

CHAPTER 3

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

3.1 Introduction

The purpose of this chapter is to review the literature related to the impact of CG effectiveness (BODE and ACE) and SCQ as moderator variable on firm performance. Next, it discusses the development of hypotheses to investigate the relationship between the study's variables. This chapter consists of ten main sections, including this introductory section. This section is followed by section 3.2, which contains theoretical perceptions to explain related theories on CG and financial performance to investigate the relationship between variables depends on the theoretical framework. Next, section 3.3 examines CG and firm performance related to the previous literature and discusses the relationship between CG and firm performance. Section 3.4 presents the conceptual frame and articulates the direct relationship between BOD and AC with Takaful companies' performance and the indirect relationship with SCQ as moderator. Section 3.5 discusses the financial performance and measurements tools including ROA, ROE and EPS. Section 3.6 considers CG effectiveness and hypothesis development. Section 3.7 presents a review of the previous literature on the relationship between the BOD's effectiveness and firm performance. Section 3.8 discusses the previous literature on the relationship between AC effectiveness and firm performance. Next, Section 3.9 discusses SC quality, which is used as a moderating variable between BOD's effectiveness and AC effectiveness and firm performance. Finally, section 3.10 provides a chapter summary.

3.2 Theoretical perception of Corporate Governance

Four popular theories are typically used when discussing corporate governance issues: The Agency Theory, the Stewardship Theory, the Stakeholder Theory and the Resource Dependency Theory. This study employed a multi-theoretical perspective to directly respond to the latest calls for multi-theoretical approaches to studying CG and financial performance (Abdou et al., 2020). The four theories emphasize the different functions of a board.

3.2.1 Agency Theory

The Agency Theory first appeared in 1776 by Adam Smith in his book *Wealth of Nations*, who argued that companies are managed and owned by different people at high risk and that a conflict of interest exists between them. In 1976, Jensen and Meckling expanded the Agency Theory by explaining that a company's owners delegate authority to a group of professionals from outside the company to manage a company. At the same time, a BOD monitors and controls the work of managers. Contracts between the owners and managers define agency relationships (Jensen & Meckling, 1976; Bergen et al., 1992). Agency problems can arise because of the separation between control and ownership (Fama & Jensen, 1983).

The parties of the companies are divided into two groups: the principals who are the owners of the company and the second group who are the agents working in the administration of the company. The Agency Theory posits that disagreement and conflict between the two groups can cost the company additional amounts to resolve these disputes between the parties. Agency Theory has dominated the examination of CG. It has become a starting point for study because modern companies have many

owners. Thus, the interests differ between owners and managers and affect the administrative decisions according to each party's interests.

The agency problem begins when the agent's actions do not match the owners' interests, which affects the company's value. Johnson et al. (2000) noted that managers take advantage of their positions, powers and information to serve their self-interests, such as selling goods, services and assets to parties with whom they have interests or obtaining unique benefits, such as obtaining loans on concessional terms or acquiring preferential prices. Therefore, Agency Theory illustrates the problems between the parties and the mechanisms to solve and avoid them in the future to increase the value of a company in the market and increase investor confidence.

According to Obid and Naysary (2014) and Mohammed and Muhammed (2017), the agency problem is even more complicated for IFIs where the profit, the loss and the risk are shared between the IFIs and its investors, unlike conventional business whereby the return can be fixed. Thus, this issue in IFIs is not limited to the separation of control and ownership but extends to the separation of control and cash flow and the compliance with Shariah law, which makes the agency problem in IFIs even more intense than conventional business. As mentioned in the studies of Shariah governance, in IFIs managers should be held accountable not only to the company or shareholders but also to Allah (SWT) with the ultimate goal of welfare and success for society (Abu-Tapanjeh, 2009).

The Islamic agency theory teaches us partnership members to practice respect, gratitude, patience, tolerance and also to believe not only in the economic reward/outcome as in the conventional agency theory but also in spiritual rewards (blessings from Allah). The practice of lying, shirking, conceit and jealousy must be avoided by each party. This acquires continuous Islamic teachings and training to the

partnership member for them to be educated with spiritual knowledge. Islam recognizes the knowledge process of each individual, seeking knowledge is a continuous process in Islam. Furthermore, the spreading of knowledge has been encouraged by the Prophet Mohammed (p.b.u.h). “Allah illuminates a man who hears hadith from me preserves it carefully and passes it on to other” (Khalid & Sarea, 2018).

In line with the concepts of agency theory, Shariah governance is a monitoring mechanism in IFIs to address the agency problem in Shariah matters. Therefore, providing transparent and accurate information regarding the compliance of IFI functions with Shariah principles can reduce the information asymmetry and subsequently increase the trust and confidence of public and investors (Obid and Naysary 2014).

The Agency Theory addressed CEO duality. From this viewpoint, the position of CEO should be separated from the chairman of BOD (Cadbury, 1992; Kiel & Nicholson, 2003; OECD, 2004; BCBS, 2006; Le et al., 2006). From the agency viewpoint, independent directors and non-executive directors are expected to increase the effectiveness of CG as they have a critical role in decision-making on the board and concerning executive management. They are assumed to be a tool controlling and enhancing the effectiveness of the BOD. NEDs have high skills and exercise that help improve decisions and conduct their roles independently without any pressure for their personal interests (Abdullah, 2004).

In summary, Agency Theory clarifies the board's role in reducing the conflicts between principals and managers. The governance mechanisms represented by the BOD are considered the main factors in interpreting the effect of the Board's effectiveness on the performance of firms from the viewpoint of Agency Theory.

3.2.2 Stewardship Theory

This theory assumes that the principle of trust exists in people in general, particularly in individuals to whom the owners delegate authority to manage their companies' business. Therefore, to achieve the best results and achievements of companies' owners, an organizational structure must be established to accelerate decision-making and take advantage of the opportunities given to a company to achieve the best returns in the future. This theory supports the combination of the role of the chairman of the BOD and the company's executive manager. The theory posits that the trust and honesty of managers and internal motivation has a more significant impact of external stimulus and have a great incentive to maximize the interest for all parties (Nicholson & Kiel, 2003; Albrecht et al., 2004).

Emphasis is placed on the concept of good leadership adopted by the company's owners in Stewardship Theory (Olson, 2008). Donaldson and Davis introduced Stewardship Theory (1989), offering an alternative to the Agency Theory by suggesting a rapprochement between mentors and managers and owners and unselfish objectives among an institution's employees. In Stewardship Theory, a good steward protects and increases owners' wealth by improving the company's overall performance (Icke, 2000; Davis et al., 1997).

A lack of confidence in Agency Theory led to the acceptance of Stewardship Theory, where the main feature is the existence of trust between principals and agents to achieve the greatest benefit to all parties. (Donaldson & Davis, 1991). Stewardship Theory assumes that owners and managers work as supervisors to achieve the greatest return and increase all stakeholders' wealth (Davis et al., 1997).

Stewardship Theory assumes that administrative decisions are not based solely on financial motives and that other aspects, such as work ethics, job satisfaction, achievement are important. Supporters of Stewardship Theory assert that the outstanding performance of companies is the result of the outstanding work of executive managers who work to increase the wealth of the shareholders (McClelland 1961; Argyris, 1964; Herzberg, 1966; Muth & Donaldson, 1998).

More importantly, from Islam's perspective, the concepts of Tawhid, Khilafah and brotherhood form the basis of the Stewardship Theory. Thus, as appointed board members of a Shariah-compliant organization, a steward will carry out his/her duty of a Khalifah (leader) by recognizing CG disclosures as part of his/her accountability to fulfil his/her obligations to God and the broader community (*ummah*). However, the integration of a profit-and-loss sharing mechanism in the basic operation and the ethical conduct of business attached to the *Maqasid al Shariah* (the objectives of Islamic law) (Bhatti & Bhatti, 2009) of the Islamic financial industry has been perceived as being in the best interests of the group rather than for individual financial rewards.

Maqasid al Shariah's essence is to substantially curb any endeavour to acquire wealth by unlawful means, which leads to social inequality and social waste (Bhatti & Bhatti, 2009). As such, the governance structure in IFIs should include establishing a Shariah and governance committee, an internal Shariah performance review as an assurance of continuous Shariah compliance and the provision of relevant information intended to govern the relationship with users (Sulaiman et al., 2015). One of these strong causes to push stewards forward to excellence in performance is faith as stipulated in the Holy Quran: "Believe in Allah (SWT) and his messenger and spend out of that in which he has made you successors" (57:7).

Donaldson (1991) believes that internal directors who have the ability and experience are better than external managers. They can manage a company successfully and achieve the best profits. Internal directors have full knowledge to understand the business proficiently. Some previous studies such as Amran (2010) and Arosa et al., (2010) used Stewardship Theory to analyze the relationship between the BOD and the performance of companies. They demonstrated that a company's internal members perform better than external members because internal members understand the market better than external members. This leads to decisions that serve the benefit of the company and increase the wealth of owners.

The Stewardship Theory is also opposed to separating the executive manager's functions from the Chairman of the BOD and endorsing the dual role of the Chairman of the BOD and the Executive Director. (Davis et al., 1997). Donaldson and Davis's (1991) view is that the presence of one leader serving the company as CEO and Chairman of the Board leads to a significant increase in company performance.

In conclusion, the Stewardship Theory strongly posits that managers and boards of directors are the appropriate officers to give full confidence to perform their duties freely to achieve the best return for shareholders. The theory argues in favour of CEO duality because of the unity of knowledge and decision-making that support and enhance performance.

3.2.3 Stakeholder Theory

The first appearance of Stakeholder Theory in the 1970s was due to criticisms of the shareholders' model (Sternberg, 1997). Freeman developed this theory in 1984, identifying a wide range of stakeholders individuals, and groups that either affect or are influenced by a company's activities. Freeman et al. (2004) argued that the

Stakeholder Theory is concerned with protecting all stakeholders, whether individuals or groups, such as shareholders, suppliers, creditors, or governments. Moreover, the theory is interested in social and environmental considerations that affect a company's business. The World Business Council for Sustainable Development (1999) identified shareholders as the representatives from academia, church, labour organizations, human rights groups, shareholders, indigenous peoples, public and private organizations, customers/consumers, communities, suppliers, employees, and legislators.

Solomon (2010) explained that the impact of companies was tremendous and affected many sectors of society, not merely company shareholders. This is contrary to Agency Theory, which assumes that managers were responsible only to stakeholders (Chen & Roberts, 2010). The above explanation means that a company must protect all related interests of different stakeholders, including shareholders (Clarke, 1998; Solomon, 2010).

The objectives of the stakeholders vary according to the interests of each. For example, shareholders want a high return for their investments; however, employees expect income and job security. Creditors desire a strong financial position to secure their rights and investments, and policymakers wish to apply governance rules to gain market stability and provide stakeholder protection.

Stakeholder Theory has a set of assumptions: First, a company's sole goal is not only to generate financial profit for owners but also to achieve the general interests of society (Mitchell et al., 1997; Chen & Roberts, 2010). Second, the accountability of the executive directors is not limited only to creditors and owners, but also to other stakeholders such as government, suppliers, employees, customers and the local community (Clarke, 1998). Third, Stakeholder Theory focuses on social responsibility

and ethical ideas governing a company's business (Letza et al., 2004; Westphal & Zajac, 2013).

In line with the concepts of stakeholder theory which calls for accountability toward stakeholders, Shariah governance is considered as a significant tool for IFIs to discharge this accountability particularly with regard to Shariah issues (Grais & Pellegrini, 2006). According to Iqbal and Mirakhor (2004) the roots of the stakeholder model can be found in the principles of property right and commitment to contractual agreements. The concept of property right is recognized, respected and protected in Shariah principles as Prophet Muhammad (pbuh) stated: “So give to everyone who possess a right his right” (kull dhi haqin haquhu).

The Islamic opinion on the theory of stakeholders examines the verification of stakeholders' capacities and their obligations to comply with the relevant guidelines and their various stakeholders. Iqbal and Mirakhor (2004) discussed the Islamic concepts of ownership and agreements. In these concepts, a business is responsible for protecting implied inviolability agreements by protecting all concerned parties' rights, including customers, investors, sellers, workers, and local communities. Shariah law promotes social order and economic development.

Within IFIs, there are several players and investors. This raises the question of whether all shareholders' interests are to be protected (Islam & Barghouthi, 2017). Changing corporate scenarios have focused on firm stakeholders on corporate governance theorization (Islam, 2016). Islamic Stakeholder Theory says all parties that influence a company's performance are essential for its success. Such parties might be suppliers, business associations, consumers, among others (Islam & Bhuiyan, 2019).

Stakeholder Theory has been criticized in two aspects: First, it conflicts with companies' main objective to maximize shareholders' wealth. Second, it conflicts with the relationship between the agent and the owners, which assumes that managers are accountable to all shareholders. From the preceding, it is clear that Stakeholder Theory is not compatible with the basic principles of governance. Nevertheless, Stakeholder Theory remains a principal CG theory (Clarke, 1998; Solomon, 2010; Chen & Roberts, 2010) (Heenetigala, 2011). The theory of stakeholders from an Islamic perspective offers a general verification of stakeholder capacities and their obligations to comply with the relevant guidelines (Islam, & Bhuiyan, 2019).

In conclusion, some studies use Stakeholder Theory to examine the relationship between CG and company performance such as (Hillman et al., 2001, Udayasankar et al., 2005, and Otman, 2014). Per Stakeholder Theory, the BOD has vital roles in serving all interested stakeholders (such as creditors, employees, government, and suppliers) and shareholders of a firm (Freeman et al., 2004).

3.2.4 Resource Dependence Theory

Pfeffer and Salancik developed the Resource Dependence Theory in 1978. This theory assumes that the design of institutional structures such as the BOD is intended to ensure effective control over the management and function as a link to achieve maximum relations with external resources to achieve the best financial performance (Pfeffer, 1973). Chen and Roberts (2010) explain that “Organizations are not self-contained or self-sufficient, they rely on their environment for existence, and the core of the [resource dependence] theory focuses on how organizations gain access to vital resources for survival and growth” (p. 653).

Access to these resources comes from several factors related to the BOD. First, the BOD and non-executive directors can provide expert advice, independence, experience, and knowledge (Haniffa & Cooke, 2002; Bouwman, 2011; Chen, 2011). Second, they have relationships with the business and political elite and access information and capital (Nicholson & Kiel, 2007). Third, they can offer a firm critical business contacts and good reputation (Haniffa & Hudaib, 2006). Finally, the BOD can provide a critical link to significant stakeholders and the firm's external environment, such as creditors, customers, suppliers, and competitors. Therefore, increasing good relations with the external environment leads to increased access to new resources and, thus, improved financial performance (Nicholson & Kiel, 2007).

Furthermore, this theory assumes that the governance mechanisms of the BOD are vital resources that play a significant role in improving firm performance. Factors related to governance mechanisms include board size, the separation of the role of the Chairman of the Board and the CEO, and the frequency of board meetings (Guest, 2009; Malik et al., 2014). Therefore, the Resource Dependence Theory was adopted in this study to illustrate how governance mechanisms of the BOD (i.e., Board Size, Independence, executive membership, Muslim directors, Meeting Frequency and Gender Diversity) can provide a company with resources to boost performance.

With a particular focus on Islamic perspective, resource dependence theory suggests that the Shariah Board is an excellent tool to offer better access to an IFIs external environment to enhance opportunities for securing vital resources (Elamer et al., 2019). Musibah and Alfattani (2014) said that the resource dependence theory focuses on the crucial role that the Shariah Board can play in supplying resources to a firm through their linkages to the external environment. Per the above view, a Shariah Board is considered as a critical source for acquiring essential resources to ensure the

survival of an IFI (Elamer et al., 2019). This contrasts with the control and monitoring role emphasis arising from the principal-agent relationship (Aduda et al., 2013; Elamer et al., 2019).

The study of previous theories illustrates the extent of the relationship between the BOD, AC, and financial performance effectiveness. Agency Theory examines the relationship between BOD and executive management. Because conflicts of conflict between the two parts, company performance will be affected. Board members may be seeking to increase the owners' wealth, and the management may be looking to achieve the employees' interests.

Stewardship Theory assumes that both executive management and the BOD are trustworthy and good stewards, which positively affects the firm performance. Thus, the administration is working completely free to develop performance and increase the value of the company.

On the other hand, Stakeholder Theory assumes that the BOD and executive management works to protect all stakeholders' interests and achieve benefits for all according to their interest.

Finally, Resource Dependence Theory assumes that a company should seek input from all sources, but especially external resources, to benefit from the expertise, information and relations of members from outside the company, which increases company performance.

By studying these theories and examining them relative to Takaful companies' performance in Malaysia, the reality of companies, and the impacts of the implementation of CG can be understood. The analysis in this section indicates that prior literature on corporate governance uses several theories. This is because scholars from different disciplines take different perspectives while dealing with the issues of

corporate governance. This creates a lack of unifying theory to the study of corporate governance. As Trickler (2009) noted, “corporate governance as yet, does not have single theory widely accepted theoretical base or a commonly accepted paradigm, that the subject lacks a conceptual framework that adequately reflects the reality of corporate governance.”

As all the theories discussed suffer from several limitations, none of the governance theories in isolation can provide a complete understanding of corporate governance (Daily et al., 2003; Jackling & Johl, 2009). Hence, researchers recently have been asking to use multiple theoretical approaches to studying corporate governance (Huse, 2007). Among various theories discussed, the Agency Theory perspective has been the most popular and has received maximum attention from researchers, academics, and practitioners (Jensen & Meckling, 1976; Fama & Jensen, 1983).

Based on the objectives of each of these theories, one realizes that they are all relevant as they are geared towards shareholders’ wealth maximization. Hendry and Kiel (2004) argued that the choice of a particular theoretical perspective depends on situational and contextual factors such as board power, environmental uncertainty and information asymmetry. However, given the complexity of corporate governance, and in line with prior studies (Nicholson & Kiel, 2003; Haniffa & Hudaib, 2006) as well as recent calls for the adoption of multiple theoretical approaches to corporate governance research (Filatotchev & Boyd, 2009), where Agency Theory is complemented with Stewardship, Resource Dependency and Stakeholder theories.

Therefore, this study adopted a combined or multi-theoretical approach. It provides a more substantial basis for explaining the effects of corporate governance on

financial performance in the context of Malaysian Takaful performance. See Table 3.1 below for a review of all theories.



Table 3.1: Corporate Governance theories comparison

Approaches Corporate Governance	Description	Theory of Human Nature	Owner Role	Manager Role	Islamic perspective
Agency Theory	Managers act as agents of the corporation fulfilling the goals established by the owners /directors as principal	Managers are rational but self-interested beings who must be controlled from the outside	Owners are principals, that is, they originate the action and bear primary moral responsibility	Managers are agents that is, responsible for acting in the interest of the principals Faithful agency implies avoiding conflicts of interest and keep confidences.	partnership members practice respect, gratitude, patience, tolerance and also to believe not only in the economic reward/outcome as in the conventional agency theory but also in spiritual rewards (blessings from Allah).
Stewardship Theory	Managers act as stewards for absentee owners; oversee the operations of corporations and exercise care over them. Emotion (care) plays an equal role with instrumental rationality in Socio-Emotional Wealth	Desire and self-interest are balance out by social motives in group strategic decision freely as Rousseau's pity and Aristotle's virtues	Owners set cardinal /prime essential objectives, but they also are responsible for providing managers with a meaningful work environment	Managers are stewards exercising care over the property of the owners in their absence. Stewardship is based on internally generated and self-imposed motives toward care.	The concepts of Tawhid, Khilafah and brotherhood form the basis of the Stewardship Theory. "Believe in Allah (SWT) and his messenger and spend out of that in which he has made you successors"
Stakeholder Theory	Owners drop out of center focus. The corporation is run for the sake of its stakeholders	Groups have special interests but recognize the need to integrate these. Humans possess the capacity for procedural reasoning	Owners drop to one of a group of equal stakeholders. Still advocate their financial interests	Managers are meta referees stakeholders. They treat stakeholders and stake equally	The concept of property right is recognized, respected and protected in Shariah principles as Prophet Muhammad (pbuh) stated: "So give to everyone who possess a right his right"
Resource Dependence Theory	the management work as a link to achieve maximum relations with external resources to achieve the best financial performance	The resource either internal or external based in human must be protected and cooperate to maximize firm's benefit	Owners are one of resource that may assist in achieve the firm's goals.	Managers are the main resource with the principals to cooperate and achieve the objectives	the Shariah Board is an excellent tool to offer better access to an IFIs external environment to enhance opportunities for securing vital resources, and linkages to the external environment

Source: (Clarke, 2004)

3.3 Corporate Governance and Corporate Performance

CG is considered a performance driver of the firms. Substantive discussions of CG generally focus on the postulation that the governance mechanisms impact corporate performance (Ali & Sound, 2008). However, there is no conclusive empirical proof of how CG mechanisms affect corporate performance. Most studies scrutinize the effects of particular aspects of CG such as the BOD, directors' remuneration policy ownership structure and capital structure on corporate performance (Agrawal & Knoeber, 1996; Demsetz & Villalonga, 2001; Jackson & Moerke, 2005; Thomsen et al., 2006).

As earlier stated, many researchers have examined the relationship between CG and firm performance in developed countries (Galbreath, 2010; Garcia-Sanchez, 2010; Millet-Reyes & Zhao, 2010; Nanka-Bruce, 2011). They took a long time to identify the best practices of CG. However, in developing countries, the situation is different concerning the study of the association between CG and firm performance precipitated by the Asian financial crisis. Given the importance of the best practice of CG in encouraging investors to invest their money in a country, there is a terrible need to examine this relation in the emerging market. Moreover, many studies recommend observing the association between CG and firm performance in developing countries (Jackling & Johl, 2009; Adeyemi & Fagdemi, 2010; AlMatari et al., 2012a; Al-Matari et al., 2012b; Almustafa, 2017).

Improving CG has become a primary target in recent years for both academics and practitioners. More precisely, the issue revolves around the boards of directors, especially in their role as observers of the firm's senior management (Carter & Lorsch, 2004). Furthermore, CG has become an essential issue among policymakers over the last two decades because of the growing role of the capital markets, the significance of

CG in maximizing the value and productivity of a firm, and the pressing need to create effective CG systems for privatized firms, as witnessed by the global financial crisis in the last decade (Bridge & Dodds, 2018).

Good CG is essential for all organizations. A comprehensive review of the existing literature concerning CG and corporate performance showed the following. First, empirically literature on the relationship between CG and firm performance exists for developed countries, but there is limited research in developing countries.

However, the findings of these studies remain inconclusive. The literature revealed some found that CG was positively linked with firm performance (Bozec et al., 2010; Leung & Honvitz, 2010; Azam et al., 2011; Ibrahim & Abdul Samad, 2011; Kang & Kim, 2011; Obiyo & Lenee, 2011; Mahadeo et al., 2012; UwuiGDe & Olusanmi, 2012). However, other studies demonstrate a negative relationship between CG and firm performance (Roselina, 2001; Switzer & TanGD, 2009; Wang & Oliver, 2009; Muravyev et al., 2010; Herly & Sisnuhadi, 2011; Rachdi & Ameer, 2011). Additionally, some scholars found no relationship between CG and corporate performance (Gibson, 2003; Kiel & Nicholson, 2006; Wei, 2007; Chowdhury, 2010; Shao, 2010; Bhagat et al., 2011).

These mixed results justified the purpose of the present study, which was to examine the relationship between CG and corporate performance in firms in a developing country.

3.4 Conceptual Framework

The framework presented in this section is built on Agency Theory previously explained. The conceptual framework proposed in this study shows how BOD and AC effectiveness are connected to Takaful financial performance and SCQ (Figure 3.1).

BOD and AC effectiveness were selected as the independent variables (IV). Six variables manifested the BODs: 1) Board Size, 2) Board Independence, 3) Executive Membership, 4) Muslim Directors, 5) Meeting Frequency, and 6) Gender Diversity. Four variables represented AC effectiveness: 1) Chairman Specialization, 2) AC Size, 3) AC Independence, and 4) Meeting Frequency. Takaful Financial Performance was the dependent variable, which was represented by DV ROA, ROE, and EPS, and Shariah Committee Quality (SCQ; positive/negative) was chosen as the moderating variable (MV) between BOD (negative) and Takaful Financial Performance (positive or negative) and between AC (negative) effectiveness (See Figure 3.1) and Takaful Financial Performance (positive/negative) (See Figure 3.2). The study also used three control variables: firm size, firm age, and leverage ratio.

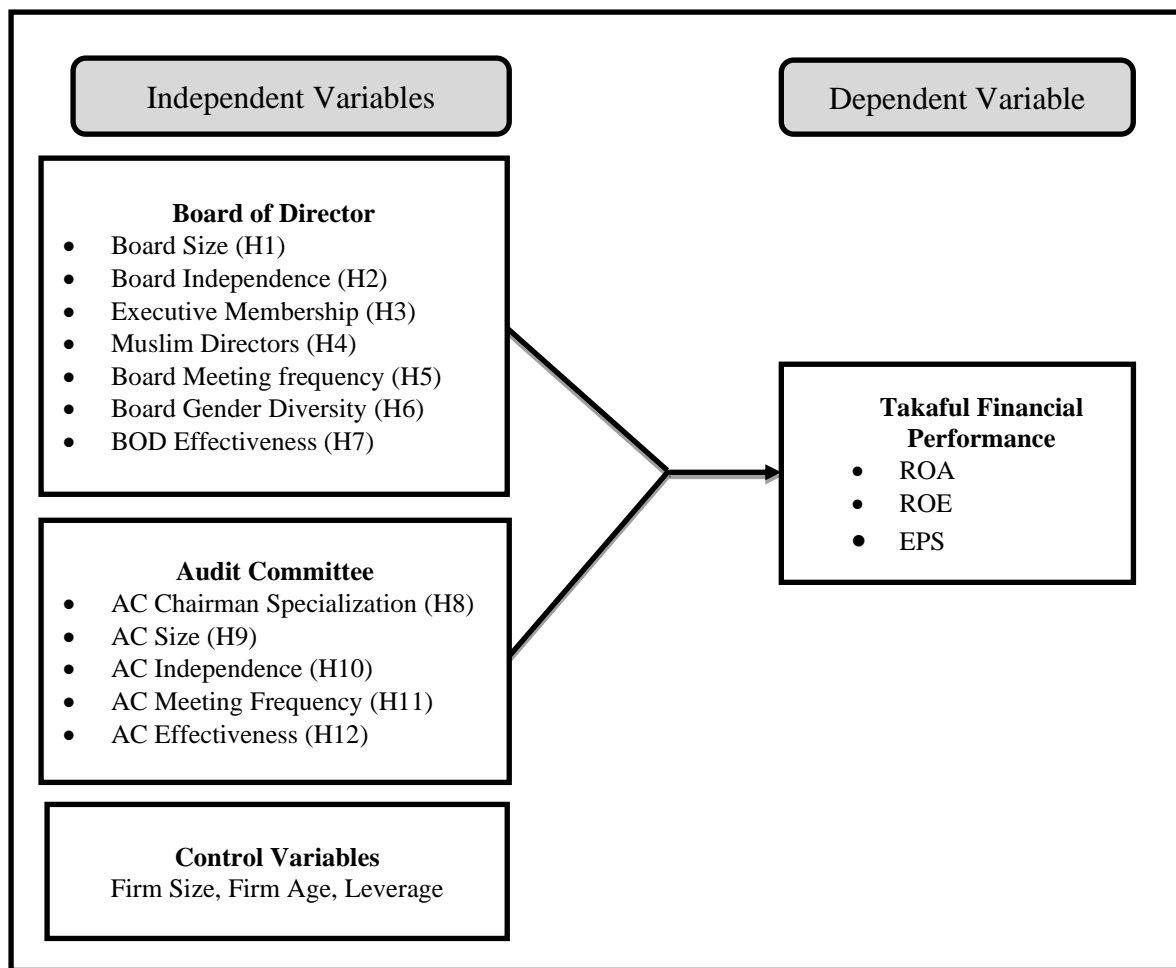


Figure 3.1: The Direct Relationship Between BOD and AC Characteristics on Takaful Financial Performance.

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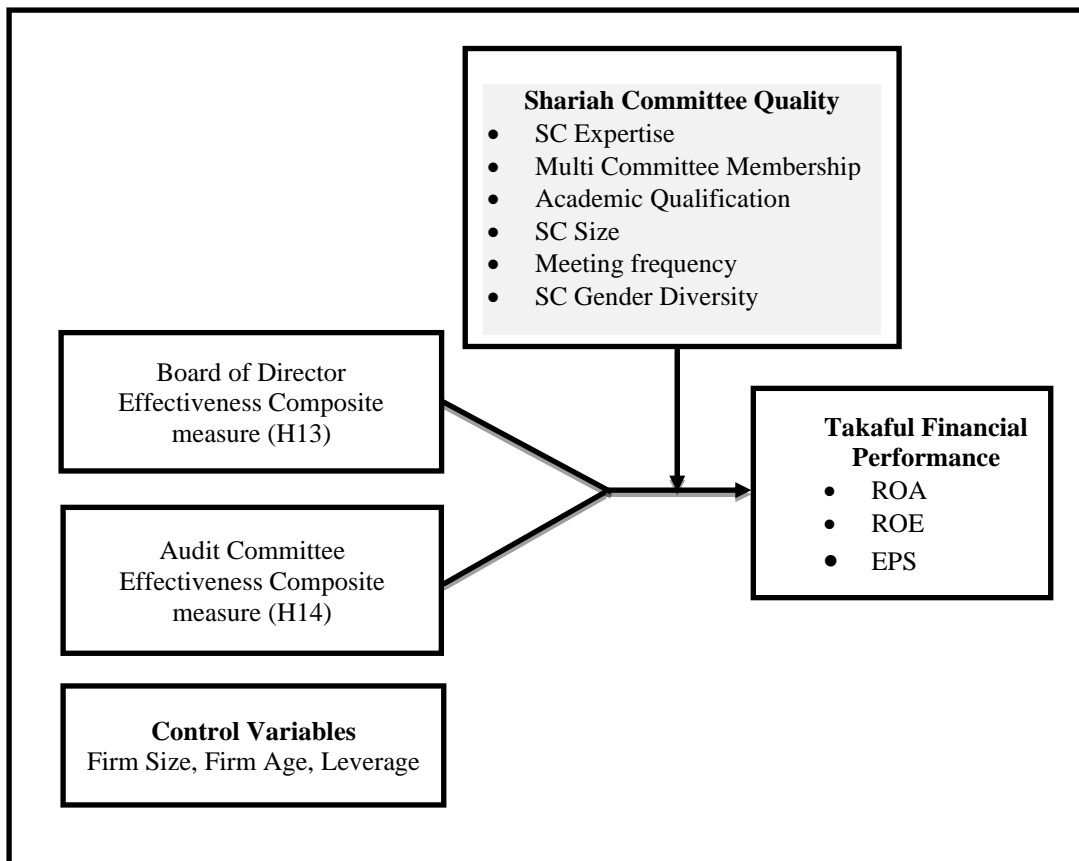


Figure 3.2: The Moderating Effect SC Quality on the Relationship between BOD and AC Characteristics on Takaful Financial Performance.

3.5 Financial Performance

Firm performance has been investigated in the accounting/management literature based on Agency Theory as a major dependent variable that would be achieved and enhanced as an important goal (Klapper & Love, 2004; Haniffa & Hudaib, 2006; Bauer et al., 2008). Two types of metrics are used to measure firm performance. One is accounting-based, and the other is market-based. The primary purpose of firm performance that stems from its concept is to consolidate a company's efficiency and effectiveness and achieve its objectives being the main concern for the firm, in the long run, to survive (Al-Hawary, 2011; Zehir et al., 2011; Alabdullah et al., 2014)

The use of different performance measures to assess firm performance and the relationship with CG achieves many objectives. Accounting-based metrics such as ROA and ROE measure the performance of the company in the short term. This reflects the impact of the balance sheet and income statement on CG from an accounting point of view.

Market-based-performance accounts for stock prices, highlighting a firm's economic value. EPS is one of the most common methods used in stock market-based ratios or market performance indicators. EPS is a compulsory ratio used at the London Stock Exchange, which indicates how important the ratio is (Daud, 2012). The market measure for the firm performance is more reliable, while accounting metrics can easily be influenced and manipulated (Cochran & Wood, 1984; Rhoades et al., 2000). Therefore, much of the literature analysing company performance has primarily focused on measuring its market value.

However, a debate exists about the relationship between measuring corporate performance and governance. Gompers et al. (2003) showed that investors have difficulties understanding the impact of CG on the company's market value. Therefore, Core et al. (2006) stated that measurement on an accounting basis such as ROA and ROE are better metrics to study the relationship between CG and performance.

Previous studies have used accounting-based or market-based metrics or a combination of the two types of measurements. Hamid (2008), pointed out that from 1968 to 1978, studies typically used accounting-based metrics in the measurement of performance. Hamid (2008) also noted that from 1978 to 1990, researchers used both accounting- and market-based metrics to assess company performance in their studies.

Both types of metrics have their strengths in measuring the performance of companies. Accounting measurements are based on the information in financial reports. They are based on a company's information and are often used to compare the performance of companies or make a comparison between financial periods (Hamid, 2008). Accounting-based metrics help managers in evaluating the performance of companies and assisting them in planning while aiming at effective control and achieving the objectives of the company (Erhardt et al., 2003). Nevertheless, these metrics have a weakness because they are based on historical data that may not be directly related to the present and are biased and manipulated in accounting procedures (Hamid, 2008).

Market-based measurement is more common and is a measure of dependence on companies' future value and, therefore, more favourable to investors. According to McMullen (1996), an advantage of a market-based measure is that it is less likely to manipulate accounting procedures than an accounting-based measure and represents the investors' ability to profit in the future rather than relying on historical information only. However, this measure is not without weaknesses, the reliance on investor's assessment is not enough, and the measurement of performance on this basis is subject to investors' expectations that may not be true in the long term. In this instance, stock returns may not be very much related to governance, even though performance and governance have a significant correlation (Pfeffer, 2003; Bhagat & Bolton, 2008).

Indeed, both measurements of performance have their strengths in performance assessment for firms. Thus, using both performance measurements in this study may be more useful in providing a comprehensive understanding of the link between nominated variables and firm performance (Bertay et al., 2013; Cao et al., 2018).

3.5.1 Accounting-based performance measurements

3.5.1.1 Return on Assets (ROA)

Return on Assets (ROA) indicates a company's ability to generate profit from the effective use of assets. It gives an indicator of a company's profitability and measures its efficiency in generating earning by using its assets. It is calculated by dividing a company's annual income by its average total assets, and ROA is presented as a percentage. ROA is the ratio of annual net income to average total assets of a business during a financial year. Net income is after-tax income, which can be found on the income statement. Average total assets are calculated by dividing the sum of total assets at the beginning and the end of a financial year by 2. Total assets at the beginning and the end of the year can be obtained from the year ending balance sheets of two consecutive financial years (Adekule & Aghedo, 2014).

The formula to calculate return on assets is:

$$ROA = \text{Net Income} \div \text{Average Total Assets}$$

Many studies have used ROA as accounting based to measure firm performance (e.g., Chiang, 2005; Silva & Leal, 2005; Bhagat & Bolton, 2009; Ibrahim & AbdulSamad, 2011; Azam, et al., 2011; Al Manaseer et al., 2012; Desoky & Mousa, 2012; Kowalewski, 2012; Aggarwal, 2013; Vo & Phan, 2013; Adekunle & Aghedo, 2014; Darko et al., 2016).

3.5.1.2 Return on Equity (ROE)

ROE defined as operating profit after tax divided by book value equity at the end of each financial year. ROE measures the rate of return on shareholder equity of

the common stock owners (Ma & Tian, 2009). ROE is commonly used to measure a company's performance and its management of equities. Much previous literature has used ROE to measure firm performance (e.g., Adjaoud et al., 2007; Yue, Lan & Jiang 2008; Mashayekhi & Bazazb, 2008; Ting, 2008; Bauer et al., 2009; Hsu et al., 2009; Ibrahim et al., 2010; Shao, 2010; Chamberlain, 2010; Larmou & Vafeas 2010; Uadiale, 2010; Liargovas & Skandalis, 2010; Obiyo & Lenee 2011; Rouf, 2011; Ibrahim & Abdul Samad, 2011; Yasser et al., 2011; Dar et al., 2011; Heenetigala & Armstrong, 2011; Azam et al., 2011; Al Manaseer et al., 2012).

ROE measures a firm's efficiency for generating profits from its capital and shows how a firm uses its investment to generate earnings (Baysinger & Butler, 1985; Dehaene et al., 2001). The main objective of a company is to produce gains that benefit shareholders. Return on equity is a metric that shows investors the profit generated from the capital that shareholders have invested (Epps & Cereola, 2008).

ROE is obtained through the following formula:

$$ROE = \text{Net Income} \div \text{Average Shareholders' Equity}$$

Average stockholders' equity is derived by averaging the beginning and the ending shareholders' equity for the period under observation. (Average Shareholders' Equity = (Beginning shareholders' equity + Ending shareholders' equity) / 2. Generally, higher or increasing ROE would be a favourable indicator for investors.

3.5.2 Market-based performance measurement

3.5.2.1 Earnings Per Share (EPS)

According to Rashid (2008), a firm's value can be defined as the amount of utility or benefits of a firm's shareholders. EPS is one of the most common methods used in stock market-based ratios or market performance indicators. EPS is a

compulsory ratio used at the London Stock Exchange, which indicates how important the ratio is (Daud, 2012). Much research has used EPS to measure firm performance (e.g., Filatotchev, 2005; Mashayekhi & Bazazb, 2008; Ting, 2008; Lan et al., 2008; Mokhtar et al., 2009; Junarsin, 2011; Al Manaseer et al., 2012; Yussof & Alhaji, 2012; Daud, 2012; Marn & Romuald, 2012; Abdul Samad et al., 2018).

According to Brigham and Houston (2010), EPS is the most important metric to stockholders. Typical stockholders focus on the reported EPS. (However, security analysts and managers typically differentiate between operating and non-operating income (Brigham & Houston, 2010). EPS measures the overall returns generated for each share purchased. EPS is calculated by dividing a company's net income by its total outstanding common shares (Brigham & Houston, 2010).

$$EPS = \text{Net Income} \div \text{Number of common shares outstanding}$$

This study used three major indicators from both performance measurements: ROA and ROE for accounting-based performance measures and EPS for market-based performance measures. These indicators are among the most widely used indicators by accountants, market analysts, and regulators. This usage is consistent with the recommendation of some recent research conducted on the Malaysian Public Listed Companies (Mokhtar et al., 2009; Hamid, 2008) that a combination of both accounting- and market-based performance measurements would add robustness to the study as the two different performance measurements have their distinct and unique strengths (Daud, 2012).

Haniffa and Huduiab (2006) noted that no agreement exists in previous research about which is the best indicator to measure financial performance. Additionally, they

argued each measure has strengths and weaknesses based on the information it uses and its purpose.

Using a combination of market-based measurements and accounting provides a holistic view of a company's performance and the relation between variables used in a study and analysis based on robust and clear results (Daily & Dalton, 1993; Baliga et al., 1996, Bhagat & Black, 2002; Jong et al., 2002; Jong et al., 2003; Sunday, 2008; Mokhtar et al., 2009). The most widely used ROA measurements, ROE and EPS, were chosen for this study. Accountants, financial market analysts, professional bodies and the Bank Negara Malaysia (BNM) use these metrics.

This study chose these two performance measurements for the following reasons. First, ROA is an accounting measurement that considers the historical perspective, while EPS is a marketing measurement that considers the future outlook. Second, ROA is related to accounting practices, and EPS is based on predicted future cash flow (Alwshah, 2009). In other words, EPS indicates what a firm will achieve in the future, while ROA indicates what a firm has achieved (Huei, 2012). Third, ROA is not directly affected by changes in the stock market, but by the accounting methods adopted for valuing assets and revenue recognition. On the other hand, EPS “reflects the value investors assigned to a firm's intangible assets based on predicted future revenue flow” (Alwshah, 2009). Fourth, ROA, as an accounting-based measure, tries to capture the wealth effects of CG mechanisms from the management perspective, while EPS as a market-based measure provides a financial valuation of CG structures from the standpoint of outside investors (Ntim, 2009). Finally, the use of accounting and market metrics permits more robust findings and checking market-based and accounting-based measurements of performance against each other (Ntim, 2009; Mustapa, 2013). Both measures are discussed in more detail below in Table 3.2.

Table 3.2: Summary of Previous Research on Corporate Governance and Firm Performance

No	Author	Corporate Governance Variables	Performance Measurement		Findings
			Accounting Based	Market-Based	
1	Filatotchev et al. (2016)	<ul style="list-style-type: none"> Ownership concentration. Board effectiveness 	<ul style="list-style-type: none"> ROA ROCE 	<ul style="list-style-type: none"> EPS STIC 	<ul style="list-style-type: none"> Did not find a direct association between family ownership and managerial entrenchment and extraction. The presence of an independent Chairman does not seem to affect performance.
2	Ahmad et al. (2015)	<ul style="list-style-type: none"> Board size Board Independence CEO duality Board meeting 	<ul style="list-style-type: none"> ROA 	<ul style="list-style-type: none"> EPS 	<ul style="list-style-type: none"> Board meetings showed weak and negative influences on firm performance. Independent directors had weak and positive influences only on ROA. The Malaysian Code on Corporate Governance (MCCG) and Bursa Malaysia requirements, might not be as effective as expected in enhancing future firm performance.
3	Malik et al.. (2014)	<ul style="list-style-type: none"> Board size 	<ul style="list-style-type: none"> ROE ROA 	<ul style="list-style-type: none"> EPS 	<ul style="list-style-type: none"> A significant and positive relationship between board size and bank performance. A large board size can enhance bank performance in Pakistani scenario
4	Detthamronga et al. (2017)	<ul style="list-style-type: none"> Board size Board independence AC size Female directorship 	<ul style="list-style-type: none"> ROE ROA 		<ul style="list-style-type: none"> Leverage has a positive effect on firm performance. CG is not associated with financial leverage
5	Alabdullah et al. (2017)	<ul style="list-style-type: none"> BOD INED CEO duality 		<ul style="list-style-type: none"> Market share 	<ul style="list-style-type: none"> A negative effect of board size on firm performance. No CEO duality and no impact on financial performance. Insignificant relationship between the independent board (outside directors) and firm performance
6	Daud (2012)	<ul style="list-style-type: none"> Board Size CEO-Chairman Disclosure of Senior Independent Director 	<ul style="list-style-type: none"> ROE 	<ul style="list-style-type: none"> EPS 	<ul style="list-style-type: none"> The result indicates that the level of the corporate governance practices was low for the Board of Directors' Structure, very low for Directors' Remuneration and moderate for Accountability and Audit, and Communication with Shareholders.
7	Caspar Rose (2016)	<ul style="list-style-type: none"> Board composition 	<ul style="list-style-type: none"> ROE 		<ul style="list-style-type: none"> A positive link between ROE /ROA and Danish firm total CG comply

		<ul style="list-style-type: none"> risk management internal controls 	<ul style="list-style-type: none"> ROA 		or explain disclosure scores
8	Al Manaseer et al. (2012)	<ul style="list-style-type: none"> Board Size Board Composition Chief Executive Officer (CEO) Status Foreign Ownership 	<ul style="list-style-type: none"> ROE ROA 	<ul style="list-style-type: none"> EPS. PM 	<ul style="list-style-type: none"> Positive relationship between corporate governance dimensions: the number of outside board members and foreign ownership and Jordanian banks' performance. Board size and the separation of the role of CEO and chairman had a negative relationship with performance. The study revealed that banks benefit from large size in offering services more than granting loans
9	Yussof & Alhaji (2012)	<ul style="list-style-type: none"> Proportion of non-executive directors Board leadership structure Board size. 	<ul style="list-style-type: none"> ROE 	EPS	<ul style="list-style-type: none"> Inconsistence relationship between independent directors and firm performance. CEO-duality does not influence firm performance of Malaysian companies. Boards dominated by non-executive director's result in high performance.
10	Mokhtar et al. (2009)	<ul style="list-style-type: none"> Using the corporate governance disclosure in Malaysia report by Standard & Poor 	<ul style="list-style-type: none"> ROA ROE Profit Margin 	EPS	<ul style="list-style-type: none"> No relationship between good corporate governance and firm's performance
11	Khan et al. (2011)	<ul style="list-style-type: none"> Ownership structure Dividend policy Risk management Internal audit Sustainability 	<ul style="list-style-type: none"> ROE PE ratio 	EPS	<ul style="list-style-type: none"> Ownership structure has a positive relationship with PE ratio. Internal audit, Risk management, Sustainability, Accountability has a positive relationship with ROE
12	Sabri et al. (2020)	<ul style="list-style-type: none"> Gender diversity 	<ul style="list-style-type: none"> ROA 		<ul style="list-style-type: none"> Gender diversity is positively related to corporate performance
13	Mgbame et al. (2020)	<ul style="list-style-type: none"> Gender diversity 	<ul style="list-style-type: none"> ROA 	Tobin's Q	<ul style="list-style-type: none"> Results show that female board representation exerts a positive and significant influence on firm financial performance.
14	Puni & Anlesinya (2020)	<ul style="list-style-type: none"> Board size Frequency of board meetings Shareholder concentration/ownership 	<ul style="list-style-type: none"> ROA ROE 	<ul style="list-style-type: none"> EPS Tobin's Q 	<ul style="list-style-type: none"> The study found that the presence of both insiders and outsiders on the corporate board improved financial performance. However, the presence of board committees generally had a negative impact on financial performance while CEO duality had no impact on financial performance.
15	Wijaya et al. (2020)	<ul style="list-style-type: none"> Foreign ownership. 		Tobin's' Q	<ul style="list-style-type: none"> The research findings were foreign ownership, government ownership;

		<ul style="list-style-type: none"> • Institutional ownership. • Government ownership. • Size of the board 			board commissioner size had a significant positive effect on firm performance while institutional ownership and firm size had a significant and negative effect on firm performance.
16	Issa & Abu Siam (2020)	<ul style="list-style-type: none"> • AC independence. • AC size. • AC meetings. • AC financial expertise 	<ul style="list-style-type: none"> • ROA 		<ul style="list-style-type: none"> • There is a significant positive association between the audit committee characteristics and firm performance. • The audit committee effectiveness and firm performance become strong when there is an interaction with family ownership.
17	Ahmed et al. (2020)	<ul style="list-style-type: none"> • Board size. • Ownership. • Gender and audit committee 	<ul style="list-style-type: none"> • ROA • ROE 		<ul style="list-style-type: none"> • The result of this research indicates that a positive link between all the predictors was found: board size, ownership, gender, and audit committee, and firm profitability (financial performance).
18	Dao & Ngo (2020)	<ul style="list-style-type: none"> • Board Size • Supervisory Size • Auditor Quality 	<ul style="list-style-type: none"> • ROA. • ROE 	Tobin's Q	<ul style="list-style-type: none"> • CG has a negative and significant influence on firm performance, but earnings management was also found to influence firm performance positively.
19	Ying et al. (2020)	<ul style="list-style-type: none"> • Board independence. • Board size • Board diversity. • Board remunerations 	<ul style="list-style-type: none"> • ROA • ROE 		<ul style="list-style-type: none"> • Independent variables are not significant to the dependent variable. • Board diversity is significant to ROE, while others are not significant to ROE. • There is no relationship between these independent variables and firm performance.
20	Alzeban (2019)	<ul style="list-style-type: none"> • Audit Committee • CEO. • External auditor quality 	<ul style="list-style-type: none"> • QFR 		<ul style="list-style-type: none"> • The findings reveal that each of these three components has a positive impact on the QFR
21	Dakhlalh et al. (2019)	<ul style="list-style-type: none"> • Ownership structure 		Tobin's Q	<ul style="list-style-type: none"> • The findings show that the ownership structure mechanisms have a significant influence on firm performance measure by (TQ).
22	Latif et al. (2019)	<ul style="list-style-type: none"> • Board Size. • Board Com. • CEO. 	<ul style="list-style-type: none"> • ROA 		<ul style="list-style-type: none"> • The results revealed that there is a significant impact of corporate governance on firm performance. Results further reveal the significant impact of board size, CEO/Chairman Duality on ROA, and the insignificant impact of Board Composition on ROA.
23	Ciftci et al. (2019)	<ul style="list-style-type: none"> • Gender diversity • Executive board membership 	<ul style="list-style-type: none"> • ROA 	Tobin's Q	<ul style="list-style-type: none"> • A higher proportion of family members on boards had no discernible effect on performance. the findings provide further insights into the relationship between the type of institutions encountered in many

		<ul style="list-style-type: none"> Independent board membership CEO duality 			emerging markets, internal corporate governance configurations and firm performance.
24	Berardinoa (2016)	<ul style="list-style-type: none"> Managerial board Ownership structure 	<ul style="list-style-type: none"> ROS ROA ROE 		<ul style="list-style-type: none"> Statistics show relevant relations between firm performance and CG attributes and confirmed. After the start-up, the BOD's inefficiency in which there is an overlap between academic-founder and manager suggests greater openness to outside expertise.
25	Makhlouf et al. (2018)	<ul style="list-style-type: none"> Effectiveness of BOD 	<ul style="list-style-type: none"> ROA 	<ul style="list-style-type: none"> Tobin's Q 	<ul style="list-style-type: none"> Family control has a significant negative moderating impact on the relationship between the effectiveness of BOD and firm performance. An insignificant positive relation with ROA
26	Marashdeh (2014)	<ul style="list-style-type: none"> Board size. NEDs. CEO duality. Foreign ownership. Managerial ownership. Ownership concentration. 	<ul style="list-style-type: none"> ROA ROE 		<ul style="list-style-type: none"> Board size has no significant impact on firm performance. CEO duality, foreign ownership & managerial ownership have a positive effect on the firm performance Ownership concentration and NEDs have a negative impact on firm performance.
27	Zedan & Abu Nassar (2014)	<ul style="list-style-type: none"> Largest shareholders. Foreign ownership, CEO duality. Board size 	<ul style="list-style-type: none"> ROA ROE TAT ITR 		<ul style="list-style-type: none"> Mixed results because of the use of four firm performance measurements.

3.6 Corporate Governance Effectiveness and Hypotheses Development

This section discusses the relationship between Takaful Financial Performance through ROA, ROA, and EPS as the dependent variable (DV). As shown in the previous section, this study's purpose was to examine the influence of BOD and AC effectiveness on Takaful Financial Performance and SCQ as moderating variable. Therefore, the research hypotheses for this study were developed based on four main hypotheses: 1) the relationship between BOD effectiveness and Takaful Financial Performance, 2) the relationship between AC effectiveness and Takaful Financial Performance, 3) the moderating effect of SCQ on the relationship between BOD and Takaful Financial Performance, and 4) the moderating effects of SCQ on the relationship between AC and Takaful Financial Performance. Similarly, this investigation used the following control variables: firm size, firm age, and leverage ratio.

3.7 Board of Directors Effectiveness and Takaful Financial Performance

The relationship between corporate governance and performance depends on the nature of the company's environment and activities (Alsartawi, 2016). A company's BOD has a crucial role in monitoring the executive management and reducing conflicts of interest between owners and managers. It is widely accepted that BOD is the most influential element CG mechanisms (Koufopoulos, 2018). Therefore, agency problems are reduced. Several previous studies have examined the effectiveness of the BOD and their relationship with the firm's performance.

The BOD is the top level of the management pyramid. It includes several missions, like organizing and overseeing senior management to improve financial

reporting quality and constrain accounting information manipulation (Almasarwah, 2015). Primary responsibilities are to oversee self-interest conduct of executives and fulfil the expectations of stakeholders (Hillman & Dalziel, 2003; Daily, et al., 2003; Brandes et al., 2016, Boivie, et al., 2016). The board fundamentally exists for monitoring, hiring and firing top management, compensating management, voting on strategic and vital decisions, increasing stockholders' wealth, and protecting stockholders' interests (Baldeus et al., 2014; Bhojraj & Sengupta, 2003).

CG controls the relationships among the BOD, shareholders and management. They represent the internal mechanism of CG that contains the BOD's, disclosure, transparency, and ownership structure (Ajlouni, 2007; Warrad et al., 2013). This study focuses on the influence of the BOD' effectiveness on Malaysian Takaful companies' performance.

Fewer studies have been conducted in the Takaful sector than the Islamic banking sector, especially in the relationship between CG and the financial performance of Takaful companies. This gap is due to several reasons. First, the Islamic banking sector was established and regulated long before the Takaful industry. Second, the capital used in the Islamic banking industry is very large compared with the Takaful industry. Third, professional bodies controlling the banking industry have more experience and practice than the professional bodies governing the Takaful industry. All these reasons motivated this current study.

3.7.1 Board Size and Takaful Financial Performance

Corporate board size is seen as a key board characteristic variable and play a vital role in promoting corporate transparency (Khlif et al., 2015). Board size refers to the number of board members (Othman et al., 2009). No theoretical consensus exists

on the relationship between board size and a company's performance because the results have been inconclusive (Upadhyay et al., 2014). However, different opinions exist on the influence of board size on firm performance. Some have proposed that smaller boards improve firm performance, while others have indicated that larger boards are better for enhancing firm performance (Shatnawi et al., 2019).

From the Agency Theory perspective, a larger board creates issues. First, a large-sized board will lead to additional costs for a company (Yawson, 2006) like travel allowances, annual bonuses and other allowances (Vafeas, 1999). Second, a large-sized board will lead to coordination and communication problems between board members, which harms firm performance (Beasley, 1996; Yermack, 1996).

On the other hand, Resource Dependence Theory suggests that a larger board has a positive relationship with financial performance because it allows for more diversity and specialists from various fields and facilitates high-quality decision making. Also, a large board helps create new networks to benefit from external resources (Salim et al., 2016). Previous study suggests that large BOD improve financial performance because funds and business contracts can be generated more easily (Pearce & Zahra, 1992; Goodstein et al., 1994; Jiraporn et al., 2009; Pfeffer, 1973; Ntim & Soobaroyen, 2013). Similarly, a large board can lead to establishing effective and efficient sub-committees to improve financial performance. Finally, stakeholders are better represented by this type of board.

Several scholars have examined board size and found positive associations with financial performance. In Malaysia, Haniffa and Hudaib (2006) used 374 listed companies on the KLSE from 1996 to 2000. They found a positive relationship between BOD size and ROA and argued that a large board has good experience and

decision-making knowledge. According to Roffia et al., (2021) revealed that the importance of the BS and its attributes in influencing the financial performance of SMEs in Italia. Djebali and Zaghdoudi (2020) examined the relationship of board size and bank performance using ten Tunisian commercial banks listed on the Tunisian Stock Exchange from 1998–2015. They found a positive and significant relationship. Arora and Sharma (2016) empirical study focused on a large number of companies covering 20 important industries of the Indian manufacturing sector for the period 2001-2010. The findings indicated that larger boards are associated with a greater depth of intellectual knowledge, which, in turn, helps in improving decision-making and enhancing the performance. However, the results indicated that the return on equity and profitability were not related to corporate governance indicators. Bansal and Sharma (2016) examined the role of CG in improving India's firm performance using a sample of 235 non-financial public limited companies listed on the NSE 500 from 2004 to 2013. They found a positive association between board size and firm performance. Najjar (2012) found a positive and significant relationship between board size and ROE. Chen and Al-Najjar (2012) found a positive relationship between big-sized boards and company performance. The authors argued that big-sized boards were able to monitor companies with weak operational performance due to their variety of skills and backgrounds. Based on a sample of Nigerian companies, Sanda et al., (2010) also found a positive relationship between board size and firm performance. The authors said that large boards were better able to contact the external environment and provide a firm with critical resources. (see also, Nicholson & Kiel, 2004; Abor & Biekpe, 2007; Buniamin et al., 2008; Kajola, 2008; Jaafar & El-Shawa, 2009; Adams & Mehran, 2012; Kim et al., 2012; Tornyeva & Wereko, 2012)

On the other hand, several studies have found a negative relationship between board size and financial performance. Ahmad et al. (2020) studied 50 non-financial companies in the Oman market in 2018 and found a negative relationship between board size and financial performance. Palaniappan (2017) used data from 275 firms listed in NSE from 2011 to 2015, using a multiple regression model and found a significant and negative relationship between board size and Tobin's Q, ROA and ROE. Mollah and Zaman (2015) used a sample study of 86 Islamic banks from 25 countries from 2005-2011 and found a negative relationship between board size and firm performance. Pillai and Al-malkawi (2017) also found a negative relationship between board size and firm performance. (See also, Jensen, 1993; Yermack, 1996; Mak & Kusnadi, 2005; Mashayekhi & Bazaz, 2008; Rashid et al., 2010; Adnan et al., 2011; Kumar & Singh, 2013).

In Malaysia, Zain et al.'s (2019) study examined five Malaysian listed companies from 2013 to 2017. The results found a negative relationship between board size and firm performance. They argued that larger boards could not ensure effectiveness in monitoring management and were not associated with better performance. Nazli's (2010) findings indicated that board size was insignificant with regards to firm performance. Bhagat and Bolton (2009) and Kajola (2008) found no significant relationship between board size and firm performance.

With the aim of examining the relationship between the BOD size and financial performance, the following hypothesis was posited:

H1: Board size is positively related to the financial performance of Malaysian Takaful firms.

3.7.2 BOD' Independence and Takaful Financial performance

The board's independence is a key factor in CG (e.g., Dahya et al., 2008; Black & Kim, 2012; Tulung & Ramdani, 2018). Independent directors are non-executive directors, who have no employment relationship with a company, are not affiliated with any key company employee, are independent of senior management, and are not associated with any subsidiary of a company, consultants, clients or major suppliers of the company (Leung et al., 2014). Independent directors have no relationship with a firm except for serving as a board member (Aebi et al., 2012). Board independence is measured as the percentage of independent board members to total board members (Abdelsalam et al., 2016).

An independent director contributes expertise and objectivity in decision-making or advice, supervises administrative and financial decisions, and oversees company performance (Yeh et al., 2011). Extant empirical evidence has shown that firm transparency improves with increases in board independence, thus reducing information costs within the firm (Dakhlallah et al., 2019).

A conflict exists among scholars and policymakers on the impacts of board independence and firm performance. The impact may be explained using either Agency Theory or Stewardship Theory in the analysis (Singh & Delios 2017). Supporters of Stewardship Theory believe that non-independent members serving on the board reduce conflicts of interest and increase decision-making efficiency because of their knowledge of the company's strengths and weaknesses, which helps in the strategic planning of the company. The Stewardship Theory argues that many independent members on the BOD negatively impact firm performance by increasing costs and imposing new controls (Adams et al., 2010; Cicero et al., 2013). On the

other hand, Agency Theory posits that increasing the number of non-independent executive members leads to increased central decisions.

Mobbs (2013) proposed that increasing independent members may mitigate agency costs and reduce conflicts of interest between managers and shareholders. Through independent members, equal information can be provided to all users, increasing the reliability and relevance of sound decisions in the company (Rutherford & Buchholtz, 2007). Defenders of the Agency Theory advocate that independent board members leads to more effective control over company performance and increase administrative efficiency because an independent member is separated from executive management (Bertoni et al. 2014; Gaur et al. 2015).

The MCCG requires listed firms to have a majority or at least half of their board members to be independent directors (Shahrier et al. 2018). The Guidelines on CG for Licensed Institutions in Malaysia reinforces their role in accountability in the decision-making process. The responsibilities of independent directors should include the following:

- To provide and strengthen the required independence and fairness to the board;
- To guarantee effective discussions and stabilities on the board;
- To mitigate any potential conflicts of interest between decision-makers and the management of the institution for the day-to-day operations of licensed enterprises;
- To positively challenge and participate in the development of corporate strategy and attitudes of the Licensed Institution; and
- To guarantee that satisfactory systems and controls to protect the interests of the Licensed Institution are in place (BNM, 2013)

In its “codes of best practices,” MCCG suggestions aimed to enhance board transparency, independence and accountability to the company’s stakeholders and other shareholders, and its effectiveness in satisfying both its performance and conformance functions (Wahab et al., 2007).

Per Bursa Malaysia amendments released in January 2001, at least one-third of the BOD members must be independent directors. The term independent as prescribed by the listing requirement and the Malaysian Governance Code refers to independence from management and independence from significant shareholders (Ponnu, 2008).

The independence of BOD, Shariah committees, SSB, and audit committees are among the challenging issues in Malaysia's Takaful industry. According to Jiang et al. (2015), independent directors can help committees and boards with experience and knowledge to handle corporate affairs effectively. These corporate structures' independence is critical to an impactful practice of Shariah governance in the Takaful industry. Public confidence in Takaful services is at stake with respect to this independence.

Previous studies have examined the relationship between board independence and corporate performance, but outcomes have been mixed (Brown & Caylor, 2009). Amedi and Mustafa (2020) using data from all Jordanian companies from the manufacturing sector from 2016 to 2018 found the independence board of directors and female directors' presence positively influenced firm performance. Terjesen et al., (2016) using data from 3,876 public firms in 47 countries and controlling for a broad set of corporate governance mechanisms found that external independent directors did not contribute to firm performance unless the board was gender diversified. Khan and

Awan (2012) examined the influence of board composition on corporate performance based on a sample of 91 listed firms on Pakistan's Karachi Stock Exchange. This study revealed that independent directors positively affected firm performance, and the authors argued that a high proportion of independent directors led to higher firm performance.

Furthermore, based on a sample of 950 Italian companies from 2007 to 2009, Gordini (2012) suggested that the relationship between firm performance and board independence was positive. Dahya and McConnell's (2005) study of the UK showed that the addition of independent members to the board improved the performance of the company and response to the guidelines of Cadbury report had led to a significant improvement in the performance of companies due to the increase of independent members. Similarly, Choi et al. (2007) found that board independence positively impacted the performance of Korean firms especially in the aftermath of the Asian financial crisis.

In summary, those who believe that having independent board members believe that having independent members of the Board with good experience and knowledge improves firm performance and overcomes the problem of bias, boosts disclosure quality, increases the transparency of accounting information and reduces the conflict of information provided to investors (Al-Sartawi et al., 2017).

Others have found a negative association. For example, Al-Sartawi (2019) examined the relationship between board independence and performance among listed Islamic Banks in Gulf Cooperation Council countries between 2013 and 2016. He found a negative relationship between board structure and the performance of Islamic banks. Marashdeh (2014) found a negative and significant relationship between board

independence and firm performance. He explained that the negative relationship was because independent members work part-time and, therefore, do not have sufficient knowledge and experience about the company's daily activities. These deficiencies negatively affected their role in improving the performance of the company.

Bhagat and Black (2000), using a sample of 934 large listed US firms, found a negative relationship between board independence and firm performance. The authors argued that some deemed independent members were not independent of management because they had a relationship with the firm or CEO somehow. Yermack (1996) examined the relationship between board independence and firm performance. The author found a negative relationship on firm performance as measured by Tobin's Q.

Others have found no relationship. For example, Amran (2011) examined the effect of CG on corporate performance by analyzing 424 Malaysian firms listed on Bursa Malaysia from 2003 to 2007. The result found no relationship between board independence and corporate performance. Buallay et al. (2017) measured the impact of CG on firm performance in the Saudi stock exchange (TADAUWL) from 2012 to 2014. The study, which comprised 71 listed companies, revealed no significant impact between BOD independence and market performance. Arosa et al. (2010) found an insignificant relationship between board members independent and company performance in Spain. Agoraki et al. (2010) found an insignificant relationship between board independence and company performance in a study of European banks.

Several of those who have studied Malaysia have also found no relationship. Both Johari et al. (2008) and Wan Yusoff and Alhaji (2012) argued that board independence did not affect firm performance. Hashim and Devi (2005) also failed to find any significant evidence on the relationship between the proportion of

independent directors and firm performance in a sample of 280 Malaysian public listed companies. Lastly, Tham and Romuald (2012), using 20 listed companies in the Bursa Malaysia from 2006 to 2010, also found no relationship between board independence with firm performance.

According to Agency Theory, independent managers monitor the company's performance better than internal managers (Kor & Sundaramurthy, 2009; Adams et al., 2010; Balsmeier et al., 2014). Also, companies with more independent managers have better operational performance (Mobbs, 2013). In some of the literature, Agency Theory has stipulated that firm performance would be higher when the BODs are more independent in managerial decisions (Chen et al., 2005; Choi et al., 2007).

To explore the relationship between board independence and financial performance, the following hypothesis is posited.

H2: BOD Independence is positively related to the performance of Malaysian Takaful companies.

3.7.3 Executive Membership and Takaful Financial Performance

Executive board membership is the percentage of executive board members who serve on the BOD. Directors, who are responsible for an administrative task in the firm's daily routines, while being a board member, can be defined as executive board members. Previous studies have emphasized the relative importance of executive directors, suggesting that they contribute to available expertise and facilitate more open discussion within management (Muth & Donaldson, 1998; Donaldson, 1990). An executive director serving on the board is an extreme version of excessive concentration of power found at firms' upper echelons.

In Turkey, such director duality may also exist when duly empowered members are present on the board. Hence, this situation must be accounted for. These types of directors in terms of their roles and functions are categorized as insiders. From another perspective, board members who do not have managerial positions and are not duly empowered members are defined as outsiders (Kaymak & Bektas, 2008).

Unlike Agency Theory, Stewardship Theory posits that executives who are good stewards are willing to do their duty to grow a firm. When Agency Theory looks at the self-interest, most of the time, it is in terms of the financial interests of “the agent.” Conversely, Stewardship Theory argues that the managers' contribution comes from their desire to work and create an excellent return for the company (Doa & Ngo, 2020). Hernandez's (2012) definition of stewardship entails the sacrifice of one's self-interest to protect the long-term welfare of other people. Therefore, if a firm can go from agency to stewardship, it can grow because the managers are willing to work their best to contribute to its growth.

In their study of Turkish banks, Kaymak and Bektas (2008) found a positive relationship between executive board members and firm performance. Doa and Ngo (2020) found that the number of members holding both executive and board of directors' position has no significant relationship with firm performance. However, in Romania, Borlea et al. (2017) found that higher presence of outside directors and equilibrium between inside and outside directors did not impact firm performance. In light of the above discussion, the following hypothesis is posited.

H3: Executive Membership is positively related to the performance of Malaysian Takaful companies.

3.7.4 Muslim Directors and Takaful Financial Performance

Muslim directors can function effectively on boards of firms when working with the majority group of other religious groups. The belief is that Muslim directors in Muslim countries such as Jordan, Yemen, Iraq, and Saudi can significantly impact firm performance due to their religious beliefs that regulate economics, morals, and dealings (Ibrahim & Alam, 2018). This variable was used in this current study because Malaysia is a multi-ethnic country and more than 45% of the population is non-Muslim. It is good to investigate diverse boards regarding race and religion on firm performance (Hassan & Marimuthu 2018).

Earlier. Having Muslims on the board of directors, who carry the responsibility of being Allah's (SWT) representative on earth to protect the environment by upholding the principle of vicegerency is seen to be the catalyst of the commitment to CSR. Moreover, having a Muslim act as the Chairman or CEO of the company assures that the Islamic concept of social responsibility and justice will be cared for (Abd Mutaleb et al., 2017).

Haron (2018) and Volonte (2015) revealed that many studies generally witness that religion significantly impacts corporate governance decisions. Hassan and Marimuthu (2018) found a positive relationship between Muslim members board and firm performance in Malaysian listed companies. Kim and Daniel (2016) asserted that certain ethical values commonly shared among Muslim directors significantly impacted the corporate governance structures a firm adopts.

Islam is very sensitive to ethical values and is guided by Shariah principles (Ahmad, 2000). Thus, Islam is expected to encourage good corporate governance mechanism and may reduce monitoring costs (Alhabshi, 1994) and focus on

improving firm performance rather than accumulating wealth at other shareholders' expense. This creates a positive relationship between Muslim directors and firm performance. Guiso et al. (2003) argued that the concept of brotherhood, one of Islam's ethical principles, encourages social responsibility and avoids competition among his brothers in the market. Hence, Muslim directors might exhibit more conservative behaviour in running a business and thus engender good firm performance (Guiso et al., 2003), and a positive relationship is expected. Nonetheless, Alam et al. (2020) argued that sometimes firms use the SSB and Shariah executives as a showcase and rubber stamp to accomplish their goals and maximize profit. Thus, the following hypothesis is posited:

H4: The presence of Muslim directors is positively related to the performance of Malaysian Takaful companies.

3.7.5 Meeting Frequency and Takaful Financial performance

The BOD should regularly discuss company issues, discuss problems, or propose new business development ideas, which is a requirement for good governance practices (Makhlouf et al., 2014). Frequent periodic meetings of the BOD are an indicator of the possibility of members of the BOD controlling executive management and protecting shareholders' rights (Ntim et al., 2017). Regular meetings of the BOD enhance the effectiveness of the company's business's control, which contributes to making good decisions that help improve performance (Vafeas 2003; Mangena & Tauringana, 2008; Ntim et al., 2017). Moreover, more frequent meetings enhance loyalty among board members, shareholders and employees, contributing positively to performance (Vafeas 2003).

MCCG recommended that the BOD meet regularly, and the total meetings during a year should be disclosed. Though there is no condition for the number of meetings. The suggested recommendation is aimed to give a positive viewpoint for the companies' controlling which presently has less than four yearly meetings (Alnasser, 2012)

Mixed results exist in examinations of the relationship between the frequency meetings of the BOD and its impact on financial performance. Lipton and Lorsch (1992) and Schwartz-Ziv and Weisbach (2013) believe that more frequent board meetings positively affect financial performance because they allow the BOD to discuss a company's performance. Monitoring a company's activities is considered among the most critical responsibilities of the BOD (Soobaroyen & Mahadeo, 2012; Siddiqui et al., 2013).

Some previous literature has found the relationship between meeting frequency and firm performance to create a positive impact. Based on a sample of Australian banks from 1999-2013, Salim et al. (2016) showed board meetings have robustly significant and positive effects on firm efficiency. Chen and Al-Najjar (2012) examine a large US sample of 22,366 firm-year observations. They found that capital allocation was highly efficient in firms with frequent BOD' meetings. Also, Upadhyay et al. (2014) reported a positive association between the frequency of meetings and firm performance using a sample of US firms. Ntim and Osei (2011) indicated that a positive relationship existed between the frequency of board meetings and corporate performance, based on data from a sample of 169 South Africa listed firms from 2002 to 2007. The authors suggested that board meeting frequency should be considered a metric for measuring the power and effectiveness of boards of directors. Moreover,

they argued that boards of directors with a higher number of meetings throughout the year would have higher performance.

Stewardship Theory posits that executive managers are trustworthy (Donaldson & Davis, 1991; Letza et al., 2004; Siebels & Knyphausen-Aufseß, 2012). This means that more Board meetings do not improve a company's performance, which supports reducing the board's involvement in its daily activities (Monks & Minow, 2011).

Some studies argue that frequent meetings of the BOD may negatively affect firm performance because protocols and routines dominate these meetings, especially if several independent members require an extended amount of time to understand the details of the issues. This wastes time for discussing matters of interest and importance of the company (Vafeas, 1999). Proponents of this argument believe that the frequent meetings of the BOD create additional costs in the preparing and processing information and equipment for meetings (Vafeas, 1999). Some theoreticians propose replacing periodic meetings with emergency meetings only in cases where meetings are necessary, such as replacing the CEO, periods of financial crisis or any situation where owners' rights are at risk (Ntim et al. 2017).

Vafeas (1999) concluded that a large number of meetings harm firm performance. Similarly, Vafeas (1999a) found that an increase in the frequency of meetings board increased agency costs, such as allowances and travel expenses and meeting expenses, which negatively impact financial performance. Christensen et al. (2014) also found a negative impact of board meetings' frequency on the Q-ratio in large Australian firms. Finally, El Mehdi (2007) use a small sample of 24 listed firms in Tunisia from 2000 to 2005 and found that the board frequency meetings did not

affect firm performance. He argued that that firm performance was related to the efficiency of management and not to board meetings El Mehdi (2007).

Several have examined this issue in Malaysia. For example, Abdulsamad et al. (2018) examined a sample of 341 Malaysian Public Listed Companies from 2003 to 2013. Board meetings showed weak and negative influences on firm performance. Noor and Fadzli (2013) investigated 162 public listed companies at Bursa Malaysia, using stratified sampling from 2006 to 2008 found board meetings negatively influenced firm performance. Taghizadeh and Saremi (2013) examined 150 Malaysian listed companies in 2008 and found that board meeting and a high percentage of independent directors negatively influenced ROA.

Hence, to study the relationship between board meeting frequency and firm performance, the related hypotheses are drawn as follows:

H5: Meeting Frequency is positively related to the performance of Malaysian Takaful companies.

3.7.6 Gender Diversity and Takaful Financial performance

In recent years, board diversity has become a significant element of governance arrangements (Harun et al., 2020). Gender diversity in the BOD is one of the key mechanisms for improving CG and a critical issue for policymakers in many countries (Ferrero-Ferrero et al., 2015). Female board members have been found to be connected with financial outcomes, and their presence has been found to be highly positive in countries that strongly protect shareholders. According to Post and Byron (2015), female board members are highly interconnected with the boards' responsibility, including strategy development and supervising.

In the corporate world, female participation on boards is meagre. According to a Catalyst census, women's participation in boards is only 12.4% in the US and 6.4% in the UK. However, Norway has required at least a 40% participation of women on boards since 2008. Currently, Malaysia has laws and regulations that encourage women's participation requiring companies the board to have at least 30% of females (Hassan & Marimuthu, 2018).

Agency Theory suggests that more diversified corporate boards are more independent and better able to perform their monitoring function (Wang, 2020). Agency Theory suggests that women bring good views to complex problems, adding truthful information to solving problems and the decision-making process (Francoeur et al., 2008). Also, women improve decisions and help in the process of persuasion in decisions (Fondas, & Sasselos, 2000). Evidence suggests that women help monitor the management reporting that increases the organisation's earnings value (Huse, 2010; Srinidhi et al., 2011).

Resource Dependency Theory argues women in directors add quality resources, unique relations and commitments to the board. It has been shown that women can diversify communication through their understanding of customers and markets more than men (Ibarra, 1993). This theory assumes that having many women on the BOD helps make strategic decisions, increase understanding and knowledge, and improve decisions and formulate policies and strategies (Westphal & Milton, 2000). Luckerath-Rovers (2013) indicated that firms with female directors perform better than firms without female members on their boards. Brown et al. (2002) also assumed that, if the performance was poor under current corporate governance, the reasons should be sought for this poor performance should be sought and who should be on the BOD.

Nonetheless, mixed results have been found on the impact of Gender Diversity on financial performance. Darko et al. (2016) using a sample of 20 Ghanaian firms and based on cross-sectional data over five years, found the representation of female on BOD had a positive impact on firm performance. Terjesen et al. (2016), using data from 3,876 public firms in 47 countries and controlling for a broad set of corporate governance mechanisms, revealed that firms with more gender diversity had higher firm performance using market- and accounting-based metrics. Julizaerma, and Muhamad Sori (2012) in Malaysian listed companies found a positive association between gender diversity and firm performance. Letting and Machuki (2012) found a significant and positive association between board diversity and financial performance in Kenya firms listed in the Nairobi Stock Exchange. Carter et al. (2003) looked at the relationship between Tobin's Q and women's presence in the boards of the Fortune 1,000 companies and found a significant and positive relationship.

Based on all public limited Norwegian firms that traded on the Oslo Stock Exchange (OSE) from 2001 to 2009, Ahern and Dittmar (2012) found a significant and negative relationship between the quota of women and accounting return and decline in Tobin's Q. The authors' interpretation was the quota led to younger and less experienced boards and deterioration in operating performance. Finally, Chandani et al. (2018) studied bank financial performance in Pakistan measured through ROA and ROE based on secondary data collected 2005 to 2016. They found an insignificant association between board gender diversity and banks performance. Last, Rose (2007), who studied Danish listed companies, did not find a relationship between board diversity and Tobin's Q.

This relationship has also been studied in Malaysia. Lee-Kuen et al. (2017) examined 100 nonfinancial listed Malaysian companies from 2009 to 2013. They found a positive relationship between gender diversity and firm performance., Sabri et al. (2020) studied the impact of gender diversity on the performance of the top 50 listed corporations in Malaysia from 2014 to 2018. They found the higher gender diversity improved the performance. In contrast, Abdullah (2014) examined 100 non-financial listed Malaysian companies during 2007 and found a negative association between gender diversity and firm performance.

Some nations have passed regulations establishing a gender share system by introducing seats designated for women in BOD. In Malaysia, the MCCG said that “The board discloses in its annual report the company’s policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% of women directors” (Securities Commission Malaysia, 2017).

In light of this discussion, this current study explored the relationship between Gender Diversity and firm performance. Thus, the following hypothesis is formulated:

H6: Gender diversity is positively related to the performance of Malaysian Takaful companies.

3.7.7 Board of Directors’ Effectiveness

Amrah et al. (2015) have argued that the main component of CG is BOD, which is responsible for the monitoring role. According to Agency Theory perspective, the BOD is an essential mechanism to monitor managers so that they act to maximize stockholders' interests and wealth. Indeed, the BOD plays a crucial role in reducing the information asymmetry that increases agency problems. Another primary role of

the BOD is to provide the company with various resources that are beneficial in decision making to improve company performance (Guerrero Villegas et al., 2018). In addition, the effectiveness of the BOD plays a significant role in protecting the interests of stakeholders against management's self-interests (Siam et al., 2014).

Several prior studies have addressed the BOD effectiveness using aggregate measurement to measure BOD effectiveness (see, Gillan, 2011; Siam et al., 2014; Amrah et al., 2015; Makhoul et al., 2018, Shatnawi, 2020). These researchers agreed on the importance of using a composite measure for three reasons. First, it is better to use a comprehensive measure to avoid the limitation of using metrics individually. Second, individual mechanisms might provide mixed and contradictory results, while the aggregate measure provides accurate results. Finally, a complementary relationship is present between the mechanisms. Hence, it is better to create a composite measure to evaluate board effectiveness because they are intervention variables.

Several have studied board effectiveness as a composite score. Dhaliwal et al. (2007) found that strong board governance results in better accruals quality. Their study measured the strength of a firm's board employing four commonly used board effectiveness metrics: board size, board independence, director shareholding, and CEO-Chair duality. More recently, Ishak and Al-Ebel (2013) indicated that when the BOD's score increased, this boosted the level of disclosure of intellectual capital in annual bank reports. In their study, the score of the BOD's effectiveness consisted of the following measures: the size of the board, board independence, board number of meetings, committees of the board (audit, nomination and remuneration committees) and CEO duality. Furthermore, Amrah et al. (2015) used a composite measure of the

effectiveness of BOD to detect the influence of the combined effect on the cost of debt. They argued that using a composite measurement permitted a more comprehensive measurement of the effectiveness of the board.

The “board of directors’ attributes are essential in maintaining the Tafakul firm’s financial performance efficiency and effectiveness. More specifically, the previous studies examined the effects of the board of directors’ attributes on takaful firm’s financial performance in Islamic countries. Based on the previous studies, past researchers chose to examine some elements in the board of directors attributes that would affect a takaful firm’s financial performance. The elements are the board size, the proportion of non-executive directors, CEO/Chairman separation or duality, and Muslim directors in the takaful firms”. Overall, this paper really aims to provide a comprehend systematic review regarding characteristics related to board committee members that can enhance the financial performance of Tafakul firms. board of directors characteristics are believed to be an important aspect to ensure the effectiveness of takaful firms specifically toward financial performance. The board of directors characteristics play a vital role in ensuring the effectiveness of takaful firms in term of financial performance (Zainudin et al., 2021).

Based on the arguments above, the expectation is Malaysian Takaful companies with high board effectiveness, measured by composite score, can enhance financial performance by minimising agency problems and improving monitoring of managerial actions. Therefore, the following hypothesis is posited:

H7: There is a positive relationship between BOD effectiveness and the performance of Malaysian Takaful companies.

3.8 Audit Committee Effectiveness and Financial performance

In the 20th century, after the financial scandals at major US companies such as Enron and WorldCom, the Sarbanes-Oxley Act became one of the most critical laws for controlling disclosure and internal control, particularly in defining the duties of the AC. The Blue Ribbon Committee (BRC) suggested three recommendations to enhance AC governance's effectiveness: strengthened independence, effectiveness and accountability (Al-Matari et al., 2014).

The AC is one of the most important committees in the company to maintain transparency and accountability (Alqatamin, 2018). The BOD is responsible for formulating the company's financial strategies, and the members of the AC are part of the BOD. Therefore, if the company's financial position is presented correctly to the BOD, such representation will improve its financial performance. (Bhardwaj & Rao, 2015). According to Subrata Sarkar (National Stock Exchange Quarterly Briefing, 2013), "The AC is an important governance mechanism designed to ensure that a company produces relevant, adequate and credible information that investors as well as independent observers can use to assess company performance" (Bansal & Sharma, 2016). The AC acts as a link between the BOD and the external auditor to avoid discrepancies between them in information or understanding (Azman & Kamaluddin, 2012).

The primary function of an AC is to monitor a firm's financial performance and its financial reporting. In this sense, it is expected that ACs should strongly affect the selection, removal and remuneration of auditors; the content and extent of audit work; the auditor independence; and the resolution of disputes between auditors and executive management. Also, ACs should review and agree upon chosen accounting

policies; and they should also influence a firm's approach to financial reporting, levels of disclosure, and adherence to standard practice. Furthermore, besides monitoring the reliability of the firm's accounting processes, ACs should ensure the compliance with corporate legal and ethical standards, including the maintenance of preventive fraud controls (Turley & Zaman, 2004).

The aims of revised MCCG in 2007 were to reinforce the functions of BOD and ACs and guaranteeing BOD and AC fulfil their duties and responsibilities effectively. The emphasized amendments on AC were on the criteria of members AC, frequency of meetings, the structure of ACs, and the necessity for continuous training (Fairus et al., 2015).

The MCCG suggested that the BOD create an AC that had at least three members, most of them were independent, and all members were non-executive directors. The AC's responsibilities and authorities were to be written and approved as a reference for the work. The members of the Committee were to have financial expertise. At least one was to be a member of a professional accounting association (Fairus et al., 2015). An AC reduces the agency problems in Takaful companies because it can help improve financial reporting quality (Hardwick et al., 2011). Therefore, a Board's AC should positively influence the size and technical competence of Takaful operators (Karbhari et al., 2018).

The AC is one of the internal governance mechanisms aimed to enhance its financial management and improve firm performance. In this regard, the Oversight Committee has four qualities that must be considered: Chairman Specialization, AC size, Independency, and Meeting Frequency.

3.8.1 Audit Committee Chairman Specialization and Takaful Financial

Performance

The AC chairman should be independent of the administration because he needs a different mentality and perspectives relating to specific financial reporting and auditing issues in a company (Ng, 2013). The chairman of the AC in a listed company must be an independent director and a member of the Malaysian Institute of Accountants (KLSE, 2000).

MCCG (2017) pointed out “The Chairman of the AC is not the Chairman of the board and said” the Chairman of the AC is responsible for ensuring the committee's overall effectiveness and independence. If one person holds the positions of Chairman of the Board and Chairman of the AC, this could impair the objectivity of the board’s review of the AC’s findings and recommendations.

MCCG also focused on the qualifications of AC committee members. AC committee members should have a wide range of skills to perform their duties. All AC members should be financially knowledgeable and understand what is within the purview of AC's competence, including financial reporting procedures (Securities Commission Malaysia, 2017).

DeZoort and Salterio (2001) argued that AC financial expertise increases the likelihood of detecting material misstatements, which is reflected in better financial performance. Further, DeZoort et al. (2003) found that more experienced AC members and those AC members who were CPAs were more supportive of the external auditor. Concerning Malaysia, Rashidah and Fairuzana (2006) argued that an AC must include competent and experienced directors in financial aspects. This is

because an AC is first and foremost formed to monitor a firm's financial reporting process.

To date, no study examined the chairman of AC specialization. He has an accounting degree or other specialization. While the MCCG does not mention this issue, this study examined the impact of chairman specialization on Malaysian Takaful companies' financial performance to fill this knowledge gap. To investigate the relationship between chairman specialization and the firm performance, the following hypothesis is posited.

H7: AC Chairman Specialization is positively related to the performance of Malaysian Takaful companies.

3.8.2 Audit Committee Size and Takaful Financial Performance

The size of AC is an essential characteristic and has an essential role in firms. MCCG 2017 states that an audit committee member must have at least three members, the majority of whom must be independent and all members must be non-executive directors.

Several studies examined the AC's size and its relationship with financial quality (Al-najjar, 2011; Soliman et al., 2014; Siam et al., 2015). Several studies have reported a positive relationship between board size and firm performance. Zraiq and Fadzil (2018) found a positive but insignificant relationship between audit committee size and ROA. Whereas the relationship between audit committee size and EPS was positive and significant. (1999) found a positive association between the board's size and monitoring process that resulted in higher performance. Mohd Saleh et al. (2007) asserted that an audit committee with more members likely to possess diverse skills

and knowledge, which was likely to enhance monitoring. This finding was subsequently supported by El Mir and Souad (2008). Further, Psaros (2009) argued that an AC needs to have sufficient members such that different and informed views can be canvassed, and one individual does not dominate it. This is consistent with Resource Dependence Theory (Mohd Saleh et al., 2007).

Conversely, several researchers argued that a large AC size was detrimental. Saleh et al. (2007) raised questioned whether a larger audit committee could result in effective monitoring. Raghunandan and Rama (2007) argued that a large-sized audit committee increases the number of meetings, and Vafeas (1999) believed that a larger audit committee could lead to inefficient governance because of the need for more frequent meetings, which leads to increased expenses. Hence, larger audit committee could negatively affect firm performance. Lastly, Belkhir (2008) claimed that size was unlikely to have any effect on firm performance.

Although the literature has extensively discussed the relationship between the audit committee size and firm performance, the reported results are mixed. To examine the relationship between the AC Size and corporate performance, the following hypothesis is posited:

H8: AC Size is positively related to the performance of Malaysian Takaful companies.

3.8.3 Audit Committee Independence and Takaful Financial Performance

AC independence refers to the proportion of non-executive committee members versus executive members (Abdullah et al., 2008; Kang & Kim, 2011). Governance codes around the world require the existence of ACs and assurance that ACs are

independent. An increase of non-executive members leads to increased committee independence (Mohd et al., 2009). Moreover, according to Abdullah et al. (2008), companies have ACs composed of internal members who have no AC. Such a company is more exposed to fraud than similar companies in the same market and size with an independent AC. Cohen (2011) argued that an independent AC ensures reliable financial reports by verifying and checking managers' activities. The MCCG is consistent with the Listing Requirement of Bursa Malaysia that audit committees shall comprise of at least three directors (Jamil & Nelson, 2011).

Bouaziz and Triki (2012) and Arslan et al. (2014) argued that the presence of ACs enhances the quality of audit reports and improves the performance of a company, as well as trying to reduce frauds that may be occurring (Yunos et al., 2014). Independent members of a committee can verify financial statements to some extent and recognize components like net income, equity, total assets, and sales that represent the company's financial position and performance (Sarkar, 2013). Vicknair et al. (1993) argued that when the AC has greater independence, its performance is more effective, suggesting that external and internal auditors are less likely to intervene unjustifiably.

According to Avison and Cowton (2012), an independent opinion is due to the separation of ownership, which reduces agency problems. The existence of independence members is good where there is no conflict of interests. An independent AC offers unbiased views based on the available information collected from reliable sources that are viewable by shareholders.

The Agency Theory, the Resource Dependence Theory and Stakeholders Theory propose that self-governance aids in making the correct decision without barriers and

easily finding errors because of the independence of auditors. The Resource Dependence Theory posits that independent directors play a significant role in providing particular resources that are otherwise unavailable to the management (Hasan et al., 2020). Therefore, a significant and positive relationship is expected between AC independence and company performance. Nonetheless, of all the studies that have examined this relationship in developed countries (Khanchel, 2007) and developing ones (Nuryanah & Islam, 2011; Swamy, 2011; Yasser et al., 2011), only a few have found a positive result (Amer, 2016).

Bouaziz and Triki (2012) examined the impact of AC independence on financial performance measured by ROA and ROE on a sample of 26 Tunisian firms listed on the Tunis Stock Exchange from 2007 to 2010. They found a significant and positive relationship between the independence of the AC and financial performance in Tunisia. Hamdan et al., (2013) examine the relationship between AC independence and firm performance of 106 financial firms listed on the Amman Stock Exchange Market from 2008 to 2009, finding that AC independence significantly influenced firm performance. Similarly, Tornyeva and Wereko (2012) investigated the relationship between AC independence and the financial performance of insurance companies from 2005 to 2009 in Ghana. The findings showed that AC independence was positively associated with financial performance. Al-Matari et al., (2012a) studied Omani companies' performance and found a positive relationship between AC independence and firm performance using Tobin's Q.

Other have found no relationship. For example, using a sample of 20 non-financial listed companies in Nigeria, Kajola (2008) did not find a significant association between AC composition and firm performance. He also found that having

a majority of independent non-executive directors in the AC did not significantly influence firm performance. Ghabayen (2012) investigated the relationship between AC composition and firm performance using the annual reports of 102 listed non-financial firms in the Saudi market in 2011. The results revealed that AC composition did not affect firm performance in the selected sample. Bansal and Sharma (2016) examined the role of AC in improving India's firm performance using a sample of 235 non-financial public limited companies listed in the NSE 500. The period considered was from 2004 to 2013), and they revealed no effect of AC independence on the financial performance of Indian firms.

To examine the relationship between AC independence and company performance, the following hypothesis was posited.

H9: AC Independence is positively related to the performance of Malaysian Takaful companies.

3.8.4 Audit Committee Meeting Frequency and Takaful Financial Performance

A common belief exists that an AC committee that meets often is effective and a committee that rarely meets is ineffective. In this context, the AC's effectiveness can be assessed using the average number of yearly meetings as a metric (Menon & Williams, 1994; Xie et al., 2001). Anderson et al. (2004) reported AC observers' internal control to provide reliable information to shareholders. The feeling is that an effective AC strengthens the internal audit function and evaluates business risk (Hsu & Petchsakulwong, 2010). Indeed, Abbott et al. (2004) found that ACs of firms restating their financial statements were not likely to meet at least four times a year (Darko et al., 2016).

According to Corporate Governance Guide Pull-out II, Guidance on effective audit and risk management, there should be as the audit committee's roles and responsibilities require. It is recommended there should be no fewer than four meetings during the year (Bursa Malaysia. 2009).

Several have studied meeting frequency. For example, Al-Mamun et al., (2014) believed that periodic meetings of the AC could reduce agency problems and asymmetry of information by providing unbiased and timely information to shareholders. DeZoort et al., (2002) suggested that companies that have frequent meetings protect investors' rights better. Bryan, (2004) considered the recommendations of Blue-Ribbon Committee (1999) concerning improvement in the corporate ACs efficiency. He agreed that ACs would enhance financial reporting practices, once there were more independent and financially literate members who loyal adequate time to the board and met frequently. Menon and Williams (1994) considered meeting frequency to determine if the board directly depend on AC as an instrument to control executive management. They found meeting frequency improved the monitoring of the firm, and could thereby improve its performance (Bansal & Sharma, 2016).

Several studies observing the relationship between AC meeting frequency and firm performance have given mixed results. Hsu (2007) found that the number of AC meetings and company performance was positively and significantly associated. Zraiq and Fadzil (2018) found that audit committee meeting frequency was significantly and positively related to ROA and audit committee meetings frequency was positively but insignificantly related to EPS. Kyereboah (2008) examined the effect of AC frequency meeting on firm performance in Africa by using unique data from 103 firms drawn

from Ghana, South Africa, Nigeria and Kenya covering 1997 to 2001. Using a dynamic panel data framework, he revealed that their meetings' frequency positively influenced market-based performance.

On the other hand, Darko et al. (2016) conducted a study focusing on 20 of the 34 listed companies on the Ghana Stock Exchange from 2008 to 2012. Their results revealed that the frequency of AC meetings negatively affected firms performance. Bansal and Sharma (2016) examine the role of AC in improving India's firm performance using a sample of 235 non-financial public limited companies listed in NSE 500. The period considered was from 2004 to 2013 they revealed no effect of AC meeting frequency on the financial performance of Indian firms. Thoopsamut and Jaikengkit (2009) examined the relationship between AC effectiveness and financial performance of firms listed in the Stock Exchange of Thailand. The number of meetings of ACs was not significantly related to financial performance.

A few studies have considered Malaysian firms. Abdul and Haneem (2006) and Mohd Saleh et al. (2007) provided evidence that fewer AC meetings improved the financial performance as it reduced the additional costs incurred with every meeting. Al-mamun et al. (2014), using a sample of 75 Malaysian listed firms from 2008-2010, found that meeting frequency did not influence firm performance.

To examine the relationship between the number of AC meeting and the firm performance, the following hypothesis is posited:

H10: Meeting frequency is positively related to Malaysian Takaful Performance

3.8.5 Audit Committee Effectiveness

The effectiveness of AC in firms is considered the backbone of the monitoring of financial reports. Indeed, the importance of the effectiveness of the AC grew after recent major accounting scandals and corporate frauds. The independence and financial expertise of AC members are the required keys to improve the quality of AC concentrate (Lisic et al., 2016). The audit committee is a subcommittee of the board. It comprises non-executive independent directors, and the emphasis is placed on audit quality, financial reporting considerations, internal audit, and internal control (Abbott & Parker, 2000; Byard et al., 2007). The board of directors' primary responsibilities are concerned with external auditors and internal control; however, such tasks are usually assigned to the audit committee. In such an instance, the organization's internal auditor, along with an external auditor, assess internal controls, with their findings subsequently reported to the audit committee (Naiker & Sharma, 2009).

Several factors contribute to enhancing the effectiveness of AC, such as the existence of financial and accounting experts and independent directors (DeZoort et al., 2002; Shawtari et al., 2015). In Malaysia's context, several suggestions have been promulgated by the Malaysian Securities Commission (1993) mindful of the importance of the adoption of an audit committee. Such suggestions center on the composition and operations of the audit committee and reporting and reviewing.

Many prior studies have examined the components of AC effectiveness individually to investigate their relationship with CG and firm performance. However, these studies have mixed results and thereby, examining AC effectiveness in isolation has led to unclear results in previous studies. According to DeZoort et al. (2002), it is better to study the effectiveness of AC by combining their characteristics in a bundle

to measure AC effectiveness. Ward et al. (2009) argued that investigating the mechanisms of CG as a group rather than individually would be better in future studies.

Accordingly, Hassan et al. (2017) conducted their study in the United Arab Emirates as an example of emerging economies. Their study's objectives were to investigate the association between effective AC and OS of UAE non-financial listed firms. To fulfil the study's objectives, they constructed a composite measure of four proxies to measure the effectiveness of AC, which included financial expertise, independence and meetings. They found that the relationship between AC effectiveness and government and institutional ownership was negative.

To a significant extent, audit committee composition is inadequate in itself. It does not provide proof regarding the actual degree of control (Deli & Gillan, 2000) unless the characteristics of its effectiveness are established, such as chairman specialization, Shariah background, AC independence, and AC meeting frequency. When each of these elements is combined into a composite score mean, this effectiveness score can be related to the audit committee's duties in several areas, such as compliance issues, dealing with external auditors, financial reporting, internal auditing, and risk management.

According to the discussion above, investigating AC effectiveness via a composite score in Malaysian Takaful companies and examining its role in improving financial performance is worthy of study. Hence, the following hypothesis is posited:

H11: There is a positive relationship between AC effectiveness and the performance of Malaysian Takaful companies.

3.9 The Moderating effects of Shariah Committee Quality (SCQ)

Shariah Committee (SC) or also known as Shariah Supervisory Board (SSB) is an independent committee, which acts as an oversight body to monitor the operations and business affairs of the IFIs (Masruki et al., 2018). The governance structure of the IFIs is distinct from the conventional organizations because of the existence of the SSBs in addition to the usual boards such as the board of directors. The SSB is a mechanism of internal governance, which aims at transparency in the disclosure of information (Broquet, 2012). Malaysia has a comprehensive legal and regulatory framework regulating corporate and Shariah governance in IFIs that indicates Malaysia's commitment towards promoting good corporate and Shariah governance practices in the Islamic banking and finance industry. (Miskam & Nasrul, 2018).

The effort to strengthen the overall control over Shariah compliance matters in the Islamic finance industry was made as early as 2005 where the BNM prepared the Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions (Shamsher & Sori, 2016). The guideline sets the roles, scope of duties and responsibilities of the Shariah Committee and its members and the relationship between the Shariah Committee of the respective Islamic financial institutions and the Shariah Advisory Council of the BNM.

To date, few studies have investigated the role of the Shariah Committee Quality (SCQ) as a moderating variable on the relationship between the CG and firm performance in the Takaful sector. The current study has two main justifications for this new area of examination. The first is related to why the current study has chosen a moderating variable. The second justification shows why the SCQ is suitable for moderating the relationship between CG and firm performance in Takaful companies.

Studies have examined SSB quality using various variables such as independence, size, reputation, education, experience, directorship and the information disclosed (Abudul Rahman & Bukair, 2013). However, these studies have produced mixed results. Thus, the need arises to use a moderating variable.

The first reason for selecting a moderating variable is that, as Baron and Kenny (1986), Holmbeck (1997) and Frazier et al., (2004) argued, when the relationship between an independent variable and a dependent variable is poor or inconsistent. In this case, a moderating variable can be established to strengthen or weaken such a relationship and explain when or for whom an independent variable affects a dependent one.

Second, another rationale for determining the SCQ as suitable to be a moderating variable is that the SCQ is among the most consequential governance mechanisms of IFIs to ensure compliance with Shariah principles. Therefore, the role of the SCQ as a moderator on the relationship between CG and firm performance in Takaful companies could be used to enhance the role of the SC towards increasing a firm's performance. Furthermore, several studies have determined that SCQ, as a moderating variable for the current study, has a positive impact. For example, Ajili and Bouri (2018) demonstrated that SCQ is a crucial variable that significantly affects CG and firm performance.

In summary, this study selected SCQ as a moderator for two reasons. First, based on the literature, SCQ has a strong influence on firm performance, and second, few studies have examined the relationship between SCQ and firm performance. Thus, the current study chose the SCQ as a moderating variable on the relationship between the CG and firm performance in Takaful companies.

3.9.1 Shariah Committee Expertise

SC board members are scholars in Islamic finance jurisprudence and must have the necessary expertise in the field of IFIs (AAOIFI, 2005; Al-Mahmoud, 2007; Al-Qattan & Abdul Sattar, 2007), to support them in accomplishing their responsibilities for monitoring financial reporting and internal control of IFIs (Rahman & Bukair, 2013).

Resource Dependence Theory suggests that organizations require resources that they can obtain from the environment in which they operate to survive (Pfeffer & Salancik, 1978). Directors bring valuable resources to the boards and contribute their knowledge, skills, and expertise obtained from their educational qualification and work experience (Hillman & Dalziel, 2003; Abdullah and Valentine, 2009). Therefore, they can improve a company's performance (Pfeffer, 1972). Concerning SC members in IFIs, members of the SC with scientific competence and practical experience in IFIs are more efficient than their counterparts who do not have the same experience (Rahman & Bukair, 2013). The majority of SC members in IFIs are Islamic scholars, some of whom have accounting, economic, banking and financial expertise (Abdullah et al., 2014). Furthermore, Shariah board members should be financially knowledgeable to make financial decisions (Jensen, 1993; Chhaochharia & Grinstein, 2007). Shariah scholars are SC members who contribute their resources in SC's discussions and decision-making. Alman (2012) indicated that SCs represent depositors and shareholders of the IFIs to certify and guarantee that financial transactions, contracts and banking operations are per Shariah. Hence, SC members

must have educational qualification and experience in both Shariah and finance (Samra, 2016).

Practical criteria can be defined as relevant practical experience that can make an SC member or an internal Shariah supervisor capable of performing his/her duty. According to al-Shubayli, (2012) the condition of experience can be realized for an SC member through the experience of exercising the issuance of a fatwa for a certain period. He also says that practical experience is required from an internal Shariah supervisor more than an SC member. For an internal Shariah supervisor, this requirement can be realized by three things: (1) having knowledge of accounting and legal norms and internal review; (2) acquiring experience on internal Shariah review through rendering assistance to an internal Shariah supervisor for a certain period; and (3) participating in training workshops on financial transactions (Al-Shubayli, 2012).

Most SC scholars do not have enough professional banking experience, which adversely affects their capability to make well-informed decisions on financial activities and products (Ginena & Hamid, 2015). Therefore, many IBs have changed their whole SCs because scholars cannot work well since they have limited experience and knowledge in both Shariah principles and product information (Bakar, 2016). SC scholars with good experience in accounting and finance can have a significant and positive impact on the IFIs performance as experience in Shariah law and knowledge in business, accounting and finance can assist the SC in enhancing the performance of the IFIs (Matoussi & Grassa, 2012; Grassa, 2016). The main challenge for IFIs in Malaysia is hiring internal auditors is to have professionals with vast knowledge, skills and experiences in accounting, auditing and shariah related matters. Also, this issue affects SC quality and firm performance (Aishah & Ali, 2018).

3.9.2 Multi-Committee Membership

Multi-directorships suggests that a director member engages in more than one board (Haniffa & Cooke, 2002). There may be much interest in being involved in multiple SC, as SC members may increase their knowledge and experience because of this overlap. However, holding multiple SC positions simultaneously in many international financial institutions may adversely affect SC scholars efficiency and thus their performance, in addition to the possibility of increasing agency problems and conflicts of interest (Alagha, 2016).

Multi-directorship has been discussed in corporate finance literature (i.e., Klein, 2006; Skaife et al., 2006; Stuart & Yim 2010; Pombo & Gutierrez 2011; Connelly & Slyke 2012). In Malaysia, Latif et al. (2013) used a sample of 132 Malaysian companies in 2008. They found almost 90% of directors of publicly listed firms held between 1 to 3 directorships and the multiple directorships affected firm market performance positively but not significantly.

From the Resource Dependency Theory viewpoint, companies can benefit from the external environment when directors serve on multiple committees. This is because multi-membership can permit directors to share information and knowledge gained of the marketplace. The Resource Dependency Theory suggests that the BOD provides imperative resources for companies (Hillman & Dalziel, 2003); therefore, multi-membership can serve as an essential source of information on the operations and strategies of the other firms (Haniffa & Hudaib, 2006).

Similarly, overlapping membership is an important feature of SCs in the IFIs (Rahman & Bukair, 2013). Most SC scholars sit on several boards of different IFIs

simultaneously (Grassa, 2016). Alman (2012) claimed that the SC members' multi-memberships negatively impact SC effectiveness because this led to conflicts of interest as members have access to proprietary information (Garas, 2012). In contrast, Farook and Lanis (2007) and Farook et al. (2011) argued that multi-memberships expose SC members to more discussions regarding the Shariah law practices in IFI, which, in turn, can increase their knowledge about the applications of Islamic instructions to CG. These SC scholars' multi-memberships positively affect their efficiency by increasing their experience and knowledge, finally improving IFIs performance. The reputations of some scholars in companies will help encourage new customers, which will enhance the efficiency and the productivity of the IFIs (Grassa, 2016).

Some countries like Malaysia and Indonesia have limited the numbers of memberships of scholar in SC of IFIs. Other countries remain flexible about this issue (Grassa, 2013). According on (BNM, 2019) A Shariah committee member must not accept any appointment in more than one licensed Islamic bank, one licensed takaful operator and one prescribed institution. However, some Shariah scholars have been repeatedly used in many SCs, especially in GCC countries. According to Unal and Ley (2008), three of the identified scholars are 26% of all SC members in the GCC, and 11 active scholars share 68% of all SC positions.

3.9.3 Academic Qualifications

Rahman and Bukair (2013) argued that when an SC member holds a Shariah degree qualification, SC members will have a better reputation in the community. To maintain their credibility, SC members will have to encourage IFIs to fully disclose

Shariah issues in the financial reports for public distribution. The majority of the Shariah Committee members should hold at least a bachelor's degree in Shariah (Noordin et al., 2015). Prior studies have argued that necessary qualifications on Shariah are essential for SC members in verifying and monitoring business operations of Islamic banks (Alexander 2010; Rider 2012; Lahsasna & Saba, 2014). For example, Al-Walidi (2013), who studied Yemen, concluded that an SC composed of a majority of qualified scholars with legitimate views and practical experience would have an active role in improving a company's performance. In the case of Kuwaiti Shariah-compliant companies, Al Shammari (2013) said that Shariah academic degrees are essential for SC to investigate the company's adherence to Shariah principles, including the examination of company memoranda, statutes and commercial contracts before publication of the results of its investigations into annual reports (Kassim et al., 2015).

Criteria regarding the qualifications of the SC according to Shariah Governance Framework of the BNM are:

- (1) The SC member shall be a Muslim individual;
- (2) The majority of members in the SC shall at least hold at least a bachelor's degree in Shariah, which includes study in Usul Fiqh or Fiqh Muamalat;
- (3) The SC member should have proficiency and knowledge in written and verbal Arabic, and have good language skills in Bahasa Malaysia and the English language;
- (4) The SC may contain experts from related backgrounds such as finance and law;

(5) The SC preferably will have members of different backgrounds in terms of experience, qualification, and knowledge (SGF, p. 30; Wardhany & Arshad, 2012).

Member qualifications are a critical metric to reflect the quality of the board (Kakabadse et al., 2010). These qualifications include education, knowledge of Shariah, and knowledge of finance, Company performance is positively related to qualified board members (Haniffa & Cooke, 2002; Cheng et al., 2010), and qualified board members are considered a strategic resource (Ingley & Walt, 2001).

From the Resource Dependency Theory viewpoint, qualified board members have an essential role in increasing a company's competitiveness (Gabrielsson & Huse, 2005). One metric for board quality is education. A board member with a high education level can handle any new matters properly (Hambrick & Mason, 1984). A high-level education on the SC can lead to high profitability (Musibah & Alfattani, 2014). An SC member who has a PhD degree in a related field is confidently better-versed in IFIs fields (Farook & Lanis, 2007; Farook et al., 2011; Rahman & Bukair, 2013). An educational qualification is a vital resource that board members bring to the organization so that the boards can have the ability to make quality decisions (Kakabadse et al., 2010) and deal with complex issues (Hambrick & Mason, 1984).

In terms of the SCs, Shariah scholars who are suitably qualified in Islamic Finance and banking will be able to contribute towards SCs' deliberation of issues about the risk aspect of the financial contracts to be applied to banking products and services. Further, SC members with doctorate qualifications in Islamic finance are highly conversant in the procedure and structure of Islamic financial products (Rahman & Bukair, 2013).

Previous studies have shown that an increase in the educational level of SC leads to an increase in CSR disclosure level by Islamic banks and affects performance (Farook et al., 2011). Concerning the distinctive role SC members are expected to play, SC members must know Islamic law, economics, finance and accounting practices, which will enable them to understand not only Shariah problems but also problems related to law and economics. SC members who have a doctorate are better at understanding the current implications of Islam for banks, especially about the disclosure of corporate social responsibility (Rahman & Bukair, 2013). Vidia & Basuki, (2020) examined the effect of SSB effectiveness on the financial performance of Shariah banking in Indonesia from 1999 to 2018. This study showed the number of SSB members with a doctoral degree did not affect financial performance.

3.9.4 Shariah Committee Size

During the last several decades, SC size has attracted scholars' attention because they play a vital role in IFIs success and growth. Board size refers to the number of directors involved in the board. Board size differs in various countries, banks and corporations because of different rules, corporate cultures and ownership structures (Ghaffar, 2014). Since the Shariah Board's decision includes understanding Islamic law, modern banking and finance, and legal issues, having more SB members with different professional backgrounds will enable legal Shariah decision-making and greater compliance with Shariah principles and, as such, will influence risk levels in Islamic banks.

In addition, it is easy for the management and board of directors to control the small size SC whereas it is difficult for them to control a large size SC. The minimum

number of Shariah boards members is five (5) and there is no maximum number of members (BNM, 2013). A study conducted in Malaysia by Othman et al. (2013) shows that most of the IFIs have 5 SC members. 75.3% of the respondents reported they had 5 members, 16.0% of the respondents had more than 5 members while only 8.6% of the respondents had few members with 5. This is a very good indication as about 92.4% of the institutions have achieved the required numbers of the SC required numbers of the members (Rasli et al., 2020).

Regarding this issue, Lipton and Lorsch (1992) and Jensen (1993) pioneered the initial literature on board size. An effective BOD is vital for a company's success because it represents the link between managers and investors (Hamza, 2013).

Studies concerning board size have had mixed results. Some have found that a company with a large number of board members did not perform well. Several reasons were articulated for this poor performance. One was the difficulty of coordination among the members. A second was that decision making became more difficult in a large board. A third was that a large board was more expensive than a small board (Jensen 1993).

Conversely, others believe that a large board is better. For example, Dalton et al. (1999) proposed that larger boards encourage better community connections and more experience, increasing firm performance. Pfeffer (1972), Pearce and Zahra (1992), and Goodstein et al. (1994) said large boards would provide a diversity of expertise that would help to provide essential resources for dealing with various issues and finding appropriate solutions, aligning with Resource Dependency Theory. However, little research has investigated the impacts of Shariah board size (Grassa, 2016).

The Agency Theory and the Resource Dependence Theory assume that a larger board is better than a smaller board (Quttainah et al., 2013). Larger SCs contain scholars with more experience and skills and from diverse fiqh schools, which lead to a better explanation of the operations and products and consequently improve performance (Hamza, 2016). Few empirical studies have examined the impact of SC size on the IBs performance. However, Matoussi and Grassa (2012) and Norman et al. (2018) highlighted the importance of large SSB size in enhancing the performance of the IBs.

Mollah and Zaman (2015) found that SC size had a significant impact on the profitability of IBs. According to Chen and Jaggi (2000), a larger size of the Shariah board may decrease the possibility of information asymmetry. Moreover, a higher number of board members may also reduce the uncertainty and the lack of information (Birnbaum, 1984).

3.9.5 Shariah Committee Meeting Frequency

Shariah Committee meetings should be held at least once every two months. (Wardhany & Arshad, 2012). A Shariah Committee member is expected to contribute and allocate adequate time and effort to effectively discharge his duties. The BNM says clearly that every member must attend 75% of Shariah Committee meetings in a year, except if there is any reasonable excuse for not doing so (Amanullah, 2015). When necessary, video or telephone conferencing can facilitate participation in Shariah Committee meetings the number of Shariah Committee yearly meetings and the attendance of every Shariah Committee member is be disclosed in the IFI's annual report (BNM, 2010).

3.9.6 Shariah Committee Gender Diversity

The literature suggests that board diversity can improve organizational performance because diversity board members have unique characteristics that improve board performance (Carter et al., 2003; Erhardt et al., 2003). Performance improvement can be achieved because a different board member contributes to high-quality decisions, innovation an increase in creativity (Westphal & Milton, 2000), and enhances problem-solving (Dallas, 2002).

Recent research has focused on gender diversity because of its significant impact on corporate performance. Liao et al. (2014) stated that males are different from females in terms of communication style, personality, career experience, educational background and expertise. The presence of women in the board adds greater quality because they possess unique qualities such as more diligence (Nielsen & Huse, 2010), more participation and commitment (Adams & Ferreira, 2009), more kindness, more globally concerned, less of a personal interest orientation (Carter et al., 2003; Cox & Blake, 1991; Liao et al., 2014), the view itself that women are more risk-averse than men (Adams & Funk, 2012).

Although some previous studies have found a positive relationship between gender diversity and firm performance (for example, Krishnan & Park, 2005; Campbell & Mínguez-Vera, 2008; Nguyen et al., 2014), in general, the results remain inconclusive. Recent studies found a positive effect of gender diversity on firm performance when corporate governance was weak because females directors provided additional oversight of the board of directors (Adams & Ferreira, 2009; Gul et al., 2011). In the context of SCs, women can be relied upon to improve the

performance of Islamic institutions because they tend to be more serious, less self-interested, and risk-averse.

3.9.7 The Moderating Role of SCQ

Several studies observing the moderating role of SCQ on GG and firm performance have given mixed results (Neifar et al., 2020). Some have found a positive moderating effect of SSB quality on the relationship between performance, board effectiveness and bank performance. The results seem to indicate that even when the performance increases at a high level of SSB quality, the IBs engage in complying with operational risk disclosure to inform stakeholders on the real situation of a bank. Mollah and Zaman (2015) found that SSB positively impacted Islamic banks' performance when they performed a supervisory role, but the impact was insignificant when they only had an advisory role.

On the other hand, some studies have found a negative moderating effect of SCQ on performance. Ajili and Bouri (2018) found a negative moderating effect of SB quality on the relationship between performance and disclosure. Accordingly, it can be said that the higher the quality of the SB, the lesser the performance affects the disclosure. This result indicates that even when the performance decreases at a high SB quality level, IBs complying with accounting disclosure requirements to inform the stakeholders of a bank's real situation. Vidia & Basuki (2020) examined the effect of SSB characteristics and financial performance of Shariah banking in Indonesia from 1999 to 2018. The results showed that an SSB with their political connections affected the company financial performance. This indicated that members of SSB who possessed a political connection improved banking performance. Meanwhile, the number of SSB members with the cross memberships and SSB members with doctoral

degree did not affect financial performance. Ahmed et al. (2018) studied the population of Sukuk companies listed under exempt regime Bursa Malaysia from 2005 to 2015. The results indicated that SSB had a partial moderating effect on the relationship between Sukuk documentation and legitimacy. Muhamad and Sulong (2019) as cited in Ajili and Bouri (2018) presume that aggregated indices are more accurate in measuring governance quality than single indicators.

In this context, the following hypotheses are posited:

H12: SCQ will moderate the relationship between BOD effectiveness and the performance of Malaysian Takaful companies.

H13: SCQ will moderate the relationship between AC effectiveness and the performance of Malaysian Takaful companies.

3.10 Chapter Summary

This chapter provided an overview of the literature on CG and firm performance. The chapter also explained the term firm performance because it is widely diffused and used in many previous studies. It discussed some main theoretical perspectives related to CG and firm performance: Agency Theory, Stewardship Theory, Stakeholder Theory, and Resource Dependence Theory. The chapter explained that this study would adopt Agency Theory as the leading theory to examine the relationship between the BOD and firm performance. The study's theoretical framework illustrates the conceptual structure to support and emphasize the argument of study and work on the guidance required to explain the relationship between CG and firm performance.

After that, the chapter reviewed previous empirical studies related to this study. The characteristics of BOD effectiveness used in this study were board size, independence, executive membership, Muslim directors, meetings frequency, and gender diversity. Also, the characteristics of AC effectiveness (AC chairman specialization, AC size, AC independence, and meeting frequency) were discussed in detail. Based on the literature review, the chapter reported that studies that have examined the relationship between the BOD and AC and firm performance have had mixed findings.

SC quality was also used as a moderator variable (SC experts, multi committee membership, academic qualification, SC size, AC meeting frequency, and gender diversity). Furthermore, based on the previous literature, the chapter clarified that only a few studies have examined SC quality's effect on the relationship between CG effectiveness and firm performance.