm performance because of the aforementioned justifications and the growing demand to have women on the board both globally and in Malaysia. In light of this, it is hypothesised that:

H_3 There is a significantly positive relationship between female directors on the board and firm financial performance.

BOARD MEETING FREQUENCY

Under the agency theory, stakeholders will bear agency costs to keep agents acting in the best interests of the principal, including monitoring costs (Buchdadi et al. 2019). This cost is incurred to limit undesirable actions by the agent because there are differences between agents' interests and the decisions that can maximise the principal's wealth (Buchdadi et al. 2019). One of the ways to monitor the management and operations of a firm is through board meetings. Boshnak (2021) carried out a study on 210 listed Saudi Stock Exchange firms over the 2017 to 2019 period, and found that more frequent board meetings can improve firm performance. A firm's performance will be at its peak when more board meetings are held because internal issues are discussed in-depth more frequently (Fanani & Alfiyanti 2020). On the contrary, Johl et al. (2015) found that the coefficient of board meeting frequency is negative and significant, indicating that the frequency of board meetings has an inverse relationship with firm financial performance. This is supported by Jaafar et al. (2021) who found that frequent meetings lead to high energy costs as well as travel and meeting expenses that harm a firm's ROA. However, Elmghaamez and Akintoye (2020) posited that board meetings have an insignificant impact on listed firms' financial performance. The results of the previous studies indicate the differing outcomes of the control function in the agency theory, assessed by the impact of board meetings on firm financial performance. Thus, it is hypothesised that:

H_4 There is significantly positive relationship between number of board meetings and firm financial performance.

BOARD ALUMNI

According to Jaafar et al. (2021), the board members' educational background has a statistically significant relationship with ROA. The regulators should strengthen directors' credentials, particularly towards ensuring they have strong educational backgrounds, to enable the board of directors to effectively contribute to protecting the firm's interests and ensuring its sustainability (Jaafar et al., 2021). A strong educational background can facilitate directors to get more information and superior managerial and administrative skills for handling their firm's affairs. Bearing this in mind, the educational background is viewed from another perspective: board alumni. It is anticipated that students attending higher-ranked universities would be more capable and exposed to more challenging and sophisticated curricula than those attending lower-ranked universities that accept students with lower grades (Urquhart & Zhang 2021). Managers who graduate from top universities should be better trained and skilled, and consequently become more successful in managing firms (Morresi 2017). According to Miller and Xu (2020), Chief Executive Officers (CEOs) with an elite university background, including those from the Ivy League, are successful because they have the talent, self-discipline, and social consciousness to pursue a long-term orientation in managing their firms and stakeholders. These advantages will be helpful to boost corporate success. Investors may be using educational profiles to gain insights, into CEO's quality, abilities, and relationship networks (Morresi 2017). However, Morresi (2017) found that high-ranking universities and better qualifications do not guarantee that a CEO can boost firm performance significantly. Due to the inconclusive findings, it is hypothesised that:

H_5 There is a positively significant relationship between board alumni and firm financial performance.

BOARD FINANCIAL EXPERTISE

A number of studies have proposed that directors with expertise and knowledge from working in the fields of finance, accounting, or economics, might significantly improve a firm's performance. Johl et al. (2015) found that having a higher percentage of board members with accounting expertise benefits the firm and enhances its performance. Volonté and Gantenbein (2016) studied directors with backgrounds in business, finance, or economics, and stated that these financial experts may be more capable of allocating funds to profitable business segments, distributing excess cash to shareholders, reducing over-investment, and boosting firm performance. Adams and Jiang (2020) suggested that adequately qualified financial specialists improve financial performance in the U.K.'s non-life insurance firms. In addition, Naheed et al. (2022) concluded that financial experts on the board substantially affect their firms' economic policies, which are useful for financial disclosure and for aiding firms to gain access to capital and increase their profitability. However, Md Nor and Abd Rahman (2019) indicated that there is no association between independent financial expertise and firm performance. Using the agency theory and the above justifications, financial experts on the board are better at managing financial resources and more prudent when making financial decisions, which help improve firm financial performance. Therefore, it is hypothesised that:

H_6 There is a significantly positive relationship between board financial expertise and firm financial performance

POLITICALLY-CONNECTED DIRECTORS

The MCCG (2021) recommends that the appointment of the directors should be mainly based on their qualification, and that they must be politically neutral without having any executive powers in politics. In line with the private interest theory, Peltzman (1998) proposed that interest groups might influence the outcomes of the regulatory process if they provide aid to politicians who are believed to be self-interested maximisers. Government officials, bureaucrats, and politicians are expected to be more focused on achieving their own goals, such as winning votes and elections, or gaining power than safeguarding public interests and the effectiveness of their decisions. Chancharat et al. (2019) found that political connections are business risks that contribute to corruption, subsequently causing firm financial performance to be inefficient. The presence of politicians on the board does not guarantee that the firm will succeed as political connections do not boost the success of Malaysian family firms, and worse, it may result in financial losses (Hasnan et al. 2019). However, Fanani and Alfiyanti (2020) found that political connections have a beneficial impact on firm reputation. As a result, the more the board directors who have political ties to the government, the higher the firm's reputation, and hence, better performance. Following the private interest theory, it is hypothesised that:

H_7 There is a significantly positive relationship between politically-connected directors and firm financial performance.

MILITARY-EXPERIENCED DIRECTORS

Military experience is becoming more important as corporations seek directors with military experience to sit on their boards (Li & Rainville 2021). Simpson and Sariol (2019) posited that given that military experience of CEOs has been shown to decrease agency costs, the same outcome may result for a board of directors comprising military-experienced individuals. Cai et al. (2021) discovered that firms with directors with military experience have better monitoring results, including lower levels of excessive CEO compensation, higher forced CEO turnover-performance sensitivity, and lower levels of earnings management. On the contrary, Li and Rainville

(2021) found that firms with independent directors who have served in the military typically do poorly and spend less on research and development (R&D); they concluded that military-experienced directors do not enhance firm performance. In addition, An et al. (2020) revealed that directors with military experience have a significantly negative relationship with firm performance as assessed by Tobin's Q and ROA, and cause hindrance to firm growth because they lack business knowledge. Fanani and Alfiyanti (2020) indicated that the more board members who have military expertise, the worse the firm's reputation will be. Due to mixed findings in previous studies, it is unclear how a director's military experience may impact firm financial performance in Malaysia. Thus, it is hypothesised that:

H_8 There is a significantly positive relationship between military-experienced directors and firm financial performance

METHODOLOGY

The sample studied is the firms of the FTSE Bursa Malaysia Top 100 Index. First, the firms that made up the constituent list of FTSE Bursa Malaysia Top 100 Index dated 31 Dec 2020 were identified. After identifying the firms, data on corporate governance and firm financial performance were collected from 2018 to 2020 annual reports of the top 100 firms. Further, the financial services sector, financial institutions, and insurance firms were excluded because these firms have different governance structures and regulations. Firms with incomplete or insufficient information were also excluded. Therefore, the final sample comprised 80 firms with 240 firm-year observations.

The data used in this study was retrieved from the annual reports on Bursa Malaysia and Securities Commission of Malaysia websites. All annual reports were assessed through the Bursa Malaysia website, which has a comprehensive database for users to access financial information and disclosures made in the firm's annual report. Data on firm performance were downloaded from Refinitiv Eikon Datastream. The 2018 to 2020 period was chosen due to the availability of annual reports, and MCCG 2017 had been in effect for one year (2018). Therefore, it was expected that firms had implemented the MCCG 2017 measures from 2018 onwards.

This study used a multiple regression model to assess the hypotheses in determining the impact of corporate governance mechanisms on firm financial performance. The regression model constructed for this study looked at the direct relationship between the dependent and independent variables, and is consistent with the recent studies by Vijaykumar and Krithika (2020), Alexie (2021), Mustafa et al. (2022), and Rou and Kassim (2022). The model used is as follows:

$$\text{ROA} = \alpha + \beta 1\ \text{BSIZE} + \beta 2\ \text{BDIND} + \beta 3\ \text{FEMBD} + \beta 4\ \text{BDMEET} + \beta 5\ \text{BDAL} + \beta 6\ \text{BDFE} + \beta 7\ \text{PCON} + \beta 8\ \text{MEXP} + \mathcal{E} \quad (1)$$

Details of variables measurement are presented in Table 1. For the dependent variable, i.e., firm financial performance, it is in the form of ROA, which is a dominant performance measure (Adamu & Haruna 2020) and was chosen as this accounting-based measurement better represents the financial performance of a firm (Kaur & Singh 2018).

TABLE 1. Description of Variables

Variables	Description(s)
ROA	Net Income/Total Assets (Elmghaamez & Akintoye, 2020)
BSIZE	Number of directors on the board, including the chairperson (Chancharat et al., 2019)
BDIND	Ratio of the number of independent non-executive directors to the number of directors (Chancharat et al., 2019)
FEMBD	Ratio of the number of female directors to the number of directors (Marashdeh et al., 2021)
BDMEET	Total number of board meetings for the year (Elmghaamez & Akintoye, 2020)
BDAL	Ratio of directors who are alumni of the top 50 world-ranked universities published by Quacquarelli Symonds (QS) Website for the year 2022 to the total number of directors (Darmadi, 2013)
BDFE	Ratio of directors with financial expertise to the total number of directors (Naheed et al., 2022)
PCON	Ratio of independent non-executive directors who have political connections to the number of directors (Al-dhamari & Ku Ismail, 2015)
MEXP	Board with at least one military experienced director is assigned with a value of 1, and 0, if otherwise. (Fanani & Alfiyanti, 2020)

RESULTS

DESCRIPTIVE ANALYSIS

Data distribution was explored through descriptive statistics as presented in Table 2 for all the variables used in the study. The findings show that on average, firms had a financial performance of 7.49% from 2018 to 2020. Birken and Curry (2021) stated that an ROA of 5% or above is often regarded as good, and an ROA of 20% or higher is considered excellent. Therefore, the average financial performance of the FTSE Bursa Malaysia Top 100 Index firms is regarded as good. Each board of the firms on the FTSE Bursa Malaysia Top 100 Index had an average of eight directors over the three years. MSWG (2020) applied the ASEAN Corporate Governance Scorecard to assess governance practices among PLCs and discovered that a typical board has six members. Lipton and Lorsch (1992) stated that the preferred number of directors on a board is eight or nine members and should be kept to a maximum of 10. Therefore, the findings in Table 2 imply that the sampled firms' average board member size is ideal.

In addition, the average percentage of independent board members is 0.52 (52%), demonstrating that more than half of the board members were independent, in compliance with the MCCG's (2017, 2021) recommendation, which stipulates that at least half of the directors must be independent, while large firms should be predominantly made up of independent directors. Next, the mean value of female directors on the board is 0.23 (23%), which is less than the MCCG's (2017, 2021) recommended percentage of female directors at 30%.

TABLE 2. Descriptive Statistics

Continuous Variable	Minimum	Maximum	Mean	Std. Deviation
ROA (%)	-25.90	84.64	7.4876	9.98815
BSIZE	5	14	8.65	1.986
BDIND	.20	.91	.5234	.11535
FEMBD	.00	.60	.2308	.12793
BDMEET	4	25	7.27	4.002
BDAL	.00	.50	.1828	.11797
BDFE	.00	.86	.4677	.18049
PCON	.00	.88	.1993	.18975
Dichotomous Variable	Frequency with "0"	Percentage with "0"	Frequency with "1"	Percentage with "1"
MEXP	228	95%	12	5%

The average number of board meetings was seven times annually. Although there is no minimum requirement, Bursa Malaysia (2021) states that regular board meetings, of at least five sessions, would benefit the firm. Thus, the findings show that the directors of the sampled firms met regularly. The data for BDAL shows that the average percentage of directors of the board who graduated from the top 50 world-ranked universities is 0.18 (18%). This shows that the FTSE Bursa Malaysia Top 100 Index firms seek out directors who have graduated from prestigious universities to sit on the board as they may be regarded as more capable, talented, trained, and skilled than those who did not (Miller & Xu 2020; Moressi 2017).

Additionally, the analyses highlights that the average number of directors with financial expertise is 0.47 (47%), suggesting that almost half of the directors with expertise in accounting, economics, and finance, made up the board of the FTSE Bursa Malaysia Top 100 Index firms in Malaysia. The finding is consistent with Volonté and Gantenbein (2016) and Naheed et al. (2022), who suggested that directors with financial expertise make better decisions related to firm's fund allocations, investments, policies, and financial disclosure, and can better aid firms in gaining access to capital and increasing their profitability.

Additionally, the mean value of politically-connected directors on the board is 0.199, which means that almost 20% of directors on the board of the FTSE Bursa Malaysia Top 100 Index firms were politically-connected. This finding is significantly low when compared to Hasnan et al. (2019), who discovered that 52.6% of the 644 PLCs sampled in their study were politically-connected. This smaller percentage of politically-connected directors can be viewed favourably in line with the recent MCCG's (2021) recommendation that the directors should be apolitical without having any executive powers in politics. For the variable MEXP, only 12 (5%) firms from the sample had military-experienced directors. This finding is in contrast to Indonesia, where Fanani and Alfiyanti (2020) found that 70.4% of the sampled IDX constituents from 2014 to 2016, had military-experienced directors. Thus, the findings show that military-experienced directors are still an uncommon phenomenon in Malaysian PLCs.

CORRELATION ANALYSIS

Table 3 illustrates the correlation matrix for all the variables. While most of the variables show a significant correlation with each other, none of the variables is found to have a correlation of above 0.7. The Variance Inflation Factor (VIF) test performed reports a VIF value of below 10, which according to Hair et al. (2010), indicates that multicollinearity does not pose any serious problem as presented in Table 3.

TABLE 3. Correlation matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
ROA (1)	1								
BSIZE	-.218**	1							
(2)	<.001								
BDIND	-.086	.026	1						

(3)	.184	.685							
FEMBD	.019	.079	.067	1					
(4)	.771	.220	.300						
BDMEET	-.312**	.239**	.195**	.309**	1				
(5)	<.001	<.001	.002	<.001					
BDAL	-.007	-.070	-.025	-.043	.101	1			
(6)	.916	.278	.701	.503	.117				
BDFE	-.098	-.186**	.231**	.028	.184**	-.035	1		
(7)	.129	.004	<.001	.661	.004	.589			
PCON	-.105	.081	.196**	.267**	.285**	-.039	.132*	1	
(8)	.105	.210	.002	<.001	<.001	.546	.041		
MEXP	-.031	.176**	.175**	-.212**	-.116	-.156*	-.116	.017	1
(9)	.633	.006	.007	<.001	.073	.015	.072	.792	

**, * Significant at the 0.01 level and 0.05 level, respectively (2-tailed).

REGRESSION RESULTS

Table 4 displays the regression results on the relationship between board characteristics and firm financial performance for the Bursa Malaysia FTSE Top 100 Index Firms. The adjusted R-squares value indicates that 11.1% of the variation in firm financial performance is explained by the variation of eight independent variables included in the model.

TABLE 4. Multiple Regression

DV = ROA			
	Coefficients	t-value	Sig.
BSIZE	-.167	-2.515	**
BDIND	-.008	-.118	
FEMBD	.131	1.940	*
BDMEET	-.291	-4.107	**
BDAL	.010	.167	
BDFE	-.075	-1.130	
PCON	-.031	-.473	
MEXP	-.013	-.193	
R-squared		0.141	
Adjusted R-squared		0.111	
F-statistic		4.735	
p-value		<0.01	

***, **, * Significant at the 0.01 level, 0.05 level, and 0.10 level, respectively (2-tailed).

The results in Table 4 indicate that BSIZE and BDMEET are significantly associated with ROA. The coefficient for BSIZE (coefficient =-.167) is negative and significant at the 0.05 level. Thus, hypothesis 1 (H1) is supported. Variable FEMBD shows a significantly positive relationship with firm financial performance at the 0.10 level (coefficient =.131). Therefore, hypothesis 3 (H3) is also supported. In addition, the coefficient for board meeting frequency (BDMEET) is negative and significant at the 0.05 level (coefficient =-.291). Therefore, hypothesis 4 (H4) is rejected. Apart from the variables mentioned above, insignificant relationships are found between ROA and BDIND, BDAL, BDFE, PCON, and MEXP. Thus, the five hypotheses (H_2, H_4, H_5, H_6, H_7, and H_8) are not supported.

DISCUSSION

The results indicate that only female directors on the board positively influence firm financial performance. In contrast, board size and board meeting frequency have negative effects on firm financial performance, while there is insufficient evidence to suggest that board independence, board alumni, board financial expertise, politically-connected directors, and military-experienced directors have a significant effect on firm financial performance. The findings of this study can be explained using the agency theory.

The finding on board size is consistent with Lipton and Lorsch (1992), Yermack (1996), Elmghaamez and Akintoye (2020), and Jaafar et al. (2021), who documented that larger boards are less effective in monitoring and add more complexity to the board's decision-making process as compared to smaller boards. This is because larger boards are associated with increased problems in coordination, communication, and management control matters. On the contrary, smaller boards are more focused and more effective in supporting the evolving corporate setting.

The finding of a positive relationship between female directors on the board and firm financial performance is in line with the findings by Hsu et al. (2019), Derayat et al. (2022), and Andoh et al. (2022). A more gender-diverse board could overcome the problem of 'groupthink' that could possibly be driven by gender-stereotypes; it could also improve negotiations and the quality of board decisions. Although the average of female directors on the board reported in the sample is 23%, and still below the MCCG's (2017, 2021) recommended number of female directors of 30%, the results somehow do indicate that the Malaysian government's effort to push for more female representation on the board is heading in the right direction, and will be beneficial to firms in the future. Thus, this study demonstrates the financial advantages of having female directors on the board by lowering agency costs and enhancing corporate governance.

With regards to the effect of board meeting frequency on financial performance, this finding is consistent with Johl et al. (2015) and Hanh et al. (2018). The quality of the meetings should influence the firm's financial performance more than the number of board meetings held. Moreover, frequent meetings could contribute to higher energy and travelling costs. As a result, the PLCs have to bear the brunt of these costs that reduce profit and affect performance. In addition, frequent board meetings signal constant monitoring and evaluation of the agent's performance. Further, the trust between principals and agents could be eroded due to too frequent meetings, hence lowering corporate performance and fostering agency problems within the working environment (Agarwal & Singh, 2020).

The insignificant effect of politically-connected directors on firm financial performance indicates that the private interest theory is not supported as there is insufficient evidence to suggest that it is beneficial to firm financial performance from having this type of directors. Furthermore, only about 20% of the directors appointed on the boards of the FTSE Bursa Malaysia Top 100 Index firms were politically-connected. Similarly, the insignificant effects of board alumni and board financial expertise could be due to the low percentage of board of directors who had graduated from the top 50 world-ranked universities, and low percentage of military-experienced directors on the board, i.e., 18% and about 5%, respectively. Despite the high composition of directors with financial expertise (47%) and independent directors on the board (52%) in the FTSE Bursa Malaysia Top 100 Index firms, there is insufficient evidence to prove that these translate to more ringgit and sen for the firms.

CONCLUSION

Board characteristics play a vital role in the implementation of prudent corporate governance practices that could lead to better firm performance. The relationship between corporate governance and firm financial performance is complex, and hence, findings from existing literature remain inconclusive.

This study examined the relationship between board characteristics and firm financial performance using a sample of 80 non-financial firms listed on the FTSE Bursa Malaysia Top 100 Index from 2018 to 2020, with a final sample of 240 firm-year observations. The findings indicate that board size and board meeting frequency negatively and significantly affect firm performance. On the other hand, having more female directors on the board influences firm financial performance positively. These findings can be explained using the agency theory, where bigger boards and frequent board meetings increase agency costs, while female directors on the board are found to lower agency costs and enhance the quality of corporate governance and firm financial performance. No significant findings are reported in respect of board independence, board alumni, board financial expertise, politically-connected directors, and military-experienced directors.

The findings of this study are significant and essential to academicians/researchers, policymakers/regulators, and firm managers. For the policymakers/regulators, the findings of this study shed light on the level of companies' compliance with the MCCG’s (2017, 2021) best practices. For instance, the study finding of 23% female directors on the board is still below the recommended MCCG (2017, 2021) threshold, which is 30%. However, board independence has surpassed the 50% recommended best practices threshold. The small percentage of politically-connected directors (19%) and military-experienced directors (5%) reported in this study can be viewed favourably in line with the recent MCCG’s (2021) recommendation that the appointment of the directors should be apolitical, without having any executive powers in politics. For the managers, this study provides insights into and understanding of how certain corporate governance practices, in terms of board characteristics that have been examined in this study, could drive firm financial performance. It also highlights how the disclosure of firms’ corporate governance practices matters to the researchers/analysts in the financial market. For the academicians and researchers, this study fills the gap in the literature on the effects of military-experienced directors and board alumni in Malaysia, which have yet to be examined by prior studies in relation to firm financial performance. It also delves into the inconclusive findings on the effects of board size, board independence, female directors on the board, board meeting frequency, and politically-connected directors on the board on firm financial performance, particularly in emerging countries.

This study is subject to some limitations which may point to areas for future research. Firstly, the period of this study is limited to three years, i.e., 2018 to 2020 with 240 firm-year observations. Future studies could cover a longer period and increase the sample size to provide richer findings. Secondly, this study only focuses on the agency and private interest theories to explain the relationship between board characteristics and firm financial performance. Other researchers could explore other corporate governance theories, such as the managerial hegemony theory, stewardship theory, or institutional theory in their future studies. Other recommendations for future research include the use of other measurements to evaluate firm financial performance (i.e., economic value-added, ROE, EPS), examining other internal and external corporate governance mechanisms, and incorporating moderating variables in the study.

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Nur Hafizah Abdul Puhat
Tax Division
Ministry of Finance
Federal Government Administrative Centre
62592 Putrajaya, MALAYSIA.
E-Mail: hafizah.puhat@mof.gov.my

Suhaily Hasnan (corresponding author)
Faculty of Accountancy
Universiti Teknologi MARA
Kampus Puncak Alam
42300 Puncak Alam, Selangor, MALAYSIA.
E-Mail: suhailyhasnan@uitm.edu.my

Khairul Ayuni Mohd Kharuddin
Faculty of Accountancy
Universiti Teknologi MARA
Cawangan Selangor
Kampus Puncak Alam Selangor, Malaysia
E-Mail: ayunimk@uitm.edu.my

Hafizah Marzuki
Internal Audit Office
Universiti Sains Islam Malaysia
Bandar Baru Nilai
71800 Nilai, Negeri Sembilan, MALAYSIA.
E-Mail: hafizah.mzuki@usim.edu.my

Mazurina Mohd Ali
Faculty of Accountancy
Universiti Teknologi MARA
Kampus Puncak Alam
42300 Puncak Alam, Selangor, MALAYSIA.
E-Mail: mazurina@uitm.edu.my