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The Impact of Board Composition on Financial Performance of Commercial Banks in Malaysia

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Abstract: Corporate governance encompasses the rules, policies, and practices guiding a company's operations. This study contributes to corporate governance knowledge by empirically analyzing the impact of board composition on bank financial performance within the Malaysian market. Key determinants, including board independence, board diversity, and board size, are examined in relation to bank performance measured by return on assets (ROA). The study also recognizes the moderating role of firm age, size, growth, and leverage in these relationships. Data of commercial banks listed on Bank Negara Malaysia is from 2016 to 2020 .The dataset, sourced from secondary materials, was extracted from banks' published annual reports and corporate governance reports. Descriptive statistics, multiple regression, and correlation analyses were conducted to assess the impact of these relationships. The research findings indicated that the proportion of independent directors, board diversity, board size, and bank financial performance metrics showed no significant relationships. Consequently, the study suggests that board composition has limited influence on the success of Malaysia's bank performance.

Keywords: Corporate governance, firm financial performance, Malaysian banking industry, board composition, board independence, board diversity, board size

JEL Classification: G30; G32; G14
Paper Type: Research

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1. INTRODUCTION

As globalization progresses, there is a growing emphasis on fostering good governance practices within organizations. This emphasis aims to ensure the smooth functioning of business operations, an efficient management process, and employees adhering to the organization's rules, policies, and regulations, ultimately enhancing financial performance and maintaining a competitive edge over rivals. The benefits of good governance extend beyond large corporations to encompass various business types, including family-owned enterprises, state-owned companies, and SMEs, as highlighted by Sullivan, Wilson, and Nadgrodkiewicz (2015). This broad applicability arises from good governance providing a framework for effective, transparent, and accountable decision-making processes, regardless of the organization's size or ownership structure.

However, in the context of relationship-based systems, where there are more owners/managers, these businesses tend to disclose less information, leading to increased opacity, reduced transparency, and limited disclosures (Judy & Tony, 2002). Notably, in certain countries like Korea, the establishment of chaebols (family-owned enterprises) managed by family members and linked to government agencies and bankers has contributed to a lack of financial transparency. Effective corporate governance necessitates trust, transparency, and accountability within the business environment to attract investments, ensure financial stability, and foster sustainable economic growth. The pervasiveness of good governance is crucial for the overall sustainability of organizations (Anthonypillai, 2016). Consequently, the primary role of the board is to govern the organization by exercising due care and diligence in the best interest of the company and stakeholders as a whole. John and Senbet (1998) assert that the corporate board implements components allowing stakeholders to exert influence over corporate insiders and executives to safeguard their interests. Directors play a pivotal role in every organization, especially in public listed companies, addressing governance issues and forming a significant component in the implementation of corporate supervision. Additionally, the authority of the board is constrained by the provisions outlined in the Memorandum of Association, Articles of Association, and relevant sections of the Companies Act, 1956.

In the aftermath of the 1997 Asian Financial Crisis, several Asian economies, including Korea, Indonesia, and Malaysia, implemented significant corporate governance reforms to strengthen market forces, enact stricter regulations, and prioritize transparency and accountability (Cabalu, 2005). The 2008 Global Financial Crisis further emphasized the importance of audit committees during financial distress (Husam et al., 2012). These crises underscored the need for good governance practices and financial transparency to protect investor interests, reduce market risks, ensure financial stability, and boost confidence.

Post-crisis, many Asian countries reformed governance codes to enhance management accountability and transparency. These reforms aimed at strengthening board oversight, increasing management responsibility, protecting minority shareholder rights, and improving managerial transparency and disclosure requirements (Byung Min, 2011). Corporate governance codes were enacted in various countries, such as the Malaysian Code of Corporate Governance (2000), South Korea’s Code of Best Practices for Corporate Governance (2003), the Singaporean Code of Corporate Governance (2005), and the Indonesian Good Corporate Governance Guideline (2006).

Despite positive changes, the region faced high-profile corporate governance failures due to boards' reluctance to reform. Poor compliance and enforcement, weak courts, insufficiently trained controllers, strong financial interests, and a lack of political will were contributing factors (Cabalu, 2005). Failures were attributed to non-compliance with codes of conduct, internal governance issues, and external factors like regulatory systems (Edwards, 2004; Sahakiants, 2015; Denis & McConnell, 2003).

Despite predictions of Asia becoming a major global economy, a 2020 study by Sunil Puri revealed deficiencies in corporate boards' leadership, monitoring, and control. The 2019 BDO Board Survey indicated public-sector board directors grappling with concerns ranging from trade wars to disruptive technologies. This necessitated a more aggressive risk management approach, elevating board involvement in overseeing corporate strategy, systems, investments, and standards to new heights.

Over the years, Malaysia has implemented and reinforced several corporate governance reforms through legislation and guidelines, including the Companies Act 2016, Financial Services Act 2013, Malaysian Code on Corporate Governance 2017, BNM Guidelines on Corporate Governance, and the Code of Ethics for Company Directors from the Companies Commission of Malaysia (CCM). These rules serve as vital tools for corporate governance reforms in Malaysia, with the country having a relatively advanced framework even before the 1997 financial crisis (Nam SW & Nam, 2004).

Effective corporate governance is crucial for the proper functioning of the banking sector and overall economic performance. The banking industry plays a pivotal role in the economy, mediating funds from savers to operations that support business and contribute to monetary development. The COVID-19 pandemic has particularly highlighted the importance of good governance in navigating challenges such as high-risk exposure, credit, operational, market, and liquidity risks.

To support financial stability, compliance with laws, and stakeholder trust, examining the effectiveness of corporate governance is significant. The Basel Committee on Banking Supervision, established in 1974, actively provides guidance to enhance global financial stability through sound banking operations.

Researchers have investigated the impact of board composition on the financial performance of corporations, with a focus on developed countries. However, fewer studies have explored this in the Malaysian banking sector. This study aims to provide a comprehensive overview of how corporate governance, particularly board composition determinants (board independence, size, and diversity), influences the financial performance of banks in Malaysia.

2. LITERATURE REVIEW

2.1 Agency Theory

The most popular theory used concerning the board’s governing function is derived from the agency theory. According to Berle and Means (1932), and Fama and Jensen (1983), agency theory describes the potential for conflicts of interest that may arise from the separation of ownership and control in organizations. This theory explains the relationships between the agent and the principal. The agent acts on behalf of the principal

by representing the principal in a particular business transaction and is expected to carry out his duty for the best interests of the principal without regard for self-interest. However, the interest of the agent may turn into a wellspring of contention, as some may not perform according to the principal's best interests. When management seeks after their own advantages to the detriment of the shareholders' interests (Nicholson & Kiel, 2007), 'agency' costs typically arise (Berle & Means, 1932).

Although the agency theory is introduced to reduce the agency costs, this theory has its disadvantages. According to Jensen and Mackling (1976), the shareholders are certain that the managers will make optimal decisions only if appropriate incentives are given and only if the agent is monitored. In the same furrow, Kyereboah-Coleman state that the incentives available to directors and boards are varied and therefore an important mechanism for effective monitoring. Rashid, de Zoysa, Sudhir and Kathy (2010) argue that giving proper incentives may encourage external independent directors to utilize more skills and knowledge for the benefit of the organization. Therefore, Jensen and Meckling (1976), and Fama (1980) support this idea by stating that firm performance will improve if the interests of shareholders and managers are aligned. Nevertheless, theory only considers the desires of two parties: senior executives and the board of directors, not other stakeholders like employees, customers, or the environment. Based on this problem, stewardship theory is developed to fill the gap that the agency theory left.

2.2 Corporate Governance

In general, defines corporate governance as the framework whereby companies are coordinated and controlled (Neeta & Christopher, 1992). According to OECD Principles of Corporate Governance, corporate governance means "a set of relationships between a company's management, its board, its shareholders and other stakeholders". Hebble and Ramaswamy (2005) also add that the corporate governance structure indicates the appropriation of rights and obligations among various members in the company, for example, the board, managers, investors, and other stakeholders, and illuminates the guidelines and strategies for the company's decision-making. Besides that, from an investor's perspective, Shleifer and Vishny (1997) have defined corporate governance as a process in which organization financiers expect to get a return on their investment.

In addition, Huse (2007) has explained that corporate governance is a mechanism that aligns the interest of shareholders and managers and ensures the board of directors runs the business for the sake of the benefit of shareholders. The definition is relevant and significant to this study by concluding that corporate governance is a mechanism on how a board directs and manages the organization by considering the effect of decisions on employees, customers, vendors, networks, and shareholders. Keasey and Wright (1993), state that supervising management and protecting shareholders are seen as fundamental roles of the board. Bainbridge (2003) also supports this idea by stating that the roles of the board are driven by directors' fiduciary responsibilities which, combined with the theoretical of agency theory, has led this role to dominate the research agenda (Daily, Dalton & Cannella, 2003). Based on the above explanations, we believe that there is a separation of interest between the ownership and the leadership of corporations, which is so much related to agency theory that has been discussed in the previous topic, and the board of directors is seen as a key element in ensuring the effectiveness of corporate governance.

In the context of banking industry, Shleifer and Vishny (1997) use the term "corporate governance" to describe a mechanism for ensuring those capital investors' returns are secured and guaranteed. Based on Turlea et al. (2010) point of view, they state that the banks' key roles influence their corporate governance, which has several unique characteristics that are not found in other sectors. As described by Md Aris et al. (2019), a robust banking sector is critical for increasing job opportunities, entrepreneurship, and economic growth. Arif and Syed (2015) conclude that organizational performance is greatly influenced by its corporate governance framework. Notably, Basel Committee (2012) state that a complex and opaque system, particularly in banking companies, cause a risk; in the aftermath of previous banking crises, a similar system has often resulted in demands for greater transparency. Thus, to calculate the performance of the bank, Md Aris et al. (2019) suggest two indicators for the study, namely accounting performance and market performance. Ong and Gan (2013) explain further, accounting performance refers to return on assets (ROA) and return on equity (ROE), while market-based performance refers to Tobin's Q.

Based on the above empirical evidence, it can be concluded that corporate governance is an essential mechanism for the improvement of organizational performance, and the banking industry needs to implement strong corporate governance as this industry carries more complex and diverse transactions, holds trust from all levels of stakeholders and provides a significant influence on the country's economy.

3. DATA AND METHODOLOGY

3.1 Research Theoretical Framework

In order to achieve the objectives of this study, the research and theoretical frameworks were established to guide and control the review of the literature and the empirical research. Three main theoretical frameworks were used as tools in this study, namely board independence, board size, and diversity on corporate financial performance. These frameworks helped to understand past experiences from existing researchers, to set up propositions and to test them empirically in the context of the banking industry in Malaysia. In this study, a quantitative approach was used to analyze the data and results. The population selected for the purpose of this study were commercial banks in Malaysia over a period that spans five years (2016 – 2020) in order to examine the hypothesis. There were twenty-six commercial banks listed under Bank Negara Malaysia (the Central Bank of Malaysia) in 2021, including both local and foreign banks. Based on this scope, the three theoretical frameworks were used to analyze whether there are impacts on the financial performance of commercial banks in Malaysia. Figure 1 shows the research framework of this study.

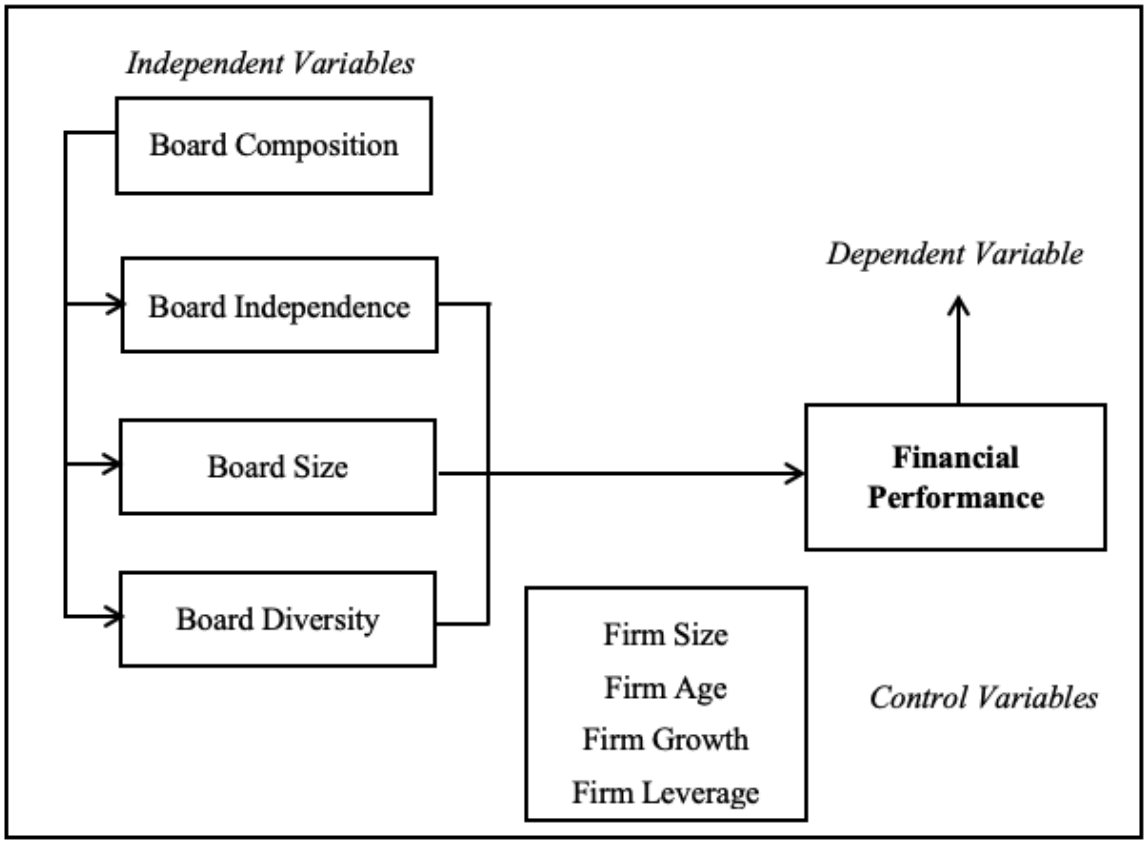

Figure 1. Research Framework

3.2 Sources of Variables

The research categorized all the variables into independent variables (board compositions and characteristics), dependent variables (performance measurement) and control variables. The independent variables in an experiment are the variables that are manipulated by the researcher; they are in effect the variables that had been studied. Whereas, the dependent variable measures the reaction to the manipulation of the independent variables. Thus, in an experiment, the researcher was interested in determining the impact of the changes in the independent variable upon the dependent variable. Besides that, the study used control variables to cater for confounding factors affecting a firm's financial performance. All of these variables are explained below.

3.2.1 Independent Variables

Board composition that consists of board independence, size, and diversity were selected as independent variables in this study in order to analyze their impact on the financial performance of a company. Table 1 shows the measurements of independent variables used in the research.

Table 1. Independent Variables

Variables	Measurement
Board Independence	Percentage of independent directors to the total number of directors of firm
Board Size	Total number of directors on board of firm
Board Diversity	Percentage of foreign directors and women directors to the total number of directors of firm, using Shannon's Index.

The Shannon Wiener Diversity Index (known as Shannon's Index), according to Barnes, Zak, Denton and Spurr (1998) is used to describe the diversity of a population where each individual belongs to a distinct group. In this study, board diversity that consists of number of women and number of foreigners on the board are calculated using Shannon's Index. The Shannon's index is computed as per below:

$$H' = -\sum_{i=1}^{S} p_i \ln p_i$$

where pi is the percentage of the total observations in the ith of S category.

3.2.2 Dependent Variables

To measure the profitability of business, the study had followed the approach adopted by Khorami et al. (2020) and Muller (2014) by using accounting-based performance measure, namely return on assets (ROA) using data from all commercial banks in Malaysia. ROA is an easy step to measure the profitability of business. In the management and strategy literature, ROA is a well-known and commonly utilized measure of corporate financial performance (Carton, 2006; Glick, Washburn & Miller, 2013). ROA explains the efficiency of banks' profit-making through its asset management function. Hence, it was often initiated in most literature as the main ratio for measuring bank profits (for example Dutta and Bose (2006), and Lukas and Basuki (2015). Some previous literature had emphasized their analysis of either specific nations or diverse nations. The empirical results do not remain in the country or even in the same country, such as data collection and environmental variation. The formula of ROA was as follows:

ROA = Net Income / Total Assets

3.2.3 Control Variables

Table 2. Control Variables

Variables	Measurement
Firm Size	Natural log of total asset of the firm
Firm Age	Number of years since the firm's inception
Firm Growth	(Current year's net sales - previous year's net sales) / (previous year's net sales)*100%
Firm Leverage	Debt ratio : (total debts / total assets)*100%

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Descriptive statistics summarizes the fundamental characteristics of a study's data (Zikmund, 2003) by assisting the researcher simplify enormous amounts of data in more practical means. This method condenses large amounts of data into a simpler format, making it easier to understand a sample of the population (Munyaradzi, 2014). The study used SPSS software to analyze descriptive statistics. Through the analysis, one dataset was removed due to unavailability of data for annual financial information and data for directors for a newly established bank (China Construction Bank Malaysia Berhad, established in October 2020). As a result, the total number of observations for all variables was 129 out of a total of 130 observations. A summary of the descriptive statistics for the variables used in the study, categorized by board composition, firm performance, and control variables, is presented in Table 3

Table 3. Summary of Descriptive Statistics

Variable	Mean	Median	SD	Min	Max	Skewness	Kurtosis
ROA	0.009	0.009	0.005	-0.003	0.022	0.320	1.000
BINDEP	0.653	0.625	0.111	0.400	1.000	0.540	1.120
BDIVER	0.541	0.628	0.160	0.179	0.733	-0.480	-1.430
BSIZE	7	6	2	3	12	0.780	-0.120
AGE	46.980	45.000	31.110	1.000	136.000	0.920	1.020
SIZE	17.190	17.430	1.870	12.970	20.570	-0.120	-0.720
GROW	0.044	0.024	0.277	-0.496	1.932	2.820	16.630
DEBT	0.833	0.880	0.138	0.241	0.932	-2.980	8.570

Notes: ROA: Net income/ average total asset* 100%. BINDEP: No. of independent directors/ total directors of firm * 100%. BDIVER: Percentage of foreign and women directors to the total number of directors of firm, using Shannon's Index. BSIZE: Total no. of directors on the board of firm. AGE: Number of years since the firm's inception. SIZE: Natural log of total asset of the firm. GROW: Current year's net sales - previous year's net sales)/ (previous year's net sales)* 100%. DEBT: Total debts/ total assets)* 100%.

4.2 Multiple Regression Analysis

Multiple regression is a statistical method that predicts the result of dependent variables by combining numerous explanatory variables. It aims to represent the linear relationship between the explanatory (independent) variables and the response (dependent) variable. Table 4 presents the overall findings of regression analysis by using financial performance, as measured by return on assets (ROA) as dependent variable

Table 4. Regression Model Summary

				Change Statistics				
	R^2	Adj R^2	Std. Error of the Estimate	R^2 Change	F Change	df1	df2	Sig. F Change
0.319a	0.102	0.049	0.0045600	0.102	1.941	7	120	0.069

a. Predictors: (Constant), BINDEP, BDIVER, BSIZE, AGE, SIZE, GROW, DEBT.

R-squared (R^2) quantifies the strength of the relationship between the model and the dependent variable, ranging from 0 to 100-percent. The results of R^2 (10.2% of the variations) and adjusted R^2 (4.9% of the variations) as shown in Table 4.4. The study used adjusted R^2 for multiple regression analysis as this indicator evaluates the descriptive power of regression models with different numbers of variables and provides a clearer

picture of the correlation. Based on the statistical results, a regression model provides an adequate fit to the study data and suggests that other characteristics not included in the study may describe as the remaining variation in the regression model.

Table 5 shows the results of linear regression (using the standard method) in assessing the relationship between board composition, highlighting board independence (BINDEP), board diversity (BDIVER), and board size (BSIZE), and financial performance as measured by return on assets (ROA).

Table 5. Multiple Regression Dependent Variable: Return on Assets (ROA*)*

	Unstandardized Coefficients		**Standardized Coefficients**		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
C	0.001	0.005		0.150	0.881
BINDEP	0.000	0.004	0.001	0.014	0.989
BDIVER	0.001	0.003	0.039	0.422	0.674
BSIZE	0.000	0.000	-0.163	-1.318	0.190
AGE	0.000	0.000	0.149	1.489	0.139
SIZE	0.000	0.000	0.078	0.482	0.631
GROW	-0.001	0.002	-0.037	-0.391	0.696
DEBT	0.007	0.004	0.210	1.607	0.111

In Table 5, the B column represents the unstandardized beta coefficients that explaining the amount and direction of the effects on the outcome variable. The standard error (std. error) refers to the error values related with the unstandardized beta coefficients. The Beta column displays each predictive variable's unstandardized beta coefficients. The significant (sig.) column presents the p-value related with each variable.

4.3 The Relationship between Independent Variables and ROA

4.3.1 Board Independence

The analysis results of the regression model in Table 5 reveals that there was a positive linear relationship between independent directors (BINDEP) with ROA. However, the result was insignificant as measured by the t-statistic of 0.014 ($p>0.05$). The results indicate that having additional independent directors on the board does not necessarily improve the firm's performance. The insignificant results may be attributable to the possibility of hiring someone with lack of expertise as a director to carry out their supervisory duty, having irrelevant background and experiences, or having no knowledge. In analysis perspective, there might be a flaw in the research methodology used in the study (Hermalin & Weisbach, 1991).

Parallel to the study's findings, Wang and Oliver (2009) highlight that while the corporation may meet the required number of independent directors on the board, many strategies are used to neutralize such directors' abilities. Haniffa and Hudaib (2006) also support the analysis, stating that the rigorous supervision to which organizations with large numbers of independents may be subjected to they have lack of specialized skills and knowledge. Similar results were obtained from the study of Munyradadzi et al. (2016), Klein (1998), as well as Kumar and Singh (2012), who state that the independence of a board of directors is not necessary for a company's effective functioning. Martin and Herrero (2018) found that higher board independence corresponds to lower firm performance, whether measured by economic profitability (ROA) or Tobin's Q. The study by Garg (2007) in India

also reached similar results, claiming that board independence does not guarantee improved business performance as independent directors' supervisory duties are limited. Again, the independent directors on boards, according to Wallison (2006), do not ensure improved performance but good governance.

On the contrary, the statistical results of Nodeh, Anuar, Ramakrishnan and Raftnia (2015), and Belkhir (2009), were contradicted the previous empirical findings, which showed the coefficient was strongly positive and statistically significant with ROA. The results also equivalent with those of other studies such as Black et al. (2006), Lefort and Urzua (2008.. The evidences provide proof that a large number of independent directors influence the financial performance of the firm. Additionally, Weisbach (1988), Byrd and Hickman (1992), and Brickley, Coles and Terry (1994) claim that independent directors promote the firm's shareholders' benefit through monitoring and advising roles. Given the fact that researches by Fama and Jensen (1983), and Baysinger and Hoskinsson (1990) argue that an ideal combination of executive and non-executive directors is required for a board's effective implementation, there seems to be little theory on the factors that influence board composition (Hermalin & Weisbach, 2003).

On the basis of the hypothesis, that there was a significant positive association between the number of independent directors on the bank’s financial performance, was therefore rejected based on the findings.

4.3.2 Board Diversity

Besides that, the board diversity (BDIVER) showed the highest positive coefficient as compared to other explanatory variables but was insignificant as the p-values for this variable were more than the significance level of 0.05. The results reveal that the board diversity could not influence the financial performance of the firm. Thus, board that is more diverse has a tendency to reduce the performance of the firm. The statistical results of this study illustrate that the proportion of female and foreign directors on the board does not simply influenced by the performance of the firm. Other qualities such as the age, knowledge, experience and expertise of the directors need to be considered in the analysis of the study. According to Martin and Herrero (2018), the diversity of the board would necessitate the addition of greater expertise and experience in order for the board's duty to be performed in the most effective manner.

The results were consistent with the study made by Marinova, Plantenga and Remery (2016), Ma and Tian (2009), which found an insignificant relationship between board diversity and firm performance. Evidently, Farrell and Hersch (2005), and Tarigan et al. (2018) discovered that having women on board has no substantial difference from having males on board because women generally follow the group-think phenomena that exists on board, in which decision-making and thinking processes discourage individual accountability and creativity, resulting in little change. Similarly, the study conducted by Shukeri et al. (2012) was parallel with the study of Marimuthu (2009), which revealed that no significant influence of gender diversity on firm performance because it is dependent on the country and corporate culture. Apart from this, the study performed by Darmadi (2011), revealed that nationality diversity has an insignificant effect on firm performance of listed firms in Indonesia stock exchange (IDX). The results were equivalent to the study of Masulis et al., (2012), Muravyev (2017), and Salloum et al. (2017). The reasons of such insignificant results are probably a consequence of ineffective of monitoring function, cost of hiring foreign directors, and obstacles in attending board meetings on an international

scale. . Other than these findings, the research of Jadah, Murugiah, and Adzis (2016) using 20 commercial banks in Iraq had revealed that there was a negatively associated between the board gender and bank performance.

Although this statistical findings suggest an inverse relationship, other studies such as Gordini and Rancati (2017), Kilic and Kuzey (2016), Carter et al. (2003), as well as Martin and Herrero (2018) found strong and significant relationship between board diversity and firm performance. Khidmat et al. (2020) in their research found gender diversity, educational diversity and foreign nationality diversity had a positive and significant effect on firm performance as measured by both the accounting and market measures. They argue that the director variety minimizes managerial centralization while increasing the resources of the firms on the opposite side through networking. Following the argument, Nguyen and Robert (2006) claim that firms with female directors receive a higher benefit. They also note that the larger the number of female directors, the higher the firm's value. Besides that, the study conducted by Oxelheim and Randoy (2003) in Sweden, Denmark and Norway on nationality diversity also found strong positive relationship with firm performance. To achieve efficient monitoring, the right blend of expertise and competencies is required as suggested by Hillman and Dalziel (2003).

Due to the inconsistency of the study results stating that board diversity provided an insignificant effect in explaining ROA, the hypothesis was not supported.

4.3.3 Board Size

With respect to board size, surprisingly and in direct contrast to the predictions, the coefficient on board size (BSIZE) showed a negative relationship with bank financial performance (ROA) and was not significant as measured by the t-statistic of -1.318 ($p>0.05$). Thus, the results suggest that increasing the size of the board tends to decrease its performance. The reverse results may be due to the failure of the advisory function of the board and the monitoring function with larger board size. Moreover, it is difficult to manage and coordinate effectively with the larger size. As a result, it appears that a smaller board size is preferable as suggested by Adnan, Htay, Rashid, and Mydin (2011). The findings of this study were consistent with previous empirical studies by Yermack (1996), Guest (2009), Mak and Kusnadi (2005), and Andres et al. (2005), who found a negative relationship between board size and firm financial performance. Yermack (1996) in his study suggested that larger boards may lead to ineffective internal communication and decision-making systems. Similarly, Jensen (1993) and Hermalin and Weisbach (2003) state that a larger board is unmanageable and it may have more agency problems and be unable to perform efficiently, making management relatively uncontrollable. In this sense, Munyradadzi et al. (2016) found insufficient evidence to support the hypothesis through the measures by ROA, ROE, and Tobin’s Q. Huse (2007) notes that the larger board size could also be subject to the formation of groups and coalitions, which may lead to relationship conflicts or firms reacting slowly or indecisively in a crisis.

Conversely, in the study by Nodeh et al. (2015), they found a strong positive relationship between board size and bank financial performance. Similar results were obtained by the studies of Provan (1980)and Jadah et al. (2016). From an agency perspective, Nicholson and Kiel (2003) found that a larger board is more likely to care about agency issues simply because a larger group of people will evaluate management's actions. Shrivastav's (2016) study confirmed the resource dependence theory that a larger board of directors provides a broader range of skills and information in a variety of areas, which increases monitoring

capacity and improves the firm's ability to make external connexions. Boyd (1990), Johnson et al. (1996), and Hillman and Dalziel (2003) found in their study that a larger board could provide more monitoring functionality. Based on the statistical results obtained through the analysis conducted, board size was negative and not significant in relation to ROA for companies in Malaysia and therefore, the hypothesis was not supported.

By and large, there was a weak relationship between board composition and financial performance of banks in Malaysia. The results indicate that all the three independent variables, namely board independence, board size, and board diversity have no statistically significant effect on corporate financial performance and thus, the framework hypotheses were not supported.

5. CONCLUSION

This research delves into the influence of board composition attributes on the financial performance of listed commercial banks regulated by Bank Negara Malaysia (BNM), the Central Bank of Malaysia, within the Malaysian market. The study focuses on a sample of 26 listed commercial banks, with data spanning from 2016 to 2020 extracted from published annual reports and corporate governance reports available on the companies' official websites and the Bursa Malaysia database. The analysis employs a multiple linear regression method using the Statistical Package for Social Science (SPSS) software.

The study's dependent variable is the financial performance, specifically measured by the return on assets (ROA). The independent variables include board independence (BINDEP), board diversity (BDIVER), and board size (BSIZE), selected based on previous empirical research indicating their significant influence on corporate governance practices and, consequently, on the firm's value. Control variables such as firm age (AGE), firm size (SIZE), firm growth (GROW), and firm leverage (DEBT) are incorporated in the regression analysis to assess their impact on the outcome.

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