Revisiting the Role of Audit Committees: Evidence on Governance Characteristics and Firm Performance in Malaysia

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Abstract:

This study analyses the effect of audit committee characteristics on the performance of firms which are non-financial and are listed on Bursa Malaysia from the year 2017 to 2020. The research uses the GLS (Generalized Least Squares) method for estimation due to its efficiency in dealing with panel data. Both Tobin's Q and ROA are used as proxy variables for measuring firm performance.

The study found that there is no significant effect of audit committee size, audit committee independence, and audit committee meetings on either Tobin’s Q or ROA, and hence, the structure of the committee does not seem to have any effect on firm performance. On the other hand, firm age has a positive and significant effect on both performance variables, meaning that experienced firms perform better. Lastly, firm size (measured in log assets) has a significantly negative effect on both performance proxies, indicating that the large size of the firm leads to performance decline.

Therefore, the research demonstrates that the characteristics of the firm are more relevant than the characteristics of the audit committee for explaining firm performance.

Keywords: Audit Committee, Firm Performance, Corporate Governance, Malaysia.

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1. Introduction:

The powerful mechanism commonly referred to as the corporate governance system can be simply described as a systematic model based on a set of rules, policies and procedures that have been set up to help corporations to run effectively through their oversight, control and management. It is central in boosting the level of transparency, accountability, and performance of organizations especially protecting the interests of the stakeholders as well as the confidence of the investors (Tricker, 2019). An audit committee is a key part of this structure that is viewed as the center of inspection of the integrity and reliability of the process of financial reporting. The areas of its core duties are observing the financial disclosures, measuring the adherence to regulatory frameworks, and the effectiveness of internal control systems (Al-Matari et al., 2012).

Intervention of audit committee's failure to issue audit reports due to their independent oversight operations helps a great deal in improving corporate governance in terms of promoting financial discipline and discouraging fraudulent activities. This has been confirmed empirically and investigation has revealed that the existence of an active and independent audit committee is related to better financial performance and higher qualities in financial reporting (Klein, 2002; Abbott et al., 2004).

In Malaysia, a number of reforms have been designed with an aim of ensuring that the country achieves corporate governance practices that match international practices, as well as to curb corporate scandals that had affected the country. The Malaysian Code on Corporate Governance (MCCG) has seen various revisions ever since its first introduction in 2000. The latest and most important change was introduced in 2017, introducing the renewed emphasis on the role of audit committees in tightening the financial governance (Securities Commission Malaysia, 2017). This form of the MCCG underlines the necessity of board independence, risk oversight, and the role of audit committee in providing financial information that has been appropriately presented in line with pertinent accounting rules.

Given the challenges and limitations of the Malaysian Code on Corporate Governance (MCCG) 2017, it has seen the definition of a new comprehensive reform package, which is supposed to increase the accountability and integrity of corporate reporting as well as enhancing the role of audit committees as oversight bodies. These reforms highlight the need to instill the culture of good governance based on ethics, transparency and strict disclosure principles. Incorporating the services of the audit committee in the audit of financial statements, the MCCG 2017 will pursue the long-term corporate sustainability and regain the trust of people in the Malaysian capital market (Securities Commission Malaysia, 2017).

Even after these forward-looking measures scholars still seek to determine how certain features of audit committees e.g., the size, independence and how often they meet affect the corporate performance especially profiteering aspects such as the percentage of reaping on resources (return on assets ROA) and the percentage of reaping on equity (return on equity ROE). Although evidence in support of the significance of these attributes to boosting governance outcome has been broadly endorsed by the global studies (Abbott et al., 2004; Klein, 2002), that emerging in the Malaysian context has yet to be conclusive and limited, particularly, in the post-2017 MCCG.

This is especially so in the case of non-financial Bursa Malaysia listed companies, who are being subjected to greater governance standards of governance as it is being harmonized to the best practices at the international front. It is quite reasonable that, despite the fact that MCCG 2017 has resulted in the movement of the regime of corporate governance on Malaysia closer to international standards, there is a great need to conduct empirical studies to ascertain that the country has had its fair share of improvements in terms of the performance effects of the reforms. This insufficiency of the post-reform evidence does not allow policymakers and stakeholders to evaluate the actual efficiency of audit committee mechanisms to regulate the Malaysian corporation's financial success (Al-Matari et al., 2012; Hashim et al., 2019).

Research Problematic

Despite the introduction of the Malaysian Code on Corporate Governance (MCCG) 2017 being a big step in the overall improvement of corporate oversight, especially by expanding the role and composition of the audit committees, empirical evidence of its efficacy is still limited. Although the code undeniably highlights the aspects of audit committee characteristics in terms of its strategic nature of instilling accountability and enhancing good governance practices, one must note that there remains a dearth of historical evidence that decisively shows how these characteristics actually translate to the soundness of the performance of Malaysian firms particularly those that are not in the financial sectors (Securities Commission Malaysia, 2017).

It is hypothesized that these are the audit committee features that are critical in enhancing the quality of corporate reporting, minimizing agency conflicts, and eventually increasing firm value (Klein, 2002; Abbott et al., 2004). Example, a bigger and autonomous audit committee has been strongly related to better monitoring capabilities, which can restrain earnings management and position the decisions of the management in the interest of the shareholder. Nevertheless, although all the above theoretical assumptions deem post-MCCG 2017 studies in Malaysian non-financial firms to be of limited scope, empirical research findings on this topic are either inconsistent or inconclusive (Hashim et al., 2019; Salleh & Haat, 2020).

Such a gap in the literature leads to the following key research question: How far have the fundamental structural features of audit committees, namely size, independence, and frequency of meetings, influenced the corporate performance within governance environment that is under constant change? This question is essential to address, especially when the Malaysian corporations attempt to adjust to the global governance environment and flexibility in the populated market areas through aligning to the global governance options. It is, thus, required to carry out a more careful and contextual investigation of whether the stronger audit committees' structures would efficiently work out to identify a real increase in firm performance in the evolving corporate scene in Malaysia.

We can now ask the key question:

"What is the nature of the relationship between the characteristics of audit committees and the financial performance of non-financial companies listed on Bursa Malaysia, in light of the Malaysian Corporate Governance Code 2017?".

The subsequent inquiries concerning corporate governance techniques are posed to compre hend the influence of corporate governance on organizational performance:

- What effect does the size of the audit committee have on the performance of the company?
- What role is played by the independence of members of the audit committee on the company performance?
- What is the impact of the frequency of meetings of audit committee on the firm's performance?

Study objectives:

In this study, the project aims to accomplish the following basic research:

- Discover how the large size of the audit committee positively or negatively impacts company performance.
- Determine the extent to which the independence of the audit committee impacts company performance.
- Study the frequency of audit committee meetings and how these meetings impact company performance.

The research's importance

This study has several reasons why it is important:

The study contributes to what we have known previously by demonstrating the influence audit committee characteristics have on the business performance of Malaysian non-financial businesses. It provides regulators, investors and business executives with crucial information regarding the necessity of good governance systems particularly in the wake of the 2017 MCCG amendments. It assists policy makers to realise the extent of effectiveness of corporate governance reforms and how they may influence the policy ranging on governance decisions in the future.

Approach to Research

The quantitative method implemented to do this work is panel data analysis. The population included in the sample consists of the 50 largest non-financial firms listed on Bursa Malaysia during the period of 2017-2020. Tobin's Q, a well-known measure in research on corporate governance, is used to measure business performance, which is the dependent variable. We also consider the size and age of the firm to include the firm specific factors, size of the audit committee meetings, independence of the committee members and frequency of the committee meetings. To assure that the results are accurate, we will use STATA 15 0 with panel-corrected standard errors (PCSE).

Research Framework

There are two chapters in the research: The introduction gives a full picture of the research's history, explains the research issue, sets out the goals and research questions, emphasises the study's importance, and describes the methods and structure. The second chapter elaborates extensively on what has been already researched on audit committees, corporate governance and business performance based on past researches and conceptual frameworks.

2. Literature review

Over the past several years, corporate governance has paid more attention to internal control mechanisms and their role in increasing the performance of the firm and protecting interests of such a wide group of stakeholders as shareholders, employees, and the general population. The audit committee forms one of such mechanisms that have become a major pillar in assuring corporate governance and financial transparency. As a separate entity of the board system, the audit committee has an imperative control role of checking the bulwark regulatory nature of the management action, a check on the relevance of financial reporting, the sufficiency of internal controls and the audit functions (Tricker, 2019; Al-Matari et al., 2012).

The audit committee is normally a group of independent directors that has the mandate of overseeing the overall financial and auditing operations to ascertain that they lead to optimal interests of shareholders and in accordance to the regulations. Its autonomy is deemed very critical to proper monitoring since it minimizes incidence of conflict of interest and brings about objectivity in financial decision making (Klein, 2002). The interrelationships between audit committee features--including size, independence, and frequency of meetings--and corporate performance have been examined as part of empirical studies across a number of jurisdictions. The necessary role of audit committees is more or less agreed upon; the empirical results, however, are mixed. Other researches have noted that effectiveness is considerably affected by the internal culture within the organization and professional competence of the members of audit committee (Zaman et al., 2011). The notion is further supported by others stating the composition of audit committees of larger size and greater independence that represents an optimistic result of better governance and increased performance of the firm (Abbott et al., 2004; Salleh & Haat, 2020).

A new reform essential in Malaysia is the 2017 amendment of the Malaysian Code on Corporate Governance (MCCG) to promote board structures and effectiveness of the entire oversight roles. The updated code posed more rigorous requirements of the board independence, rearranged the grappling of board committees with the inclusion of the audit committee, and stressed their oversight role (Securities Commission Malaysia, 2017). All this was prompted by the intent to bring the governance practices of the Malaysian in line with global best practices as well as correct the situation in which investors lost trust due to a number of corporate collapses.

Yet, the contribution of these reforms to the firm performance, especially their non-financial sectors, has not yet been yet explored. In contrast to the financial industry, the non-financial companies in Malaysia are subject to a variety of operating, regulating, and organizational issues that can affect the way audit committees operate and their success in enhancing the performance of companies. Thus, empirical studies based on the post-MCCG 2017 caring corporate governance regime are urgently needed that can evaluate the influence of audit committee qualities in the non-financial sector in particular.

2.1 Theoretical Framework

In performing this study, three theoretical perspectives have been considered as the pillars in providing important information concerning the synergy of audit committee characteristics and firm performance. The theories have given a preliminary conceptualization on how corporate governance mechanisms define roles, expectations, as well as influences on organizational results. Each of the theoretical lenses used in formulating the hypotheses of the study is described as follows in the subsequent subsections:

2.1.1 Agency Theory

Jensen and Meckling came up with agency theory in 1976. It has since become one of the most popular ways of contemplating corporate governance. The key idea of this thesis is that there are inherent conflicts of interest in modern firms due to the nature of the ways the power transferred between the owners (managers) and principals (agents) changes when delegation of corporate duties occurs. Due to this duality, managers are likely to behave in their own best interest rather than the interest of shareholders who are involved to maximise their value. The use of the audit committee and other governor tools of corporate governance assists in the provision of the same goals between the managers and the shareholders. According to Famas and Jensen (1983), an effective audit committee can enable agencies to save some money because such an audit committee pays more attention to the financial reporting, the internal controls, and the behavior of managers. The audit committee must be neither too small nor too few to fulfill its responsibility of controlling things properly. Take an example in that the independent members would raise their voices concerning choices that may not be of benefit to shareholders and would not be easily influenced by the management. The success of audit committees is associated with the improved firm performance that is connected to greater financial transparency and enhanced profits. Due to this, the composition of audit committees directly affects the success of a company as indicated by the agency theory.

2.1.2 Resource Dependence Theory

According to Pfeffer and Salancik's resource dependence theory (RDT), organisations are open systems that need resources from outside to expand and stay alive. There are always factors we can't control that have an effect on our money, personnel, raw supplies, and access to markets.

According to the concept of resource dependency, companies have to consider the fact that they are reliant, and when it comes to acquiring the resources that they need, they should always have them on hand through establishing networks and partnerships. This theory suggests that the audit committee's members and their talents have a great effect on how much knowledge, relationships, and experience a company has to help it make good choices and do well. is especially true for those who own enterprises.

Typically, the members of the committee draw on their particular skills to aid in the laborious tasks such as in risk management and money tracking (Pfeffer and Salancik, 1978).

Members can also have the capability of making a business work well with their personal networks acquiring valuable information as well as forming links. Under this hypothesis, a company can consider making more effective strategic decisions, enhance its governance, and stay competitive when it includes on its board the members that are not members of the same company and an audit committee whose knowledge is diverse. The presence of audit committee members who are very well established and connected and have an expertise in the filed of work may help businesses to compensate with whatever maladies they indulge in and adapt to the new environments (Hillman and Dalziel, 2003).

Resource dependence theory assists us in realizing how the composition of the audit committee can influence the manner in which a business operates by making it easier through the easy access and utilization of the resources that a business needs.

2.1.3 Stakeholder Theory

Freeman (1984) initially published Stakeholder Theory, which says that a company's duty goes beyond just its shareholders to encompass all people whose lives are touched by its actions. Stakeholders refer to the persons with interest in business. These are shareholders, employees, customers, vendors, the government agencies, communities and the general population. This belief is that the companies will eventually perform better should they focus on their stakeholders and strive to assist them.

In the light of the stakeholder theory, the strategy of being open, responsible, and moral are extremely important in the management of a firm. A very critical element in the government that maintains the life of these principles is the audit committee. Audit committees are of paramount importance as far as defending the interests of the stakeholders is concerned because of the fact that they guarantee that financial reporting is accurate, risks managed, and internal controls exist. This ensures that the company will do what is good and what the law says (Solomon, 2020; Garcia-Sanchez et al., 2017).

An auditor base and effective audit committee can increase the confidence of the stakeholders who will promote disclosures that are truthful and aboveboard, as well as provide outstanding supervision. The committee must be frequent, well informed, and also possess some independent, non-executive members which will allow them to make outstanding decisions and identifies any problems with governance (Al-Matari et al., 2014; Kusnadi et al., 2022).

Stakeholder theory is that the incorporating large and smoothly functioning audit committees, which are involved, can help corporations to denominate their reputational risk, enhance their legitimacy and ensure that they take nothing, which contrasts with the desire of the stakeholders.

2.2 Hypotheses Development

This section develops the theoretical and empirical evidence presented previously in an attempt to present actual instances of the impact of various elements of an audit committee on the success of the corporation. The size of the audit committee, how independent it is, and how often it meets are all significant factors to think about since they may have a big effect on a company's bottom line. Because Malaysia's rules and regulations are always changing, what was true in the past may not be true now. These parts will be discussed in more detail in the following sections with the support of theories and real-world examples.

2.2.1 Audit committee size and firm performance

The size of an audit committee has been the topic of a lot of discussion in academic writing on how it affects a company's performance. Under the Agency Theory, the more diversified an audit committee is, the more it can keep a check on the management as it will be able to experience more and have more points of views as well as information. The improved performance of the company may be achieved with improved methods of governance (Fama & Jensen, 1983). Large audit committee can be in a position to verify financial statements, ensure that practices are being adhered to and monitor internal controls. All these can possibly render financial reporting more feasible.

Resource Dependence Theory however presents the idea that larger committee can reach more external networks and resources hence enabling them to make better judgements and manage their firm better (Hillman & Dalziel, 2003). In the other side, a very large organisation can make bad decisions and coordinate. In the work of Lipy and Rahman (2020), it can be seen that an oversized committee becomes unworkable and has an issue with its internal dynamics. Therefore, it is possible to say that a larger audit committee may be a good idea, although all its advantages may vanish when this committee is excessively large.

The 2017 amendment of the Malaysian Code on Corporate Governance (MCCG) was an indication of good governance requiring well-organized committees composed of independent directors. It's crucial to find out if the size of the audit committee has a big effect on how well non-financial companies in Malaysia do. What I have assumed therefore is as follows:

H1: The size of an audit committee is positively associated with the company success with a strong positive correlation.

This theory is founded on the view that, a larger audit committee enhances supervision as well as governance, which improves how the organisation operates.

2.2.2 The independence of the audit committee and firm performance

Audit committee independence is a very significant concept in corporate governance because it will demonstrate the independence of auditing committee in determining its course of action devoid of the influence of the management. As the Agency Theory indicates (Jensen & Meckling, 1976), the independence of the audit committee is necessary to prevent conflicts of interest between the shareholders and the managers. People think that independent audit committees make corporate governance better by keeping an eye on the company's financial reporting and internal controls in an unbiased way. This ensures that there is accuracy in the financial statements and that the statements are reliable. This can improve the organization's overall performance by lowering the risk of financial mismanagement or fraud.

Further, Resource Dependence Theory states that, an independent audit committee could import helpful external opinions and expertise, which could assist in enhancing decision-making and resource allocation. Because independent committee members are less involved in the company's day-to-day operations, they are more likely to give unbiased advice and criticism that helps the organisation operate better in the long run (Pfeffer & Salancik, 1978). Studies have shown that the audit committee's independence is linked to better financial reporting, which can boost company performance and investor trust (Choi et al., 2013).

It is important to note, nevertheless, that the audit committee's independence is typically seen as a good thing. But there is no absolutely obvious connection between committee independence and the success of businesses. When the level of an audit committee is too independent, this may make the management more difficult to communicate and collaborate with causing a delay in the decision-making process (Vafeas, 2005). Due to this reason, it is highly significant to examine the particular situation with Malaysian companies, at least after the MCCG amendments in 2017, to identify whether the independence of an audit committee influences the business performance of the companies in the specified situation.

Considering this, the following hypothesis is advanced:

H2: The independence of the audit committee has a closed strong positive relationship with performance of the company.

This notion forms its foundation on the premise that an independent audit committee is more capable of overseeing what management does, and safeguards shareholders interest, which would translate into higher performance of the firm.

2.2.3 Meetings of the Audit Committee and and firm performance

Also relevant to the determination of whether the corporate governance systems are performing well is the number of times the auditing committee meets. According to Agency Theory (Jensen & Meckling, 1976), the audit committee can do its job of overseeing management's activities and making sure that financial reporting is correct and in line with the interests of shareholders only as often as it meets. In the course of the regular meetings, the committee members can review financial statements, internal control, as well as compliance issues. This makes it easier to find and fix problems early, which improves the company's long-term performance.

Resource Dependence Theory argues that frequent meeting of audit committee will provide more opportunities to the members to communicate with top management and share with them effective information, suggestions and external perspectives that can be used to facilitate the making of superb judgments (Pfeffer & Salancik, 1978). Such increased level of engagement could assist the company in overcoming some of its challenging business issues and improve its performance by providing more resources and expertise to the committee.

Even while more meetings are often seen as a sign of active monitoring, it's important to remember that just having more meetings doesn't always mean better performance. The usefulness of the meetings will largely depend on the quality of the sessions, the commitment the committee members are making as well as the capability to act on what has been learned in those meetings. Excess meetings may also be counterproductive as it causes delays and bureaucracies that can hamper performance (Klein, 2002).

When it comes to Malaysian companies, it's important to look at the link between the frequency of audit committee meetings and the success of the company. This is even more the case since the MCCG amendments of 2017 that came about and increased the significance of good corporate governance.

Accepting such findings, the hypothesis below is suggested:

H3: The higher the frequency of meeting of audit committee, the better would be the performance of the company.

This hypothesis is based on the premise that greater number of meetings will render the audit committee more effective in terms of monitoring management and ensuring that financial reports are of superior quality that will results in increased performance by the company.

This chapter has revisited major theoretical approaches-Agency Theory, Resource Dependence Theory and Stakeholder Theory in order to give conceptual basis of how the audit committees play a role in corporate governance. It also analyzed literature regarding research on the association between audit committee features (size, independence, and the frequency of meetings) and firm performance where contradicting empirical findings in various contexts were pointed out. Three hypotheses were formed based on the review and will be used as the foundation on the empirical exercise in the following chapters, considering the non-financial sector in Malaysia since the revision of MCCG in 2017.

3. Methodology

In this chapter, the researcher gives the research design that will be used in the study. It describes the design of the research, the sample to be used, the source of research data, how the measured variables will be obtained and the statistical tests to be applied to test the proposed hypotheses on the correlation between the characteristics of the audit committee and the performance of the firm in the context of Malaysian non-financial companies.

3.1 Research Design

The work is a quantitative analysis with panel data analysis that is used to understand the dynamics of the audit committee characteristics and their effect on the performance of firms with time. The given longitudinal design enables a more sophisticated interpretation of differences between the firm and over the years (Baltagi, 2008).

3.2 Sample Selection and Data Sources

The sample constitutes the largest 50 firms not classified as financial in the main board of Bursa Malaysia, which are based on their market capitalization. The financial institutions were not included because they have varied rules and methods of governing (Abed, Al-Attar, & Suwaidan, 2012). The research is dated between 2017 and 2020, which is the same time of the Malaysian Corporate Governance Code (MCCG) amendment to reflect one containing more rigorous regulations on issues of board oversight and transparency.

Data was downloaded via the following sources: Thomson Reuters Eikon database, company annual reports and board profiles. Financial and governance information will be comparative, consistent and objective, thanks to the use of secondary data.

Using STATA, the data were processed and analyzed in a manner appropriate for panel data. To begin the analysis, descriptive statistics were calculated for both the dependent and independent variables to provide an overview of the central tendencies and distribution characteristics of the data. Tobin's Q coefficient, which represents a specific dimension of firm performance, was used, as proposed by Djerfi and Louadj (2023) ; Djerfi and Chaalal (2023).

3.3 Variable Measurement

Table 1: Measurement of variables

Variable Name	Abbreviation	Measurement
Firm Performance	Tobin’s Q	Market value of assets / Book value of assets (Abderahmane, D., & Abdelillah, C. C. 2023; Djerfi, A., & Chaalal, C. A. (2025)
Audit Committee Size	AC_Size	Total number of members on the audit committee
Audit Committee Independence	AC_Ind	Number of independent non-executive directors in the audit committee
Audit Committee Meetings	AC_Meet	Number of audit committee meetings held annually
Firm Age	F_Age	Years since incorporation (Abderahmane, D., & Mounir, L. 2023 ; Djerfi, A., & Chaalal, C. A. 2025).
Firm Size	F_Size	Natural logarithm of total assets (Bozec, 2005; Abderahmane, D., & Mounir, L. 2023).

source :Source: Authored by the researchers

3.4 Analytical Technique

Given the nature of the data (50 companies over 4 years), the System GMM model was adopted instead of the Difference GMM model. This is because the System GMM is better suited to relatively small samples, combining difference equations and level equations, which improves statistical efficiency, reduces bias in limited samples, and enhances the power of the instruments used.

And this is the way regression analysis works:

Firm's Performance Qit = β0 + β1 AC_Sizeit + β2 AC_Indit + β3 AC_Meetit + β4 F_Ageit + β5 F_Sizeit + ε it.

Where: i is the firm index, t is the time (year) and εit\varepsilon_{it} is the error term which is here to indicate random shocks unique to firm and period.

In this chapter, the research is discussed in terms of design and research methods that can be used to investigate the relationship that exists between the attributes of audit committees and the performance of firms in Malaysia.

4. Results and Discussion

The chapter reports and describes the empirical data of the research. It starts with descriptive statistics and correlation matrix to give an insight into the nature of data and the early relationships of the variables that will form a basis of econometric analysis to follow.

4.1 Descriptive Statistics and Correlation Matrix

Table 2: Descriptive Statistics

Variable	**Mean**	**Median**	**Min**	**Max**	**Standard Deviation**	**Skewness**	**Kurtosis**
Tobin's Q	2.124	1.250	0.450	8.615	2.139	1.913	5.706
ROA	9.028	7.48	-12.82	46.1	9.078	1.522	6.428
AC Independence	0.874	1.000	0.400	1.000	0.160	-0.665	1.901
AC Meetings	4.870	5.000	4	7	0.852	0.934	3.452
Firm Age	45.32	33.00	10	192	33.138	2.169	8.794
Log Assets	6.280	6.230	4.740	7.720	0.678	0.132	2.300

source :Source: Authored by the researchers based on Stata outputs

Table 2 is used to show the descriptive statistics of the study variables. Tobin's Q showed that the average performance of the firms was 2.124, with a standard deviation of 2.139. The variable could range between 0.450 and 8.615 indicating that there is tremendous difference across firms. As for Return on Assets (ROA), the average performance was 9.028 with a standard deviation of 9.078, ranging from -12.82 to 46.1, indicating a noticeable variation in firms' operational performance and the possible presence of outliers.

The worth of the audit committee (ACsize) was 3.45 on average, and audit meetings were found to be 4-7 times per year and the mean was 4.87. The audit committee's independence (ACind) was quite high, with an average of 87.4%. It implies that majority of its members consisted of independent directors. A firm averaged 45.32 years old and logarithm asset value was 6.28. As noted by the natural logarithm of total assets, the number of age and sizes of these firms differed significantly.

Correlation Matrix Analysis

Table 3: Pearson Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) TobinsQ	1.000						
(2) ROA	0.714	1.000					
(3) ACzise	0.079	0.077	1.000				
(4) ACind	-0.027	-0.063	-0.326	1.000			
(5) ACmeet	-0.141	-0.106	0.052	-0.134	1.000		
(6) firmage	0.082	0.093	0.040	0.065	-0.169	1.000	
(7) logasset	-0.275	-0.235	0.161	-0.198	0.230	0.325	1.000

source :Source: Authored by the researchers based on Stata outputs

We used a Pearson correlation analysis to look at the main variables in the model and see how they were related to the dependent variable (Tobin's Q) and the independent variables. We, further, examined the existence of any potential multicollinearity between the covariates. All results of the correlation matrix indicate that majority of the correlations between the variables are weak and correlation coefficients remain in an acceptable range. This means that there isn't a lot of multicollinearity.

Table 4: Variance Inflation Factor (VIF) Results

Variable	**VIF**	**1/VIF (Tolerance)**
Logasset	1.311	0.763
Firmage	1.226	0.816
ACind	1.164	0.859
ACzise	1.133	0.883
ACmeet	1.132	0.883
Mean VIF	**1.193**	

source :Source: Authored by the researchers based on Stata outputs

The results indicate that the model is robust to deal with any errants that could arise with multicollinearity of independent variables. This increases the validity of the findings of the following regression analysis. This was also supported by the Variance Inflation Factor (VIF) test whose results indicated that the values were clearly lower than the necessary cut off. This contributed to the validity of the statistical analysis which was applied.

Regression Results

Several econometric problems detected through the diagnostic tests performed along with the estimation procedure are found to be present in the dataset. First of all, according to the results of the Breusch-Pagan LM test (p=0.0000), the panel effects are present since the hypothesis in favor of the pooled OLS model has been rejected. Also, the results obtained from the Hausman test indicate that the differences between fixed and random effects are insignificant at p=0.2115. Besides, Pesaran’s test confirms the cross-sectional dependence between firms, the Wooldridge test identifies the presence of first-order autocorrelation (p=0.0000), and the modified Wald test shows that there is heteroskedasticity across panels (p=0.0000). Based on the described features of the sample, the research uses the generalized least squares estimator.

According to the results of the GLS regression, the explanatory power of the estimated model is statistically significant for Tobin's Q and ROA.

Relevance of models

Overall relevance of the models is demonstrated via Wald Chi-Square Statistics. Nevertheless, explanatory capability of the model depends largely on the firm characteristics such as size (ln assets), which always have a statistically significant negative influence on performance. Audit committee size and independence have no statistical significance at all in any model and hence can be considered irrelevant in determining performance levels.

Table 5: Panel Data Regression Results for Tobin's Q

Cross-sectional time-series FGLS regression

TobinsQ	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
ACzise	.277	.186	1.49	.136	-.087	.642	
ACind	-1.045	.903	-1.16	.247	-2.816	.725	
ACmeet	-.08	.132	-0.60	.546	-.339	.18	
firmage	.014	.005	2.65	.008	.004	.025	***
logasset	-1.074	.223	-4.81	0	-1.512	-.636	***
Constant	8.552	1.826	4.68	0	4.973	12.131	***
Mean dependent var		2.084	SD dependent var			2.020	
Number of obs		200	Chi-square			30.236	
Prob > chi2		1.000	Akaike crit. (AIC)			831.628	

*** p<.01, ** p<.05, * p<.1*

source :Source: Authored by the researchers based on Stata outputs

Table 6: Panel Data Regression Results for ROA

Cross-sectional time-series FGLS regression

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
ACzise	1.019	.845	1.21	.228	-.637	2.676	
ACind	-6.585	4.103	-1.60	.109	-14.627	1.457	
ACmeet	-.129	.601	-0.22	.83	-1.308	1.049	
firmage	.067	.024	2.76	.006	.02	.115	***
logasset	-4.466	1.015	-4.40	0	-6.455	-2.478	***
Constant	37	8.295	4.46	0	20.742	53.259	***
Mean dependent var		9.028	SD dependent var			9.078	
Number of obs		200	Chi-square			25.395	
Prob > chi2		1.000	Akaike crit. (AIC)			1437.014	

*** p<.01, ** p<.05, * p<.1*

source :Source: Authored by the researchers based on Stata outputs

According to the GLS regression findings, the correlation between the audit committee traits and firm performance in Malaysia seems to be rather weak and statistical in nature in respect of Tobin's Q and ROA. The traits of the audit committee, i.e., size and independence, seem to be insignificant across both of the regression models and therefore indicate that merely having formal structures in place does not imply an increase in monitoring effectiveness or firm performance. According to Agency Theory, governance systems will be able to have any effect on firms when they address the issues of information asymmetries and agency problems, yet where there is concentration of ownership, such as in Malaysia, the control of decision-making power lies in the hands of controlling shareholders.

In the same manner, audit committee meetings do not appear to be important for both models, meaning that meeting frequency is not necessarily indicative of the level of effectiveness or quality of oversight. Indeed, this finding reinforces previous findings that show that the level of effectiveness of corporate governance has more to do with involvement than adherence to procedural formalities (Beasley et al., 2009). Conversely, there appears to be a strongly negative and statistically significant effect on Tobin's Q and ROA from firm size, which means that bigger companies can incur higher agency costs, inefficient bureaucracy, and coordination problems, which lead to lower market valuations and financial performance.

Firm age is found to be positively significant for performance in both regression analyses, implying that older firms can capitalize on experience and organizational learning that make their operations more efficient. This result is consistent with previous empirical evidence based on emerging countries such as Malaysia, indicating that organizational maturity generally plays a positive role in ensuring the stability and performance of firms (Rahman & Ali, 2006; Haniffa & Hudaib, 2006).

Generally speaking, these results concur with previous research conducted in emerging markets and Asia where the importance of ownership structure and institutional context is stressed, as opposed to board structure, in influencing the efficacy of corporate governance practices. Consequently, this implies that efforts aimed at enhancing audit committee efficacy in Malaysia should focus on functional efficacy and independence, among others.

Conclusion

According to the results of this research, there is no homogeneous and statistically significant influence of audit committees' features on non-financial companies' performance that are traded at Bursa Malaysia between 2017 and 2020. Though audit committee's independence and size demonstrate certain effects, the associations are inconsistent with respect to the two types of firm performance used as dependent variables, such as Tobin's Q and ROA. At the same time, the influence of firm size is found to be significant and negative for both performance types, while audit committee's features have no significance.

Corporate governance efficiency cannot be assessed by formal structural elements alone. More attention should be paid to the efficiency of corporate governance procedures themselves. Mere establishment of an audit committee does not imply any increase in firm performance, but the latter can depend on its role and effectiveness.

With these results in mind, some of the avenues worth pursuing for further research include the following to overcome existing challenges and better understand the efficacy of audit committees:

It is advisable that future research should shift from the quantity to the quality of audit committee meetings and evaluate the dynamics, substance, and effectiveness of such meetings using a qualitative approach. It would also be prudent for researchers to conduct longitudinal case studies of companies to determine the effects of governance and audit committee reforms on companies' performance over an extended period of time in light of changing regulatory and economic environment conditions.

Sector-wise differences should also be considered since the effectiveness of governance could differ among sectors depending on risk and regulations. Additionally, there is need for the introduction of other board-related variables in the governance framework such as board diversity and CEO duality to help evaluate the effectiveness of governance within firms. Other related variables include the relationship of audit committees with other board subcommittees like risk and compensation committees, as well as external factors like changes in economic and regulatory environment and environmental, social, and governance requirements.

Future research can also consider comparative cross-country studies focusing on the effect of institutions, law, and culture on audit committee effectiveness. Future research should also consider incorporating technology such as artificial intelligence into the audit committee framework. Overall, achieving sustainable corporate governance effectiveness requires strong legal and regulatory frameworks, long-term strategic planning, and substantial investment in institutions, technology, and infrastructure (Djerfi & Chaalal Cherif, 2024).

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