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DETERMINANTS OF RETURN ON ASSETS OF NON-FINANCIAL FIRM OF MALAYSIA

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ABSTRACT

To identify the determinants of return on assets of non-financial firms, and to examine how firms' different attributes affect the return on assets, this study uses a sample made up of 185 non-financial firms of Malaysia, covering the period 2005-2018. This paper uses ordinary least square (OLS) and panel regression fixed effect, random effect model simultaneously. The results show the size of the board and board diversity exhibit insignificantly negative relationships with ROA in the Malaysian context, respectively. Financial leverage exhibit significant negatively influences the Malaysian non-financial firms. The dividend payout exhibit statistically significant and positive relationship with ROA in Malaysian non-financial firms, respectively. It is clearly stated that high ROAs lead the way in making good financial gains in Malaysia. However, board diversity negatively affects the ROA in Malaysian non-financial firm context, because most firms are family-owned. High dividend payout policy increases the ratio of return on assets, high dividend ratio attracts the more investment that upsurges the firm's value and growth. The findings of research have significant policy consequences. The research contributes to the return on assets literature by viewing at the position of return on assets and its determinants in selected non-financial firms of Malaysia.

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1. INTRODUCTION

The agency theory proposes that the being of different types of corporate board attributes apparatuses, financial constraints and financial decisions depend on agency costs. Thus, a system of

corporate board attributes and financial decisions procedure is familiarized, which restrains management from following objectives that fail to maximize the owner's wealth (Mahmood et al., 2014; Sarwar et al., 2018). An important procedure of the corporate board attributes and the financial decision system is the role of the corporate board members. The reason is that corporate board members are realized as the main means for stakeholders to control top management (John & Senbet, 1998). The board members have the responsibility to govern the organization's inclusive policy, And to ensure that there are satisfactory controls to protect the owners' property (Keenan, 2004). The board also has several other responsibilities, including financial benefit investments, and profitable payment policy decisions, although in practice these responsibilities are vicarious to higher administration. Most of the specific research emphasizes the characteristics of the corporate board and the impact of such financial decisions on the return of assets.

A very few experimental studies on ROA, corporate board attributes, and financial policy have focused on non-Malaysian companies (Farinha, 2003; Khan et al., 2019; Nguyen et al., 2019; Yurtoglu & Gugler, 2003). Considering the corporate board structure, ownership structure, financial structure and institutional framework working separately in most countries and continents, it is important to understand this issue from Malaysia's point of view as well. The utmost Anglo-Saxon states, like the US and UK, where investor protection is high. The stock ownership is often discrete, and it is claimed that each stockholder has only limited privileges and the capacity to oversee administration. The biggest contingent of corporate governance, accordingly, lies between powerful managers and small external shareholders. (Hamilton et al., 2019; Yurtoglu & Gugler, 2003). In South Korea and most of the ASEAN, the tools of general governance include their pyramid and business groups with cross-ownership structures. Legal requirements for governance in these nations are weak (Aslam et al., 2020; Claessens et al., 2000). Continental Europe, the main feature of corporate board attributes mechanism is that companies that have strong ownership structure, but their corporate legal system tends to play an insignificant role. The organizational board mechanism is also illustrated by massive stockholders. The mainstream regulator gives the major stockholder substantial influence over significant decisions, identically maintaining the level of financial leverage and an announcement of dividend (Tahir et al., 2020). In ASEAN economies, companies are typically detained by families and the corporate platform is considered by robust monitoring structures as well as high levels of stockholder shield because most of the investors from company owners' families, however, family firms pay fewer dividends (Rajverma et al., 2019). In this regard, ASEAN offers a stimulating opportunity to examine the association between the corporate board, financial leverage, and dividend payout policy considering the differences in the degree of stockholder safeguard and return on assets.

The significance of the research, subsequently deceits its input to the literature by offering a viewpoint on the board mechanism and corporate financial decisions in Malaysia. As usually, reflecting that corporate board mechanism, possession mechanism, and firm's organizing backgrounds in Malaysia that is different from advanced nations. It also preserves some of the insights on sustainability versus stability between corporate governance and dividend policy for ASEAN countries under study. The present study is inspired as an agency viewpoint and scrutinizes the extent to which the corporate board attributes mechanism effect most on return on assets. Study

emphasis generally on how corporate board attributes, financial leverage and dividend payout policy effect the ROA in Malaysia. Study particularly taken the registered non-financial firms from Kuala Lumpur Stock exchange because it has the most dynamic and effective stock market in ASEAN.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The previous provisions, different competitive approaches affect the return on assets in different ways (Loukil et al., 2019; Masum & Khan, 2019). However, research is limited in emerging economies. Hashim (2000) says that the performance of SMEs in Malaysia varies according to the choice of business strategies they adopt. Prior researches have scrutinized the company performance factors but the studies investigating the effect of the board of members' attributes are still limited. Agrawal et al. (2019) works on 1,700 Indian firms listed on the Bombay Stock Exchange, for 2001-2016 and realize the annual stock returns of Indian companies as compared to the return of economic value-added assets.

2.1 CORPORATE BOARD SIZE AND ROA

The bigger board possessed skill in information and knowledge over lesser board, large board helpful in improving the firm return on assets (Tahir et al., 2020). The research claimed that a higher quantity of board of directors is difficult to manipulate other directors and better monitoring on an organization's economic performance. Study contribute that the bigger size of the corporate board has more outside connections, aptitude to extract serious possessions like capital, and expertise in running the organization and these characteristics might lead to higher firms' performance.

Earlier research reveals that as corporate board size rises a conflict of interest will arise, as well as communication difficulties, which eventually decline company return on assets (Tahir et al., 2020). Larger companies, diversified companies, and companies that depend on additional on liabilities financing will derive better company worth from having bigger corporate boards (Aslam et al., 2019; Coles et al., 2008). Therefore, with the bigger board size, appropriate administration and control will be highlighted and help improve the firm's return on assets and corporate non-financial performance. Thus, the hypothesis is given as

H1: There is a positive relationship between board size and company return on assets.

2.2 CORPORATE FINANCIAL LEVERAGE AND ROA

There is an effect of financial leverage on companies' profitability in the manufacturing sector in Turkey, the period from 2005 to 2011 (Reis et al., 2013). The regression analysis was conducted by utilizing financial data taken from annual reports of companies inside the scope of the investigation. Chinaemerem and Anthony (2012) scrutinized the impact of financial leverage on the company's' ROA of Nigerian 30 non-financial companies of the Nigerian Stock Exchange. The research used debt to equity ratio indicator, ROA, and ROE as factors of firm performance. The outcome displays that a company's financial leverage has a negative and statistically significant effect on the company's performance. The conclusion of this research show uniformity with

previous experiential research and deliver indication in support of the theory of agency cost. However, Muritala (2018) scrutinizes the finest level of financial leverage finished in which a company can upsurge its financial performance using annual information of 10 companies of five years of data. The outcomes from PLS settle that return on assets, the firm's size, age, and tangibility of a firm's assets are positively associated with the company's performance.

Different studies used different proxies for measuring firm financial performance. Research of the brewery sector is measured by Nweze et al. (2012) to identify the company's performance by using the operating profit margin. On the other side, the net profit of commercial banks is measured for financial performance (Aslam et al., 2016; Olatunji & Adegbite, 2014). The present research developed net Income dividend by total assets for financial performance by calculating a simple average for ROA, of non-financial firms registered on Bursa Malaysia. This method was also taken by the research on the financial performance to assess the factors influencing financial performance of registered companies on Vietnam Stock Exchange and 2nd is conducted in the USA, where an assessment of the financial performance of that companies was through the use of return on assets (Byoun et al., 2016; Pham et al., 2019). Thus, the second hypothesis is given as

H2: There is a negative relationship between financial leverage and company return on assets.

2.3 CORPORATE BOARD DIVERSITY AND ROA

Specified the compensations of having corporate board diversity on board, where females board members may well understand specific market circumstances than its opposite sex, which may take more innovation and excellence to corporate board decision making (Khan & Abdul Subhan, 2019; Unite et al., 2019). Greater corporate gender diversity on the board may produce an improved public image of the company that may advance the company return of assets. Likewise, there is conceivable that the participation of females in board explore outside aptitude pool. Additionally, the number of feminine highest executives may positively affect the career development of females in inferior places by inspiring them as an inspirational model. Ladies' and different minority clusters' participation in the highest administration has become a very significant constituent in understanding attributes of the highest administration counting the BODs. Though, linking an attribute of the board of directors to companies' return on assets will be an appreciated contribution. Many companies, there is a relationship between board diversity and, return on assets, finishing that female board sign is positively associated with ROA (Galbreath, 2018; Miller et al., 2013; Schmidt, 2019). The hypothesis states as

H3: There is a positive relationship between Corporate Board Diversity and company return on assets.

2.4 CORPORATE DIVIDEND PAYOUT POLICY AND ROA

Since the experiential literature, there is a mix of dividend payout ratio and company performance. The different research proposes a positive association while other provision of negative association. Some of such research also established no relationship between dividend payout and company performance. Miller (1961) study recommended that under specific supposition about the absolute capital market, payout policy choices being assumed by a company will not influence its rate of returns and market value, and contended that irrespectively how the company

announces its earnings, the market value of the company will not be pretentious because it's worth is strongminded by its core income and its investment power. This situation has been mainly disparaged by quite a lot of writers because in real-life circumstances because of the imperfect market, different circumstances such as taxes, transaction costs, asymmetric evidence and agency costs (Abdelsalam et al., 2008; Aslam et al., 2019; Amidu, 2006; Kajola et al., 2015).

The dividends are significant to stockholders and possible shareholders because it is signed about firms' earnings. Zhou & William, (2006) discovered that healthy dividend payout companies incline to experience robust upcoming incomes but despite the contradictory views of market observers, the previous low earnings have been relatively low. Agyei et al. (2011) reveal the association between dividend policy and ROA of sixteen banks (1993-2003) in Ghana and find a positive association identifies between dividend policy and ROA. The hypothesis is

H4: There is a positive relationship between dividend payout policy and company return on assets.

From all past researches, each board feature and financial constantans demonstrate the influences of each attribute on company return on assets are unpredictable. Thus, the influence can be positive or negative as each attribute has its pros and cons. Considering this indication on the attributes affect the company return on assets, there is still boulevard for extents of investigations where the corporate board of members' attributes and financial constraints can be prolonged. Therefore, it is still a rising requirement to enlarge present literature and offer new experiential evidence on other board of directors' attributes and financial constraints that are still not extensively studied in the earlier. Therefore, this study investigates the determinant of return on assets.

3. METHODOLOGY

3.1 RESEARCH DESIGN

This study sample has 185 non-financial firms (2,590 firms' years-observations) of Bursa Malaysia for 2005-2018. Firms include to study have three criteria (1) Annual reports availability throughout 2005-2018 (2) Firm registered before 2005 (3) financial data availability throughout 2005-2018. This standard is used for two reasons. First and according to Al-Najjar and Kilincarslan (2016); Perafan et al. (2016); Mansourinia et al. (2013), standard allows to meet conditions for balanced panel data. Second, using both cross-sectional time-series data of 14 consecutive years allow us to deduct whether observed cross-sectional relationship between corporate board attributes, financial data, and return on assets holds over time. The study collected the financial data from Thomson Reuter DataStream and corporate board attributes data from respective Companies' annual reports that are directly downloaded from the Bursa Malaysia website.

Table 1: Variable definition

Variable	Definition
ROA	Net Income / total assets
B_size	Number of the board of directors
Flev	Total debt / total assets (financial leverage ratio)
B_div	Number of women/ all board members
DPR	Cash dividend/net income

3.2 VARIABLE MEASUREMENTS

To examine board size, board independence, board tenure, board diversity/financial leverage relationship, the regression model is applied

$$ROA_{ijt} = a_{ijt} + \beta_1 B_SIZE_{ijt} + \beta_2 FLEV_{ijt} + \beta_3 B_DIV_{ijt} + \beta_4 DPR_{ijt} + \varepsilon_{ijt} \quad (1).$$

The subscribe ijt is the period and firm indicator, ε is an error term, while $\beta_1, \beta_2, \beta_3$ are regression coefficients and a is regression constant.

4. RESULT AND DISCUSSION

Table 2 described the summary statistics of the variables. The study for the final sample of 2,590 firms-year observations over 2005-2018. The study reveals the general companies in Malaysia are not over-leveraged.

Table 2: Descriptive statistics (OBS = 2,590)

	MEAN	SD	MIN	MAX
ROA	0.029	0.189	-2.312	5.280
B_SIZE	7.461	1.834	3	15
FELV	0.184	0.183	0	2.912
B_DIV	0.094	0.113	0	0.571
DPR	0.214	0.404	-3.644	3.085

Table 3: Correlation matrix (OBS = 2590)

	ROA	B_SIZE	FELV	B_DIV	DPR	VIF
ROA	1					1.05
B_SIZE	.0623	1				1.02
FELV	-.1711	-.0249	1			1.02
B_DIV	.0433	-.0105	.0231	1		1.00
DPR	.1581	.1307	-.1314	.0081	1	1.03

Correlation matrix Table 3 shows the ROA positive with board size hence B_size has a negative relationship with financial leverage. The association between ROA and Flev is negative. However, B_DIV and DPR have a positive association with ROA is positive. Hence, the financial leverage relationship with board diversity is positive, and the association between B_DIV and DPR is positive. The multicollinearity (VIF) less than 1 to 1.05, Variance Inflation Factors (VIF) shows good multicollinearity between variables that allow us for further analysis of variables.

Table 4: Ordinary Least Square (OLS).

(Values in parentheses are t-statistics values).

Variables	OLS
B_SIZE	0.0042(2.16)**
FELV	-0.1587(-7.96)***
B_DIV	0.0776(2.41)***
DPR	0.0618(6.78)***
CONSTENT	0.0055(0.35)
PROB>F, chi	***
ADJ R ²	0.0503
OBS	2,590

4.1 OLS RESULTS ANALYSIS

This study first conducted the OLS technique to identify the association between DV and IV. The study dependent variable is ROA. The relationship between board size and return on assets is positive and statistically significant means increase in board size the return on assets increase, respectively. ROA relationship with financial leverage is negative and significant which means when FELV increases the level of ROA decrease, respectively. If a company wants to increase the ROA must reduce the ratio of financial leverage.

However, the relationship between B_DIV and DPR significant and positive, an increase in the number of female board members affects the ROA positively. Hence, board diversity increases in corporate board the return on assets increase that already identify in many scholarly works, board diversity influenced on corporate financial decision making that may enforce the board to avoid the biases. The association of corporate dividend payout policy and return on assets is positive means if a firm increases the dividend payout ratio that will be helpful in ROA that is already identified by different scholarly work. The increase in dividend payout ratio helps attract more investment that allows the firm to invest in more profitable projects. Based on the OLS model (Table 4), all the hypotheses results are on expectations which are predicted in hypothesis development, and F statistic is significant. Thus, this study identify all the stated hypotheses are accepted.

Table 5: Multivariate analysis (OBS = 2590)
(Values in parentheses are t-statistics values).

Variables	Fixed effect	Random effect
B_SIZE	-0.0004(-0.10)	0.0034(1.41)
FELV	-0.2765(-10.42)***	-0.2001(-9.07)***
B_DIV	-0.0013(-0.02)	0.0609(1.59)*
DPR	0.0397(3.80)***	0.0519(5.46)***
CONSTENT	0.0740(2.71)***	0.0238(1.24)
PROB>F, chi	***	***
ADJ R ²	0.05	0.095

This study uses panel data, therefor study conducted the fixed effect (FE), random effect (RE) technique which supports the continuous panel data using the STATA SE 14.2. For identification of the difference between FE and RE, the Hausman test is used as an appropriate technique for this specific data. For the sake of multivariate, the relationship between ROA and board size in FE is negative however statistically significant, which means an upsurge in B_SIZE effect negatively on ROA, and the B_SIZE association in RE is positive and insignificant. The association between ROA and financial leverage is negative and statistically significant which means if the company increases the FLEV that negatively affects the ROA. In a random effect, the relationship between ROA and FELV is the same as FE. The association between board diversity and ROA is negative and the relationship statistically insignificant means corporate non-financial firms in the Malaysian context increases the number of women in the corporate board that negatively affect the ROA. In a random effect, the association between B_DIV is significant and positively influences the ROA which is opposed to the fixed effect.

The association between corporate dividend policy and return on asset is positive and

statistically significant which means increases in dividend payout policy that parallel to return on assets. If a corporate firm increases the ratio of dividend payout policy the ROA automatically upsurged. On the other side, in random effect, the same results are identified like FE, the relationship between corporate dividend payout policy and ROA. The FE adjusted R^2 is 0.05 which less than the RE R^2 that is 0.095. To differentiate the technique between fixed effect and random effect, when Hausman test >0.05 the FE is an appropriate technique.

5. DISCUSSION

Table 4 introduced the outcomes of the OLS estimation of equations. This technique allowed the recognition of latent omitted-variable bias. Inclusive, the OLS results in Table 4 nosedive to backing any of the study whole hypotheses. OLS results in limitations highlighted when examining the company ROA. Table 4 results proposed that the variables of attention (i.e., the board size, financial leverage, board diversity, and dividend payout policy) have a mixed statistically significant and insignificant effect on ROA. The adjusted R^2 is good, portentous that the joint instructive influence of these variables is decent. These outcomes verify the hypothetical study prospects and most of the prior detections that are described in the literature (Farinha, 2003; Khan et al., 2019; Nguyen et al., 2019; Yurtoglu & Gugler, 2003). Hence, the single country' specific factor is bias the measures of family possession, when utilizing this estimation model. Companies with high asset value and lower capital necessities of big financing have, on average, a high ratio of dividend announcements that ROA.

The fixed effect regression outcomes in Table 5 settle critical issues that ascend at what time using OLS regression. Entirely, variables of attention are estimated with a robustness fixed-effect model. Board size $-0.0004(-0.10)$ has a statistically positive and insignificant association with ROA in FE study reject the null hypothesis. Financial leverage $-0.2765(-10.42)^{***}$ negative and statistically significant which means if the company increases the financial leverage that negatively impacts the ROA study reject the null hypothesis. Board diversity $-0.0013(-0.02)$ has a negative association and statistically insignificant relationship with ROA in fixed-effect based on results the study does not reject the null hypothesis. However, the relationship between corporate firm dividend payout policy and return on assets $0.0397(3.80)^{***}$ is positive and statistically significant study rejects the null hypothesis.

6. CONCLUSION

This work has investigated the determinant of return on assets. A multi-technique single-country approach was applied to conduct this research. This research denotes a couple of significant contributions to business finance literature. Primary, study foregrounds the importance of using multiple experimental methods to improve the robustness of outcomes. It also emphasizes the constraints of conventional multiple OLS regression techniques. The outcomes propose that FE and RE with the use of the Hausman test offered profound experimental intentions. Although the regression investigation fixed effect (LSDV) introduced unifacial averages, it shows a supplementary path to upsurge return on assets even with the high dividend payout policy and less financial leverage of non-financial firms of Malaysia. The application of multi-methods is

convenient for understanding composite associations.

Additionally, this study reports thought-provoking results for researchers and practitioners. This study was established based on agency theory that emphasized the theoretical fundamentals that are utilized to observe the association between board attributes, financial constraints and return on assets. The information extracted from this research can assist practitioners, lawmakers, and investors to develop strategies for business and investment plans. This research is not deprived of limitations. It reflects the overall conditions of a pool of mixed and non-financial companies. More studies are desirable to familiarize the lessons erudite from this work to change markets, economies, and regions. More works should be established to describe the unidentified reasons for fluctuations of board attributes, financial constraints and return on assets.

7. AVAILABILITY OF DATA AND MATERIAL

Data can be made available by contacting the corresponding authors

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