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CORPORATE GOVERNANCE, SUSTAINABILITY AND PERFORMANCE EVIDENCE FROM MALAYSIAN CONSTRUCTION INDUSTRY

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ABSTRACT

Purpose

Construction industry has gained international attention due to massive level of investments on infrastructure projects such as tunnels, bridges, seaports and airports. This research examines the effect of corporate governance mechanism on firm's performance as measured by return on assets (ROA). The question is to what extent that corporate governance mechanism is essential in mitigating sustainability issue as addressed by Construction Industry Development Board (CIDB) Malaysia. The main purpose of this study is to test the economic resilience of construction firms in Malaysia.

Design/methodology/approach

Following the primary data approach, data are collected from 380 registered firms. Descriptive statistics, factor correlation test are reported and logit model are used for estimation.

Findings

The empirical results show that the performance of construction firm is subject to proper corporate governance practices. Having said that, effective corporate governance would sustain the growth of construction industry.

Practical implications

This study provides an important empirical evidence on the relationship between the financial performance of CIDB contractors and their corporate governance practices. It also highlights some new guidelines for the board of directors in their effort to improve corporate governance mechanism. The findings also suggest that CIDB should promote best corporate governance practices among its small-scale registered members.

Originality/value

This study provides some good explanation on best practices in addressing corporate governance issues, particularly among small-scale construction companies in Malaysia. It also discusses the level of commitment among these small-mediuam firms in adopting good corporate governance.

INTRODUCTION

This study links the going concern principle with the practice of corporate governance among the construction companies in Malaysia. Corporate governance is vaguely defined by researchers due to limited exposure to the topic (Roche, 2005) with different circumstances (Armstrong and Sweeney, 2002). Sundaram and Inkpen (2004) indicate that a business is obligated to increase its stakeholders' capital whenever there is a need to do so. Freeman (1984) asserts that a firm is responsible for protecting the interest of its stakeholders and all shareholders whose involvement are crucial to achieve organisational goals. However, the actual practice of good corporate governance can be inconsistent and varies from organization to organization.

Kamini (2003) explains that company with high level of ownership concentration (OC) and coupled with unsound corporate governance structure would cost its shareholders in general to lose their control as well as protection. A classic case is Renong Berhad, a listed construction company at Kuala Lumpur Stock Exchange. The company suffered from poor corporate governance and performed badly during the Asian crisis 1997-1998. Renong's restructuring program involved a transfer of 33% of its shares to its own subsidiary - United Engineering (M) Berhad. This corporate exercise somehow shocked auditors and market players as Renong was later discovered to have in adequate number of independent directors, fragile auditing procedures, and incompetent remuneration committees (RCs). Due to this Renong's controversial issue, the Malaysian Code on Corporate Governance was introduced in year 2000. It is evident that Malaysia cannot afford to have another financial fiasco that contributes to devastating systemic risk, which can potentially weaken the entire economic system. Leng (2004) emphasizes that the problem of concern problem is triggered by poor corporate governance resulting from accruing heavy expenses, sales uncertainty, assets revaluation and liquidation. Hence, businesses particularly the construction industry is likely to land itself on serious financial constraints such as excessive borrowings, liquidity problems, profit reductions, and eventually financial losses (Chan and Walter, 1996; Lim, 1997).

The Malaysian code of corporate governance adopts both approaches of dogmatic and non-prescriptive models. The dogmatic model consists of expectations of good practices, compliance of disclosures whereas the non-prescriptive model requires corporate governance to practise full disclosure. The code contains ennoblement of constructive cooperation with adaptive response to bring up the needed standards in corporate governance. It is the opposite of the disadvantaged black and white response which is seen to be dependent on statute and regulation.

Table I:History of Malaysian Code of Corporate Governance

Year	Reforms
1998	Setting up a finance committee with high-level attributes, to carry out a deep study on corporate governance and to suggest means of enhancement.
1999	Takeovers and Mergers code was introduced.
2000	The introduction of the Malaysian Code on Corporate Governance.
2001	A Masterplan referred to as the Malaysian Capital Market Masterplan was established, not only to streamline and further regulate the capital market but also to chart a course for the capital market as envisioned for the next ten years.
2001	Launching of the Financial Sector Masterplan which was done, not only to figure out and state or visualise the future direction of the financial system over the next ten years, but also to outline the strategies that would aid in achieving a financial system that is resilient, effective, diversified and efficient.
2002	Public secondary company directors have issued internal audit guidelines for assistance.
2003	Public secondary company directors were expected to achieve 48 points of continuing professional education, yearly.
2007	The board should establish a nominating committee which comprises of non-executive directors; the majority must be independent
2012	Mainly focus on board of directors, positions of chairman and CEO should be held by different individuals.
2017	Mainly focus on independence of board, board diversity and establishment of risk management committee.

Source: Adapted from Securities Commission Malaysia

Table I explains the reforms that take place after the 1997 world financial crisis. The primary aim of Malaysia Code of Corporate Governance (MCCG) is to encourage disclosure through the provision of sufficient, important and timely reports to potential investors to help them in their investment decision-making process and also to keep track of company performances. The MCCG also aims to derive or foster ideologies together with best practices of structures and processes that corporations may try to adapt in their journey to achieving the ideal governance framework. The arrangements and processes being emphasized exist at a non-substantial level constituting of the issues that have to do with the board structure, recruitment procedures of new directors, directors' remuneration, committee's board utilization and their level of activities.

The construction industry has gained global attention due to its huge level of investments on public projects such as infrastructure development, rail tracks, gigantic buildings and airports. Burritt et.al. (2018) state that there is a little understanding of the role of managerial perception on sustainability activities in shaping corporate sustainability practices. The role of corporate governance in construction industry is highly important due to the high level of investment and financing. The Construction Industry Development Board (CIDB) Malaysia is a government regulatory body that supervises Malaysian construction companies and provide advice to the government on mega projects like MRT, Putrajaya hospital and East Coast Rail Link (U.S dollar 20 billion). Corporate governance plays an important part to monitor and control project financing in a right direction. Zhang et. al. (2019) asserts that the perceived usefulness and ease of use of business information modelling technology are the key influential factors in construction industry. The application of risk control can increase the investor protection and contribute to the general sustainability of investments (Maceika, et. al., 2019). The proposed planning contributes to the improvement in project management, since it allows planning and administering the allocation of resources in making appropriate maintenance and rehabilitation decisions (Alcaraz, et. al., 2019).

Table II: Percentage share of GDP for selected countries (production approach) for construction sector (2014a) (Small Medium Enterprises)

Country	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
South Korea	5.7	5.5	5.3	5.0	5.1	4.6	4.2	4.1	4.1
Hong Kong	3.4	2.9	2.7	2.9	2.7	2.9	3.3	3.5	3.5
Taiwan	2.8	2.7	2.6	2.4	2.3	2.3	2.3	2.2	2.2
Singapore	n.a	n.a	3.0	3.6	4.2	3.8	3.8	4.0	4.1
Thailand	2.4	2.4	2.4	2.2	2.2	2.2	2.1	2.1	2.1
Philippines	4.4	4.6	5.0	5.1	5.4	5.7	5.0	5.4	5.6
Indonesia	5.9	6.1	6.2	6.3	6.4	6.5	6.5	6.5	6.6
Malaysia	3.0	2.9	2.9	2.8	3.1	3.2	3.2	3.5	3.8

Source: Department of Statistics, Malaysia

As shown in Table II, the involvement of small and medium enterprises (SME) in Malaysian construction sector is rather slow as compared to the Philippines and Indonesia. Given an increase in gross domestic product (GDP) along with the employment opportunities, the construction industry is expected to support sustainable growth of in the economic activities. Undeniably, Malaysia is an emerging economy which depends on the construction sector as one of the main pillars to generate long term economic growth. According to Economic Planning Unit (2015) and Department of Statistics Malaysia (2016), there was a substantial decline in Construction-GDP ratio from 18.1% in 2013 to 7.4% in 2016. Unfortunately, such a decline slowly deteriorates the upward momentum of the construction sector and its related industries.

This research aims at answering the following question: (1) Is the corporate governance mechanism essential in mitigating sustainability issue among registered construction companies under CIDB Malaysia?

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Banerjee et. al. (2019) shows that board size has a negative impact on firm performance of foreign investments. Glass et al. (2016) point out that firms characterized by gender diverse leadership teams are more effective and sustainable compared to other firms in pursuing environmentally-friendly strategies. Hashim et al. (2015) find that the size of board of directors does not have a great influence on sustainability practices compared to the size of Supervisory Boards in non-Gulf countries. Sharma and Khana (2014) suggest that a separate board committee on sustainability should be formed for purposes of mandatory reporting of sustainability activities and to facilitate transparent disclosures on corporate social responsibility and sustainability practices. Kocmanová et al. (2011) state that corporate sustainability is a business approach focused on long-time creation of value for the owners by incorporating the opportunities and risks following from sustainable development. Fang and Sheu (2007) discover that companies with remarkable sustainable development strategies are more likely to be rewarded by investors with higher valuations in the financial markets.

Through a survey questionnaire, Hussain and Hadi (2019) uncover that the composition of the Board and the Risk Management Committee is a significant factor that influences company’s performance at 5% significance level. Moursli et. al. (2019) finds that board independence behaves negatively with market valuation. Ahmad and Zabri (2016) state that there is a high degree of use of non-financial firm performance measures related to internal efficiency, product development and growth, and corporate social responsibility. Hornungova (2016) finds that the incorporation of social responsibility into business strategy affects responsible behaviour in the working environment. The results show that the higher the degree of divisional strategy synergy, the higher the weight of non-financial performance measures (Hua, 2011). Managers should take note of non-financial performance measures to enhance innovation that can in turn lead to improved individual performance. Non-financial firm performance has a significant impact on CIDB's future policies and the development of construction industry in Malaysia (Hussain and Hadi, 2018).

Zhou et. al. (2018) find that large number of independent directors has significant negative relation with firm's performance. The common approach to operationalize the board composition (BC) is the proportion of non-executive directors of the total directors (Abdullah 2004). Masood et. al. (2013) confirm that board independency has a positive relationship with firm performance. The BC is a crucial mechanism for board structure, which demonstrates the fiduciary functions of both executive and non-executive directors. Akhtaruddin et al. (2009) postulate that a significant impact of BC on firm's performance. Yoon and Ariff (2007) indicate that the larger the size of the company, the more pervasive the positive effects are on firm's performance. Nevertheless, practical proof can be inadequate to support the positive relationship between the composition of non-executive directors and firm's performance (Weir and Laing, 2001).

Furthermore, Zhou et. al. (2018) find that large number of board size (BS) has significant positive relationship with firm's performance. On the contrary, Ujunwa (2012) finds that a negative relationship between BS and firm's performance. Interestingly, Bilal et al. (2013) discovers a significant relationship between BS and return on assets (ROA). Some studies suggest that both BS and firm size can be interconnected (Dalton et al. 1999). Conversely, Zabri et al. (2016) found an insignificant relationship between BS and ROA. This implies that larger BS may provide more information about firm's performance (Tang et al., 2015).

Scholtz and Engelbrecht (2019) point out that the number of remuneration committee (RC) meetings is one of the significant tools in corporate governance mechanism. Mintah (2016) finds that RC has significant positive association with firm's performance as measured by return on assets (ROA). Dalton et al. (1998) affirm that the additional form of RC can even lead to a better firm's performance. For instance, there is a positive relationship between director remuneration committee and executive committee, nomination committee, and corporate governance committee (Muhammad et al., 2009). Basically, board committees are made of those audit, remuneration, and nomination committees. Cadbury Report (1992) underlines that a company's board of directors should include a number of specific committees for auditing the financial statements, observing the remuneration of executive directors and engaging new directors to the board.

Larasati et. al. (2019) states that existence of independent risk management committee (RMC) will increase audit fee as well as firm's performance. Hussain and Hadi (2019) reveal that composition of the board (BC) and the risk management committee (RMC) are significant factors in influencing firm's performance. Apart from that, Ames et. al. (2018) find that risk management committee has a significant positive effect on long term firm's performance and on the practice of good corporate governance. It is still debatable as RMC may have an insignificant relationship on firm's financial performance as revealed by Basiru (2015). It is important to include RMC as part of the governance at the level of board of directors (Choi, 2013 & OECD, 2014). RMC has the ability to provide immediate identification and prioritization, predict economic risk, and support internal audit review function of the audit review committees (Fraser and Henry, 2007). The stakeholders can expect higher personal satisfaction from organizations with financial instrument regulations and RMC. The main responsibility of RMC is to oversee different financial threats that may harm the firms in order to improve the financial reporting values (Yatim, 2010). Apparently, research on RMC is relatively scarce because the majority of risk assessment is reviewed by audit committee (AC). In fact, RMC is regarded as one of the important components in a competent board of directors (Yatim, 2010). Hadi and Hussain (2018) find that gender diversity has a significant impact on firm performance. Kim and Starks (2016) explain that women directors contribute specific expertise to the board which improve firm's performance. Women representation in the board with experience would have positive effects on the firm's performance (Adams et. al., 2015). Women directorship is found to have a significant relationship with company's' profitability (Maran and Indraah, 2009). Similarly, Julizaerma and Zulkarnain (2012) uncover a positive relationship between firm's performance and women directorship. As shown by Catalyst (2008), corporations with more ladies administrators have considerably accomplished better financial targets than those with smaller number by 53% return on equity (ROE), 42% return on sales, and 66% return on invested capital.

Haynes et. al. (2019) find that CEO's functions along with the power vested in the board do have significant influence on firm's performance. Elfeky (2017) finds that duality function has no significant relationship with overall corporate firm's performance. Bilal et al. (2013) reveal a significant influence of BS and CEO/Chairman duality (DU) on ROA. However, they do not find significant influence of BC on ROA. Similarly, Ahmad et. al. (2012) does not find a significant relationship between board independence and duality function as well as capital structure. Besides, Sajid et al. (2012) posit that strong director and institutional ownership can reduce agency cost. Interestingly, smaller BS can also lower agency cost. Chris et al. (2009) state that although board involvement could affect the strategic decision-making process, there is no correlation found between board involvement and BS, board independence, and DU.

Hooy and Ali (2017) state that ownership concentration (OC) has a positive effect on firm's performance as measured by ROA. Besides, Saleh et al. (2009) find that there is a negative relationship between family ownership and firm's performance. In Korea, foreign investors allocate a disproportionately higher share of their funds to Korean corporations and foreign administrators (Kim et al., 2010). This implies the practice of good corporate governance could attract foreign investment. In 1997, the financial crisis took place in the Korean Peninsula and corporations with larger foreign ownership experienced only a slight fall in their share values (Baek et al., 2004). Aggarwal et al. (2005) notice that Americans invest considerably in open and emerging markets with strong accounting standards, investor rights, and legal frameworks. Moreover, Dahlquist et al. (2003) indicate that there is a significant positive relationship between good corporate governance and foreign direct investment (FDI).

Undeniably, a better legislation on good governance is attributed to good business performance. Tai et. al. (2018) postulate that audit committee (AC) has a significant positive effect on firm's performance and investment's decision. Saleh et al. (2007) reveal that experienced audit review committee and recurrence of annual meeting have an influence on profitability management practices. However, some researchers argue a blend of affiliation between useful review work of AC and firm's performance (Hermalin and Weisbach, 1991; Dalton et a1., 1998). Based on the comments made by major stakeholders, they are more concerned about the profile and the profesionalim of the AC members (Davidson et al., 2004). As stated by the MCCG, AC members should have sufficient knowledge of financial reporting issues. In addition, Malaysian Institute of Accountants (MIA) underlines that any accountant should have at least three years of professional experience before being certified by this legislative body. They must also hold a membership of registered accounting bodies in Malaysia (Shamser and Zulkarnain, 2001).

This study incorporates two control variables namely, BS (Hussain and Hadi, 2017; Julizaerma and Zulkernain, 2012) and DU (Hussain and Hadi, 2017; Masood et al. 2013) as past literature suggests that they exert strong significant effects on firm's performance. Razali et. al. (2018) find that these two variables have a significant relationship with firm's performance as measured by ROA. ROA is a powerful operating financial measure as it possesses distributional properties (Mangena et al., 2012). It is imperative to note that directors are liable to business processes, activities and consumption of entity's assets. ROA permits evaluation on the efficiency of corporate governance system in safeguarding and encouraging the productivity of firm's management (Epps and Cereola, 2008). It is also used to measure the productivity of firm's assets (Haniffa and Hudaib, 2006). A study conducted in Brasil shows that only a small percentage (less than 4%) of its firms practise good corporate governance and these firms certainly exhibit stellar financial performance (Andre et al., 2005).

Research theory and hypotheses development

The underpinning theory of this study is agency theory. Iskandar et al. (2011) also supports agency theory in their research of corporate governance. Rhodes et al. (2000) state that independent directors are able to alleviate agency issues and reduce managerial interest in the company. Jensen and Meckling (1976) explain that in agency theory, managers are likely to put their personal goals at the expense of investors due to the separation between ownership and management control. Jensen (1986) states that board size is included as a control variable because larger firms tend to have more complex agency problem and freely choose more a stern governance. Agency theory forecasts that the managers' objectives and the investors' goals may not be associated. Fama & Jensen (1983) assert that managers tend to maximize their own utility and take actions that are not in the best interest of the shareholders. In this study, corporate governance mechanism comprises of eight attributes - board composition, board size, remuneration committee, risk management committee, gender diversity, duality, ownership concentration and audit committee. We anticipate that these eight variables would have some influence on construction firm's performance. The return on assets (ROA) is designated as performance measure for the construction firms. We hypothesize that the suggested corporate governance mechanism could enhance the sustainability of those of construction firms in the study. More specifically, the following hypothesis is postulated:

H1: Corporate governance mechanism has significant effect on sustainability of small-scale
construction firms.

DATA AND METHODOLOGY

This is a quantitative study that uses convenience sampling based upon a sample size of 380 construction firms which are registered with CIDB. Convenience sampling is a sampling technique that requires respondents to provide answers to the questionnaires (Kundari et al., 2012). It can reduce the duration and cost of conducting the research (Hussain and Hadi, 2007). The sample size of 380 is determined following Krejcie and Morgan's Table (1970).

A questionnaire survey, with Section A and Section B, is used to collect the primary data. Section A comprises of general questions about the company's information, while Section B involves a number of close-ended questions to determine firm performance (see Table V). The questionnaire is used to obtain the descriptions of Board of Directors and the attributes of the small-medium enterprises (SME) in Malaysian construction industry. The feedbacks from the board members and senior management are gathered and tabulated since they are the key decision makers in the business. Upon receiving the consent from CIDB head office, the survey questionnaires are dispatched to state offices. The respondents are categorized according to G1 to G7 are shown in Table III below.

Table III: Respondents by Grades

Grade Registration	Construction Project Value (RM)	Respondents	Response rate
G1	200,000 and less than	32	9.0%
G2	200,001 to 500,000	51	14.0%
G3	500,001 to 1,000,000	113	28.0%
G4	1,000,001 to 3,000,000	69	18.0%
G5	3,000,001 to 5,000,000	82	22.0%
G6	5,000,001 to 10,000,000	10	3.0%
G7	More than 10,000,000	23	6.0%
Total		380	100.%

Table III shows that 28% of the total respondents are categorized under G3, which represents only a small portion of the total value of construction projects. In contrast, 6% of the total respondents fall into G7 category handling large-scale highly valued projects. In short, majority of the respondents are coming from small-scale construction companies. Hussain and Hadi (2017) assert that these small-scale construction companies are the local SMEs that support Malaysia's economic growth.

Cross-sectional analysis is part of this study as we put the emphasis on examining the effect of corporate governance mechanism on the performance of construction companies in 2015. Following the model developed by Hussain and Hadi (2017), this study is expected to improve the earlier model in terms of empirical validity. Specifically, the empirical model is formulated as follows:

$ROA = \beta 0 + \beta 1BC + \beta 2BS + \beta 3RC + \beta 4RMC + \beta 5GD + \beta 6OC + \beta 7AC + \beta 8DU + \varepsilon$ …………(1)

The data are collected from construction companies which are registered with CIDB Klang Valley offices in Selangor and Kuala Lumpur. There are contractors from other states who are involved in this study and their feedbacks are captured by these offices. The measurements are adopted from prior studies and Table IV presents the details..

Table IV: Variables and Data Sources

Dependent variable:	
Return on Assets (ROA)	Data source: Loth, 2005; McClure, 2005; Dhanuskodi, 2014, Hussain and Hadi, 2019
Independent variables:	
Board Composition (BC)	Data source: Chithambo, 2013., Andre et. al 2005, Hussain and Hadi, 2019

Remuneration committee (RC)	Data source: Hussain and Hadi, 2019 .
Risk Management Committee Size (RMC)	Data source: Hussain and Hadi, 2019 .
Gender Diversity (GD)	Data source: Hussain and Hadi, 2019.
Ownership Concentration (OC)	Data source: Chithambo, 2013. Andre et. al 2005
Audit Committee (AC)	Data source: Chithambo, 2013, Hussain and Hadi, 2019
Control variables	
Board Size (BS)	Data source: Hussain and Hadi, 2019.
Duality (DU)	Data source: Chithambo, 2013, Hussain and Hadi, 2019

EMPIRICAL RESULTS

This section presents the empirical results along with the primary focus on explaining the theoretical relationship between corporate governance mechanism (BC, BS, RC, RMC, GD, DU, OC, and AC) and firm's performance in the construction industry. Table V outlines the descriptive analysis of the variables in the construct.

Table V: Descriptive Analysis for Variables

Variables	Dimensions	Respondents	Percentage
Board composition	*Independent directors*	217	57.11
	Executive directors	163	42.89
Board size	*4 directors*	223	58.68
	5 directors	123	32.37
	6 directors	19	5.00
	> 6 directors	15	3.95
Remuneration sub committee	*Yes*	236	62.11
	No	144	37.89
Risk management committee	*Yes*	235	61.84
	No	145	38.16
Gender diversity	*1 female director*	194	51.05
	2 female directors	176	46.32
	> 2 female director	10	2.63
Firm's performance	*Yes, (ROA > 5%).*	216	56.84
	No, (ROA < 5%).	164	43.16
Duality function	*Yes*	255	67.11
	No	125	32.89
Ownership	*Yes*	261	68.68

concentration	*No*	119	31.32
Audit committee	*Yes*	265	69.74
	No	115	30.26

It is quite obvious that the respondents recognize the importance of corporate governance mechanism within the company and these prelimary findings are consistent with the work of Hussain and Hadi (2017). In fact, AC contributes the highest percentage of 69.74 which proves their credibility in governing business risks on a periodic basis.

Table VI: Factor Correlation Matrix

	ROA	BS	BCE	BCNE	RC	RMC	GD	AC	OC5	OC3	DU
ROA	1.000	0.141	0.130	-0.142	-0.101	0.227	0.306	-0.167	0.014	0.057	-0.094
BS		1.000	0.259	-0.237	-0.023	0.250	0.236	-0.203	-0.052	-0.077	-0.319
BCE			1.000	-0.996**	-0.297	0.157	0.183	0.048	-0.099	-0.094	-0.013
BCNE				1.000	0.296	-0.165	-0.185	-0.054	0.111	0.102	0.006
RC					1.000	-0.047	-0.117	-0.003	-0.035	0.035	-0.009
RMC						1.000	0.803**	-0.196	-0.162	-0.148	-0.133
GD							1.000	-0.226	-0.148	-0.136	-0.122
AC								1.000	-0.059	-0.051	0.257
OC5									1.000	0.958**	0.119
OC3										1.000	0.084
DU											1.000

Table VI presents the factor correlation matrix which explains the direction and the degree of association among the variables in the model (Kundari et al., 2012). The results showed that some of the explanatory factors have negative correlations with the firm's performance (BCNE, RC, AC and DU). Discriminant validity analysis reveals the relationships between the factors are low. The correlation coefficients show that the relationship between corporate governance mechanism and firm's performance are rather weak in reality.

Table VII: Logistic Regression Results

Parameter	Hypothesized sign	Primary data Estimate	P- value	OddsRatio
Intercept		3.6456	<.0001	
BC	-	-1.3651	*<.0001	0.255
BS	-	1.0951	*<.0001	2.990
RC	+	0.1398	0.6721	1.150
RMC	-	-1.4108	*<.0001	0.244
GD	-	-1.1457	*0.0002	0.318
DU	+	0.4114	0.2212	1.509
OC	+	0.6048	0.1015	1.831
AC	+	-0.6482	*0.0397	0.523
Cox and Snell Pseudo R^2		0.2600		
Nagelkerke R^2		0.3489		

*****significant at 5% level

Table VII shows that both Cox and Snell Pseudo R-square and Nagelkerke R-square have low value. The value for Nagelkerke R-square is 0.3489 indicating that the independent variables in the model only explain 35% of the changes in the dependent variable. Table VII also shows that BC, BS, RMC, GD, and AC are significant variables that influence firm's performance in the construction industry at 5% level.

Undoubtedly, a credible corporate governance mechanism should be part of the best practices in Malaysian construction industry. The presence of RMC is a transcending process which implies the improvement of risk assessment in contruction projects. It is now evident that a good corporate governance model would have an important impact on firm's performance particularly among the small and medium-size construction companies in Malaysia.

An odds ratio is a statistical technique that measures the degree of the relationship between exposure and outcome (Allison, 2010). Table VII also indicates that the projected odds ratio of BS is 2.9 times higher than the odds of other variables. Besides, the odds that BS would enhance firm's performance is 199% higher than other variables. The odd ratios of RMC, DU and OC were 1.15, 1.50, and 1.83, respectively. The odds of these three variables to predict firm's performance are higher than other variables. The odds ratios of BC, RMC, GD and AC are less than one, suggesting that firm's performance does not rely heavily on these four variables.

CONCLUSION AND SUGGESTIONS

The result from this study reveals that BC has a negative and significant relationship with firm's performance, which is consistent with the results obtained by Bauwhede and Willekens (2008). The presence of non-executive members is therefore crucial in preventing management fraud as well as to protect stockholders' interests (Beasley et al., 2000). Similar to the study of Akhtaruddin in 2009, a larger BS is associated with good corporate governance practice. Agency theory proposes that BS can be more consequential if management behavior is also observed (Allegrini and Greco, 2013). Given that RMC can protect various assets of a firm (Wang, 2012), RMC should ensure that the firm follows proper corporate governance mechanism. Moreover, AC is another credible factor and it can potentially instill investors' confidence and subsequently improve share returns. Both RC and DU do not show significant impact on firm's performance, which are consistent with the earlier findings by Talha et al. (2009) and Lam and Lee (2008) respectively. The result from this study also show that OC does not have a significant influence on firm's performance, which is in line with the study of Core and Larcker (2002).

This study is considered rigorous in explaining the corporate governance issue among registered construction companies under CIDB Malaysia. Firstly, RMC is a significant factor that influences the financial performance of those companies and they should be encouraged to comply with these corporate governance standards. Also, CIDB and policy-makers could encourage small-size construction firms to form RMC which will embrace effective corporate governance practices. Hence, CIDB should have a special coverage on RMC in its annual report. Secondly, this study has involved respondents from Wilayah Persekutuan and Selangor and these two states represent a major portion of the total registered contractors in Malaysia.

Table VIII: Corporate Governance (CG) Among Construction Firms in Malaysia

Empirical results	CG importance
CG Mechanism	(a) The role of SMEs in GDP contribution (Table II)
	(b) Construction is a risky business. (Baker, 2015)
	(c) Value at risk due to natural disasters and shortage of critical resources in construction business (Table III)
	(d) High level of investments and bank borrowings. (Altunbas, et. al., 2011)

Table VIII shows the importance of corporate governance in sustaining growth in Malaysian construction industry. Practically, the findings can be used as references for CIDB working committee to restructure or improvise the existing corporate governance practices. In addition, the findings prove that corporate governance mechanism exerts some desirable impact on firm's performance across the CIDB categories. The results from this study also reveal that the agency theory is not only important for public listed companies but also highly productive for small and medium enterprises. In this regard, future studies should consider other high-growth industries such as manufacturing and services. Since most of the previous studies put their focus on listed companies in the stock exchange, future studies should look into those non-listed firms. Perhaps, net profit margin, return on equity, Tobins Q and other profitability measures should be used as alternative proxy for firm's performance.

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