JOURNAL OF GOVERNANCE AND INTEGRITY (JGI)
ISSN: 2600-7479 e-ISSN: 2600-786X
VOL. 5, ISSUE 3, 393 – 407
DOI: https://doi.org/10.15282/jgi.5.3.2022.7690

ORIGINAL ARTICLE

THE RELATIONSHIP BETWEEN BOD ETHICAL COMMITMENT AND RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM WITH THE PERFORMANCE OF SHARIAH-COMPLIANT COMPANIES

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ABSTRACT – Shariah-compliant companies need to maintain good performance to ensure their sustainability. Shariah-compliant companies operate based on Islamic moral foundations, specifically in terms of their accountability and transparency which are considered as key values that need to be considered when conducting their business operations. However, corruption cases can affect the performance of these companies. Studies have shown that Shariah-compliant companies are underperforming as compared to their conventional counterparts. Therefore, the objective of this study is to examine whether BOD ethical commitment (corporate ethics values, action to promote ethics, code of ethics, and whistleblowing policy) and risk management and internal control system (content, implementation, role, objective, framework, and separation section) will affect the performance of Shariah companies. Data was collected from the 2019 annual reports of 60 Shariah manufacturing companies. Data was analysed using Smart Partial Least Square. The study found that BOD Ethical Commitment (whistleblowing policy) and Risk Management and Internal Control System (separation of risk management and internal control) have a significant relationship with performance. The study implies that Shariah-compliant companies should focus on the disclosure of whistleblowing policy and separation of risk management and internal control system in their annual reports for them to improve their performance. The disclosure of this information will help to improve the confidence of the market to invest in them.

ARTICLE HISTORY
Received: 3-5-2022
Revised: 13-9-2022
Accepted: 27-9-2022
Published: 31-12-2022

KEYWORDS
BOD Ethical Commitment, Risk Management and Internal Control System, Shariah-compliant Companies, Performance of Company

INTRODUCTION

The increasing number of Shariah-compliant listed companies that support the Islamic capital market reflects the Islamic resurgence and increasing demand for the funds that those companies offer whose business activity follows the principles of Shariah. Shariah-compliant companies are not permitted to engage in activities or transactions involving gambling, interest, speculation, or other non-halal activities. Globally, Islamic funds had a rapid expansion in the 1990s. Since then, Muslims were more aware of the capital market investment opportunities and wanted to take part in them. What matters to investors is not just how much money they can make, but also if their investments are ethical (Derigs & Marzban, 2008). In the case of Malaysia, Islamic Capital Market (ICM) is a component of Malaysia's main capital market. It contributes significantly to the country's economic growth and operates as a parallel market to conventional capital (Security Commission Malaysia, 2020a).

Previous studies have shown that Shariah-compliant companies strictly adhere to Shariah rules, which should result in better performance and fewer governance issues (Haron & Ibrahim, 2012; Ashraf & Mohammad, 2014; Reddy & Fu, 2014). However, despite being Shariah or non-Shariah-compliant companies, maintaining good performance is critical for the companies to remain competitive and financially strong, especially in today's borderless world (Ibrahim et al., 2004). This statement is in line with the Prospectus Guidelines issued by Security Commission Malaysia where the issuer needs to disclose information that relates to bankruptcy which may have a significant effect on the financial position such as revenue, profitability, liquidity, and income as it is one of the requirements that companies need to fulfil to be listed in the Bursa Malaysia (Security Commission Malaysia, 2020b).

The performance (Return on Asset or profitability) of 10 Shariah-compliant companies from 2015 to 2019 was examined. The graph in Figure 1 shows that the performance of Shariah-compliant companies fluctuated. The fluctuating performance could be due to various factors such as political, economic, social, technology, legal, and environmental. Ajinomoto has the highest ROA in 2017 with the value of 35.21% compared to the preceding years as the total assets in the year 2017 increased due to the receipt of proceeds from the compulsory acquisition for the MRT Project. Meanwhile, UMW has the lowest ROA in 2016 with the value of -1.70% due to unfavourable external factors such as oil prices remaining depressed throughout the year and weak consumer sentiment.

The inconclusive performance of Shariah-compliant companies is supported by previous research. Previous research has shown that there are mixed findings in terms of the performance of Shariah-compliant companies. Some studies found

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that Shariah-compliant companies underperformed compared to non-Shariah-compliant companies as investors must forego certain earnings to meet their religious principles (Hassan, 2002; Nainggolan, 2011; Farooq & Alahkam, 2016). On the contrary, other studies found that Shariah-compliant companies performed well compared to their counterparts as companies strictly adhere to Shariah rules which will assist them to achieve better performance as they can attract investors who wished to invest in companies that comply with Shariah principles (Martani, et al. 2009; Imran, 2009). Therefore, it can be seen that the performance of Shariah-complaint companies is inconclusive based on previous studies. Thus, this study is conducted to find out the factors that will affect the performance of Shariah-compliant companies.

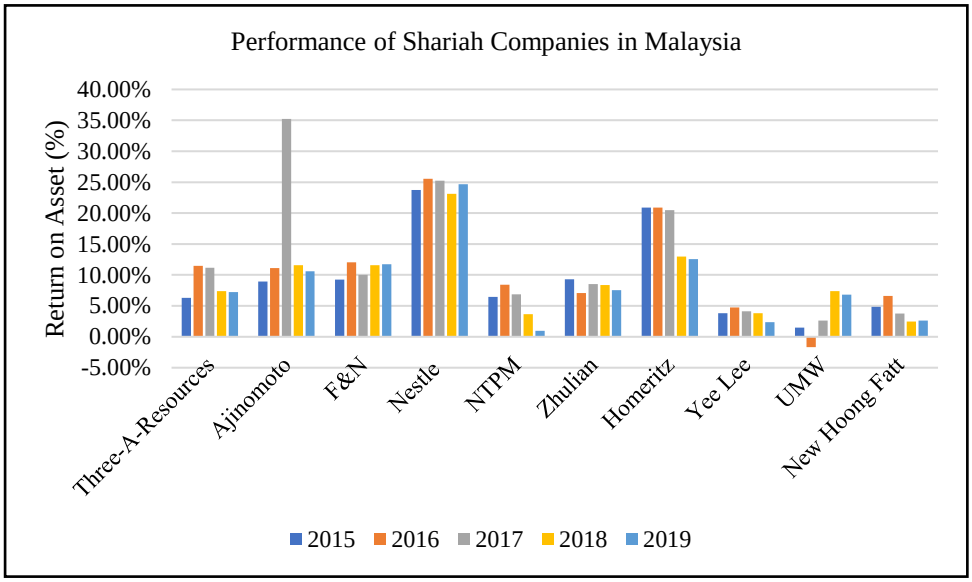

Figure 1. Performance of Shariah-compliant Companies in Malaysia for 2015-2019

Various factors affect the performance of companies whether they are Shariah-compliant or non-Shariah-compliant. One of the factors that might affect the performance of a company is corruption. Corruption will give a negative perception to various stakeholders and thus will deter shareholders from investing in the company (Dechow et al., 1996; Omar et al., 2016; Santhi et al., 2021). One of the factors that lead to fraud is a lack of ethical commitment by the board (Barry, 2002; Khadijah et al., 2015). Salin et al. (2019) found that the Board of Directors (BOD) ethical commitment has a positive and significant relationship with company performance. BOD need to practice ethics in their duties to avoid unethical misconduct of power in decision-making such as income misreporting and falsifying accounting statements that will negatively impact the company (Sapuan et al., 2020). Previous literature that examined the relationship between ethical commitment and the performance of a company did not relate the responsibilities of directors to the impact of the code of ethics on the organization as a whole (Singh, 2006; Stohl et al., 2009; Marquardt & Hoeger, 2009). Schwartz et al. (2005) argued that fraud issues can be avoided and prevented if BOD plays a role in monitoring senior management.

Board is also responsible to establish a comprehensive Risk Management and Internal Control System (RM & ICS) to achieve a better performance including identifying the company's level of risk tolerance, and actively monitoring the business risks, to safeguard the company's assets and shareholders' interest (Ahmad et al., 2016). They are also responsible to disclose RM & ICS in the annual report to gain investors' confidence. According to Gani et al. (2021), proper implementation of the company transparency mechanism will lead to increased company profitability. Pang and Li (2013) found that a sound system of RM & IC could assist the company to score the best effect of achievement by ensuring the effectiveness and efficiency of its operations, reliable financial reporting, and compliance with the law. Besides, an inclusive RM & ICS also will protect the company's reputation and improve the quality of financial reporting (Abdullah et al., 2019)

Therefore, the purpose of this study is to examine the relationship between BOD ethical commitment and RM & ICS with the performance of Shariah-compliant companies in Malaysia. This study also investigates the relationship between the size of the company and leverage (as control variables) with the performance of Shariah-compliant companies in Malaysia as the previous studies found that both variables have an associated relationship with the performance of the company.

LITERATURE REVIEW

Performance of Company

The performance of a company indicates how successfully a firm is carrying out its business plan. The measurement of a company's performance does not only depend on the company's efficiency but also on the market in which it operates (Blazovich & Smith, 2011). It can be measured by financial and non-financial elements depending on the researcher's interest and the justification basis (Essel & Addo, 2021). According to Al-Matari et al. (2014), the performance of the

company can be measured by accounting-based measurement and marketing-based measurement. Accounting-based measurements such as return on asset (ROA), profit margin, and liquidity ratio are described as backwards-looking measures because the profit ratios stress management outcomes. Meanwhile, marketing-based measurements such as Tobin-Q, dividend yield, and price-earnings ratio are forward-looking measurements as they assigned value to the firm's tangible and intangible assets based on predicted revenue and streams of costs (Al-Matari et al., 2014).

However, Hendricks et al., (1996) suggested that companies need to establish financial and non-financial measurement that relates directly to the company's mission to remain competitive. This argument is supported by Jusoh et al., (2008) who used a Balance Scorecard (BSC) to measure the performance of a company as BSC refers to the balance of financial and non-financial performance. Some non-financial performance that has been considered in evaluating company performance is knowledge management, company reputation, competitiveness, and innovation which allows the company to sustain itself in the long run (Civelek et al., 2015). Other non-financial measurements that have been used to measure the performance of a company are ethical behaviour, stakeholder, customer, and management satisfaction (Parnell et al., 2000).

Nonetheless, financial measurement continues to be the most commonly used and accepted approach in performance studies (Michael Geringer et al., 1989; Daily et al., 2002; Fazlzadeh et al., 2011; Hooy & Ali, 2017). Therefore, this study used accounting-based measurement which is ROA to measure the performance of a company which is counted by net income compared to total assets as it is preferable to market-based measures when investigating the relationship between corporate governance and business performance (Hutchinson & Gul, 2004). This is supported by Ibrahim and Samad (2011) who found that ROA is an accurate predictor of a company's profitability where it represents the company's efficiency in utilizing its assets in fulfilling its shareholders' economic interests.

BOD Ethical Commitment

Due to the difficulty in measuring the level of ethics practised in companies and among directors, there has been a limited study done to identify a company's ethical commitment in general, and BOD in particular (Salin et al., 2019; Cuomo et al., 2019). Treviño et al. (1998), suggested that it is important for BOD and top management of the organization to encourage and support ethical conduct as well as take disciplinary action against unethical behaviour in the organization. This study is consistent with Schwartz et al., (2005) who recommended that directors of a firm should play an important role in promoting ethical conduct as they are the role model for the overall ethical environment of a firm. Lee and Fargher (2013) found that numerous stakeholder groups are possibly affected disastrously due to the failure of directors to perform their duties effectively and properly.

Cordeiro (2003) interviewed 14 senior managers from a variety of organizations and found that top management should respond to maintain the ethical norms in an organization and ensure there is no decline in ethics. Some of the suggestions made are: establishing written codes of ethical conduct, hiring and promoting ethical people, especially at the top management, and developing a comprehensive system to monitor behaviours related to ethical decision-making. Moreover, only top management has the opportunity to foster major changes in business practices, as it can be seen that it is difficult to inculcate a culture of ethics from the bottom in a democratic way (Schroeder, 2002).

Choi and Jung (2008) developed Ethical Commitment Index (ECI) by using 11 dimensions from various indexes. The data was collected through a questionnaire and found that top management should be more aware of business ethics to increase competitive advantage in a global business market. Hashim et al. (2020) examined the level of ethical commitment by extending the ECI developed by Choi and Jung (2008). From the study, Hashim et al. (2020) developed 6 themes comprising Corporate Ethics Values, Action to Promote Ethics, Whistleblowing Policy, Code of Ethics, Sustainability Practices, and Ethics Committee. Thus, this study adapted Hashim et al. (2020) measurement to examine the relationship of BOD ethical commitment with the performance of Shariah-compliant companies in Malaysia.

Risk Management & Internal Control System (RM & ICS)

In 2012, current guidelines for directors of listed issuers to formulate the Statement of RM & ICS in their annual report were issued. The current guideline replaced the previous guidelines made in December 2000. These guidelines are intended to guide the management and BOD concerning the RM & ICS as well as procedures that should be taken when assessing its efficiency while maintaining a strong RM & ICS (Bursa Malaysia, 2018). Fatemi and Luft (2002) summarized that the main objective to have a comprehensive RM & ICS is to protect the net cash flows and shareholder value. According to Ahmad et al. (2016), an effective RM & ICS is very important in an organization as it helps to understand the risk faced by the organization.

Amran et al. (2009) measured RM & ICS disclosure by using the content analysis method as the study focuses on the extent or amount instead of the quality of the risk disclosure. The study found that RM disclosure is being practised by 100 selected Malaysian companies. Elshandidy et al. (2013) measured risk disclosure by counting the number of statements in the annual report narrative containing one or more words from the final risk-word list. The study found that firms with a higher level of systematic financing risks, high dividend yield, high board independence, and high risk of stock return were more significantly to disclose voluntary RM information in their annual reports compared to firms that have lower levels of stock return.

Wong et al. (2019) found that inclusive RM is positively related to the performance of a company as it improves the company's competitive advantage and increases the organization's ability to achieve its goals. Setiawan and Djajadikerta (2017) found that a comprehensive RM & ICS can affect how a company is handled as it is an important point for

corporate assessment and frequently becomes a determining factor in decision-making. This study measured RM & ICS disclosure by identifying keywords in content analysis through 6 indicators. Thus, this study adapted Setiawan et al. (2017) measurement in identifying the relationship between RM & ICS with the performance of Shariah-compliant companies in Malaysia.

THEORY AND HYPOTHESES DEVELOPMENT

Resource-Based Theory

Previous researchers have measured company performance from various theories perspectives such as shareholder and stakeholder theory. However, the resource-based theory will be used in this study to explain the relationship of the variables of the study. Resource-based theory (RBT) focuses on the analysis of the firm's numerous resources (Wernerfelt, 1984). According to Grant (1991), resources can be classified as financial, physical, human, technological, reputation, and organizational. This study is supported by Hofer and Schendel (1978) who also suggested that a firm's resource profile includes: financial, physical, managerial, human, organizational, and technological resources.

Resources of the firm can be classified into two categories: tangible and intangible. Tangible resources are resources that can be seen, touched, and quantified such as equipment, vehicles, and inventory whereas intangible resources are resources that do not exist in physical form that has monetary value including patents, copyrights, and company brand. In this study, RBT is used in this study as BOD ethical commitment, and RM & ICS are considered intangible resources that could provide a competitive advantage to the company. This theory refers to the concept that internal resources may be used to help protect against competitors and other external competitive forces (Campbell & Park, 2017). Being more transparent and responsible by disclosing relevant information about the organization provides a competitive advantage.

Relationship between BOD Ethical Commitment and Performance of Company

Persons (2013) examined 94 no-ethics code companies and 94 ethics-code companies to investigate the effect on these companies' financial performance of not having a code of ethics. The study found that companies with no code of ethics have poorer financial performance because stakeholders are likely to perceive having no ethics code as a negative reflection of the top management's ethical values. According to McKinney et al. (2010), a code of ethics can be seen as an important part of establishing a culture and image for a company's ethical reputation with its stakeholders. Choi and Jung (2008) found that level of ethical commitment has a positive relationship with financial leverage. This result indicates that company that has been aggressive in financing tend to be concerned more about business ethics to mitigate specific risks faced by the company. This is supported by Moneva et al. (2007) who found that a good financial performance of the company can be obtained through a strong commitment to ethical values among employees especially top management in an organization. Thus, based on previous studies and resource-based theory, having a good ethical commitment in the organization will assist in achieving better financial performance. Therefore, it is hypothesised that:

H1: There is a positive and significant relationship between Corporate Ethics Value and ROA
H2: There is a positive and significant relationship between Action to Promote Ethics and ROA
H3: There is a positive and significant relationship between Code of Ethics and ROA
H4: There is a positive and significant relationship between Whistleblowing Policy and ROA

Relationship between Risk Management & Internal Control System and Performance of Company

Ahmad et al. (2016) found that having a comprehensive RM & ICS in the annual report will assist the company to achieve its performance and profitability target. This is supported by Urquia (2018) who also found that RM & ICS have a positive relationship with financial performance. Umar and Dikko (2018) who measured internal control systems with components as suggested by the COSO framework found that there is a positive and significant impact on the performance of the banks. It proves that effective and efficient RM & ICS can assist a company to achieve better performance in the long run. Alemu (2020) argued that other than giving a good effect on the performance of the company, RM & ICS also help in ensuring the accuracy of records and encourage adherence to policies and regulations. Thus, the better disclosure of RM & ICS will lead to enhancing the performance of the company as well as act as a guide to ensure the company's operation runs smoothly. Therefore, based on all the arguments, it is hypothesised that,

H5: There is a positive and significant relationship between Content of Risk Management & Internal Control System and ROA
H6: There is a positive and significant relationship between Implementation of Risk Management & Internal Control System and ROA
H7: There is a positive and significant relationship between Role of Risk Management & Internal Control System and ROA
H8: There is a positive and significant relationship between Objective of Risk Management and Internal Control and ROA
H9: There is a positive and significant relationship between Framework of Risk Management & Internal Control System and ROA
H10: There is a positive and significant relationship between Separation Section of Risk Management & Internal Control System and ROA

Control Variables

Several control variables are found to influence the performance of companies. One of the most important control variables that have been explained by previous researchers is firm size. Previous studies such as Ahmed and Hamdan (2015), Afrifa and Tauringana (2015), and Kuncová et al. (2016) found a significant and positive relationship between the size of the company and the performance of the company. Agiomirgianakis et al. (2006) also found a significant and positive relationship between firm size and the performance of the company specifically return on asset (ROA). Another financial characteristic that is found to have a relationship with a firm's performance is leverage. Weill (2003) who studied the relationship between leverage and the performance of manufacturing companies in various countries found a positive and significant relationship in companies in Belgium, France, Germany, Norway, and Spain. Kyereboah-Coleman (2007) and Jensen (1986) found that leverage and firm performance have a positive and significant relationship.

METHODOLOGY

This study used secondary data of Shariah-compliant manufacturing companies listed in Bursa Malaysia for the year 2019. The data was collected from annual reports and related websites that are publicly available. The selection of companies was based on manufacturing sectors (consumer products, industrial products, and healthcare) as it is the largest sector and has a significant number as compared to the other sectors. Companies that continuously have been listed in Bursa Malaysia and have issued annual reports from 2016 to 2019 were selected. Using random sampling, the final sample of the study consists of 60 companies comprising 26 consumer products sectors, 31 industrial products sectors, and 3 health care sectors.

BOD ethical commitment measurement was adapted from Hashim et al. (2020) which measures using 4 dimensions: Corporate Ethics Value, Action to Promote Ethics, Code of Ethics, and Whistleblowing Policy. Meanwhile RM & ICS were measured by 6 dimensions adapted from Setiawan and Djajadikerta (2017): Content of RM & ICS, Implementation of RM & ICS, Role of RM & ICS, Objectives of RM & ICS, Framework of RM & ICS, and Separation Section of RM & ICS. In addition, in this study, two variables (size and leverage) were used as control variables as they were found in previous studies (Kyereboah-Coleman, 2007; Ahmed & Hamdan, 2015) to measure their influence on performance.

A normality test was done before proceeding with data analysis. Mardia's multivariate kurtosis was used to check the normality of the data. The results showed that the data was not normally distributed as shown by skewness ($\beta = 7.4184$, $p < 0.01$) and kurtosis ($\beta = 40.5531$, $p < 0.01$). Since it is not normally distributed, the size of the sample is small, and the model is complex (many items), this study used Smart Partial Least Square version 3.3.3 which is also known as Structural Equation Model (PLS-SEM) (Chin et al., 2003; Hair et al., 2014). However, to avoid singular matrix issues, the data collected which is measured by 100% if disclosed and 0% if otherwise, is converted into a five-point Likert scale. The five Likert scales comprise 1 representing Very Poor (0% to 20%), 2 representing Poor (21% to 40%), 3 representing Fair (41% to 60%), 4 representing Good (61% to 80%), and 5 representing Very Good (81% to 100%) (Hair et al., 2014).

ANALYSIS AND RESULTS

Table 1 shows the descriptive information of the variables used in the study. Descriptive analysis is the derivation of descriptive coefficients from a data set that represents either the entire population or a sample. The N in the table below represents the total sampling that was used in this study, which is 60 companies comprising 26 consumer products sectors, 31 industrial products sectors, and 3 health care sectors.

The average score of the ROA is 6.1% which is quite low compared to the highest value which is 38.4%. This shows that there is wide variability of profitability value. Thus, it supported previous studies that have mixed results on the performance of Shariah-compliant companies (Hassan, 2002; Omran, 2009). BOD Ethical Commitment has a mean value of 0.645 which indicates that on average, 64.5% of companies have BOD who are committed to ethical standards. Meanwhile, RM & IC system shows a mean of 0.755 which shows that on average, the disclosure of RM & IC system in the annual report of companies is 75.5%.

The company characteristics' control variables of the study are company size and leverage. Table 1 shows that the average company size computed by a log of total assets was 19.968. This study also found that the average leverage of the companies is 0.309.

Table 1. Descriptive Statistics of Variables

	N	Mean	Maximum	Minimum	Standard Deviation
ROA	60	0.061	0.384	-0.377	0.098
BOD Ethical Commitment	60	0.645	0.857	0.143	0.165
RM and IC System	60	0.755	1.000	0.450	0.138
Size	60	19.968	23.133	18.069	1.069
Leverage	60	0.309	0.756	0.020	0.169

Based on the mean score category described in Table 2, most of the mean scores show that all the items can be considered average in disclosing the information of the BOD ethical commitment and RM & ICS. Regarding ROA as the dependent variable, the results of this test show that the mean for ROA is 3.967 (SD=0.836). It indicates that majority of the companies have a good performance in terms of ROA.

As for BOD ethical commitment, the mean score of corporate ethics value (CEV) disclosure showed the highest mean with a value of 4.483 (SD=0.5). It shows that majority of the company has an ethical philosophy and ethical values such as honesty, integrity, and responsibility. Meanwhile, the lowest score was whistleblowing policy (WP1) with a value of 3.483 (SD=1.025) indicating that on average, majority of the companies disclose the information on whistleblowing channels and policy.

As for the RM & ICS, the separation section of RM & ICS (SRMIC) showed the highest mean value with 4.283 (SD=0.58). It shows that, on average, majority of the companies disclosed RM & ICS in a separate section of the good corporate governance report in the annual report. Meanwhile, items IRMIC5 showed the lowest mean with the value of 3.467 (SD=0.921) for disclosure of RM & ICS which indicate that on average, majority of the companies disclose information regarding internal audits in their annual reports.

Table 2. Mean for Data Distribution

Variables	Mean	Min	Max	Std. Deviation (SD)
ROA	3.967	2	5	0.836
SIZE	3.933	2	5	0.814
LEVERAGE	3.783	2	5	0.877
BOD Ethical Commitment:				
CEV	4.483	4	5	0.500
APE1	4.200	3	5	0.726
APE 2	4.300	2	5	0.737
COE1	3.533	2	5	0.846
COE2	3.933	2	5	0.629
WP1	3.483	1	5	1.025
WP2	3.700	2	5	0.881
Risk Management & Internal Control System				
CRMIC1	4.100	3	5	0.700
CRMIC2	4.100	3	5	0.676
CRMIC3	3.933	3	5	0.704
CRMIC4	3.983	3	5	0.671
CRMIC5	3.967	3	5	0.682
IRMIC1	3.633	1	5	0.795
IRMIC2	3.733	1	5	0.910
IRMIC3	3.567	1	5	1.023
IRMIC4	3.833	2	5	0.879
IRMIC5	3.467	2	5	0.921
IRMIC6	3.833	2	5	0.840
RRMIC1	4.033	2	5	0.774
RRMIC2	4.017	2	5	0.806
RRMIC3	3.967	3	5	0.752
RRMIC4	4.083	3	5	0.614
ORMIC1	4.217	3	5	0.709
ORMIC2	4.300	2	5	0.737
ORMIC3	4.067	3	5	0.629
FRMIC1	4.017	3	5	0.695
SRMIC1	4.283	3	5	0.580

Assessment of Reflective Measurement Model

The model of the study is reflective. A reflective model is where the construct determines the measurements or the covariation of the indicator variables. According to Hair et al. (2014), there are two assessments to analyse the reflective model which are to test the measurement model (reliability and validity) to determine the goodness of the model and examine the structural model to test the path coefficient as well as the hypothesis results by using the bootstrapping method.

Convergent Validity

To evaluate the measurement model, two forms of validity were investigated: convergent validity and discriminant validity (Ramayah et al., 2017). Convergent validity examines the outer loadings, composite reliability, and average variance extracted (AVE). From the result, the outer loadings were all higher than 0.50 (Byrne, 2016) which indicates

that the composite reliability was all acceptable in exploratory research as all the values were higher than 0.70 (Ramayah et al., 2017) and AVE for each construct was higher than 0.50 as suggested in the literature (Hair et al., 2014) (see Table 3).

Table 3. Convergent Validity

Construct	Items	Loadings	Cronbach	CR	AVE
BOD Ethical Commitment:					
Corporate Ethics Value	CEV	1	1	1	1
Action to Promote Ethics	APE1	0.967	0.939	0.97	0.942
	APE2	0.974			
Code of Ethics	COE1	0.924	0.819	0.917	0.847
	COE2	0.917			
Whistleblowing Policy	WP1	0.840	0.626	0.842	0.728
	WP2	0.866			
Risk Management & Internal Control System:					
Content of Risk Management & Internal Control	CRMIC1	0.909	0.962	0.971	0.869
	CRMIC2	0.909			
	CRMIC3	0.962			
	CRMIC4	0.936			
	CRMIC5	0.945			
Implementation of Risk Management & Internal Control	IRMIC1	0.838	0.872	0.904	0.616
	IRMIC2	0.858			
	IRMIC3	0.854			
	IRMIC4	0.776			
	IRMIC5	0.771			
	IRMIC6	0.573			
Role of Risk Management & Internal Control	RRMIC1	0.927	0.925	0.947	0.819
	RRMIC2	0.902			
	RRMIC3	0.962			
	RRMIC4	0.822			
Objective of Risk Management & Internal Control	ORMIC1	0.936	0.917	0.948	0.858
	ORMIC2	0.952			
	ORMIC3	0.891			
Framework of Risk Management & Internal Control	FRMIC1	1	1	1	1
Separation Section of Risk Management & Internal Control	SRMIC1	1	1	1	1
ROA	ROA	1	1	1	1
Size	SIZE	1	1	1	1
Leverage	LEVERAGE	1	1	1	1

*Score of 1 is due to a single item having a 100% loading score
**Loadings and AVE should be above 0.5
***CA and CR should be above 0

Discriminant Validity

Following the examination of convergent validity, the discriminant validity of the measurement model was examined. Discriminant validity refers to the degree to which indicators are distinct from one another and unique across constructs. The values should demonstrate by evidence that measures of constructs should not be highly related to each other (Hair et al., 2013). According to Henseler et al. (2015), the Fornell-Lacker criterion and the assessment of the cross-loading are insufficiently sensitive to detect discriminant validity problems. Hence, in this study, the discriminant validity was measured by Heterotrait-Monotrait (HTMT) ratio which is an alternative approach based on the multitrait-multimethod matrix. Table 4 shows all the values are not greater than HTMT0.90 indicating that discriminant validity had been ascertained (Gold et al., 2001).

Table 4. Heterotrait-Monotrait for Discriminant Validity

	(1)	(2)	(3	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
APE (1)													
COE (2)	0.555												
CRMIC (3)	0.5100	0.711											
CEV (4)	0.376	0.597	0.346										
FRMIC (5)	0.688	0.683	0.595	0.313									
IRMIC (6)	0.680	0.786	0.858	0.505	0.700								
LEVERAGE (7)	0.559	0.561	0.647	0.543	0.580	0.803							
ORMIC (8)	0.842	0.608	0.563	0.362	0.720	0.711	0.595						
ROA (9)	0.449	0.501	0.540	0.477	0.460	0.626	0.899	0.490					
RRMIC (10)	0.582	0.751	0.526	0.356	0.620	0.683	0.526	0.620	0.486				
SSRMIC (11)	0.470	0.372	0.389	0.103	0.608	0.334	0.546	0.518	0.604	0.406			
SIZE (12)	0.476	0.449	0.491	0.407	0.473	0.563	0.844	0.491	0.890	0.419	0.570		
WP (13)	0.463	0.397	0.404	0.537	0.488	0.582	0.595	0.391	0.689	0.551	0.399	0.599	

*HTMT must not be greater than 0.90

Assessment of Structural Model

The assessment of the structural model involved assessing the path coefficient to assess the significance and relevance of structural model relation by using a bootstrapping procedure (Beta, standard errors, t-value, and p-value) as suggested by Ramayah et al. (2018) and Wong (2013). They also proposed that, in addition to these fundamental measures, researchers also should report on the predictive relevance (Q^2) or known as a criterion of predictive accuracy. Collinearity must be examined before analysing structural relationships to ensure that it does not bias the regression findings by calculating the variance inflation factor (VIF) (Hair et al. 2019). VIF of 10 and above indicates a collinearity problem (Hair et al., 1995).

Table 5. Results of the hypothesis testing

Hypothesis	Path	Std Beta	Std. Error	t-value	p-value	VIF	R^2	Q^2	Decision
	BOD Ethical Commitment								
H1	CEV -> ROA	0.010	0.081	0.120	0.452	2.278			Reject
H2	APE -> ROA	-0.331	0.194	1.709	0.044	4.686			Reject
H3	COE -> ROA	0.064	0.077	0.836	0.202	3.249			Reject
H4	WP -> ROA	0.159	0.066	2.402	0.008	1.822			Accept
	Risk Management & Internal Control System								
H5	CRMIC -> ROA	-0.005	0.090	0.054	0.478	3.127	0.923	0.783	Reject
H6	IRMIC-> ROA	-0.031	0.091	0.336	0.368	6.140			Reject
H7	RRMIC -> ROA	0.027	0.086	0.309	0.379	2.308			Reject
H8	ORMIC -> ROA	0.294	0.210	1.402	0.081	4.399			Reject
H9	FRMIC -> ROA	-0.190	0.088	2.169	0.015	3.148			Reject
H10	SSRMIC -> ROA	0.151	0.092	1.649	0.050	2.486			Accept
	Control Variables								
	SIZE -> ROA	0.407	0.119	3.404	p<0.005	4.336			Accept
	LEVERAGE -> ROA	0.496	0.149	3.339	p<0.005	5.127			Accept

*T-value should be above 1.645 for one-tailed
**P-value should be less than 0.05 for 95% confidence level
***VID should be less than 7
****Q^2 should be more than 0

Table 5 shows that 2 out of 10 postulated hypotheses were supported. In particular, the path coefficient for the relationship between BOD ethical commitment and RM & ICS as well as how it affects the performance of the company which is ROA were presented. The whistleblowing policy was found to have a positive and significant relationship with ROA in which the path coefficient value was 0.159 with a t-value of 2.402. Besides that, the separation section of RM & ICS was found to have a significant and positive impact on the ROA with a path coefficient was 0.151 with a t-value of 1.649. Both control variables showed a significant and positive relationship with ROA. As a result, H4 and H10 were supported in this study.

The VIF values for all variables were less than 10, indicating collinearity was not a concern (Hair et al., 1995). The R^2 is 92.3% which is significant. PLS-SEM aims at maximizing the R^2 values of the endogenous latent variable in the path model (Hair et al., 2014). R^2 values indicate the amount of explained variance of an endogenous latent construct. Thus, it indicates that all 12 predictors explained 92.3% of the variance in the performance of the company which is ROA (see Table 5 and Figure 2). For Q^2, the value is 0.783 which is 78.3%. It means that the value Q^2 is greater than zero and the path model has predictive relevance for a chosen reflective endogenous construct (Hair et al. 2014).

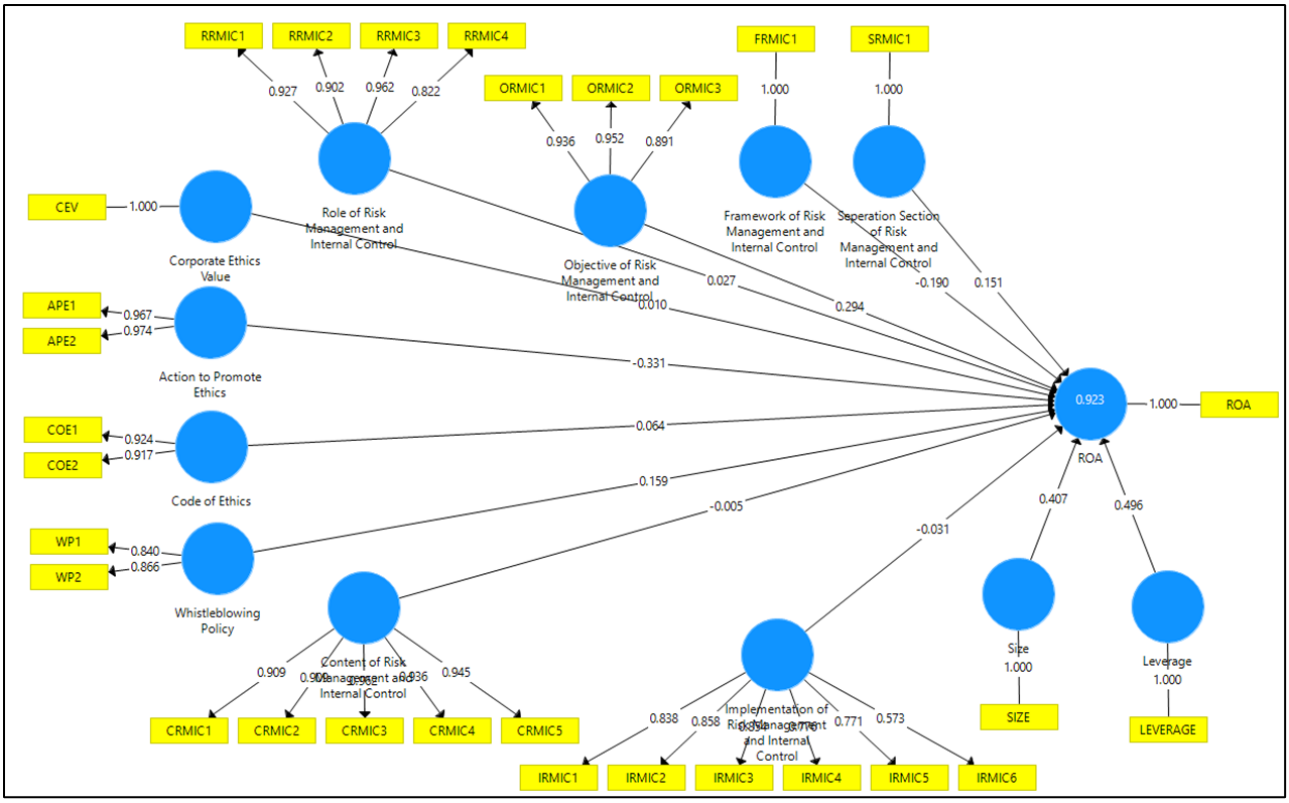

Figure 2. Path Coefficient

ANALYSIS AND RESULTS

Out of the 4 hypotheses for the BOD ethical commitment investigated in the study, 1 hypothesis (H4) was accepted which is whistleblowing policy. H4 was accepted as the study found a positive and significant relationship between whistleblowing policy and the performance of the company which is ROA. The whistleblowing policy is one of the forms of the company's ethical commitments where it can minimize the occurrence of corruption by providing a platform for employees to report any fraud or unethical behaviour in the company. This result is consistent with Choi and Jung (2008) who found that a great effort by the top management to establish a comprehensive ethical standard in a company will increase their performance in the long run. Moreover, Moneva et al. (2007) found that a good financial performance of the company can be obtained through a strong commitment to ethical values among employees especially the top management in an organization.

However, 3 hypotheses were rejected as this study found H1 (corporate ethics value), H2 (action to promote ethics), and H3 (code of ethics) have no significant relationship with ROA. This could be that Shariah-compliant companies might already have a high percentage of corporate ethics value, action to promote ethics and code of ethics, and there is not much variation between them, thus the insignificant result. Besides, previous studies found that it is too conflicting and there is insufficient evidence to conclude any generalizable result between social and economic indicators because social indicators like an ethical commitment of a company are difficult to measure by the outside stakeholders (Choi & Jung, 2008; Cuomo et al., 2019). Lee and Fargher (2013) examined the relationship between the ethical commitment of a company and its performance and found that the ethical codes may lack credibility because it is considered a symbol of ethics management, but the policies may not be implemented in the company. In addition, it could be that Shariah-compliant companies have a good BOD ethical commitment, but it does not show a significant result in financial performance due to other factors (Blazovich & Smith, 2011).

Out of 6 hypotheses for RM & ICS, 1 hypothesis (H10: Separation Section of RM & ICS) was accepted. RM & ICS sections must be separated from the management of the internal audit section as they are two different things. It is one of the initiatives of the company to clearly defined authority and responsibility for each employee to achieve its performance and profitability target. Therefore, when companies established a comprehensive RM & ICS in the company, it will help them to achieve better performance. This argument is supported by Ahmad et al. (2016) who found that effective RM & ICS are very important in an organization as it helps to understand the risk faced by the organization and increase its performance.

However, 5 hypotheses were rejected as the study found no significant relationship with the ROA. Table 1 shows a value of 75.49% for RM & IC systems in this study, it has been found that it is not significant for 5 hypotheses (H5: Content of RM & IC, H6: Implementation of RM & IC, H7: Role of RM, H8: Objective of RM & IC, and H9: Framework of RM & IC). This could be that Shariah-compliant companies might already have a high percentage of disclosure of H5, H6, H7, H8 and H9 but there is not much variation between them (standard deviation value: 0.138) causing the

insignificant result. In addition, it could duplicate roles between RM & ICS committee and the audit committee as risk management is one of the responsibilities of the internal audit function. The result is supported by Bazrafshan et al. (2016) who found disclosing information about RM & IC could indicate that the company is having a problem with its operations and thus affecting its performance.

10 hypotheses were tested, and 2 hypotheses are supported, while the other 8 hypotheses are not supported. 2 hypotheses that are supported represent both independent variables used in this study. R^2 of the model is 92.3%. It shows that the variables of the study, BOD ethical commitment and RM & IC are able to explain the dependent variable which is ROA of the Shariah-compliant companies. Even though only 1 hypothesis for each of the variables is significant, it has a great impact on ROA.

This also proves that resource-based theory can be used to explain the relationship of the variables as the disclosure of BOD ethical commitment and RM & IC system are the company's internal resources that can be used to help protect against competitors and other external market forces to achieve better performance and competitive advantage (Campbell & Park, 2017).

As for control variables, both size and leverage were found significantly related to ROA. Consistent with prior studies, the study found that there is positive and significant evidence that the size of the company and leverage influence ROA. This is supported by Ahmed and Hamdan (2015) and Agiomirgianakis et al. (2006) who found that there is a positive relationship between firm size and the performance of a company. As for leverage, the result is consistent with previous studies that found that high leverage can generate good cash flow which is intended to improve the company's financial performance (Kyereboah-Coleman, 2007: Afrifa & Tauringana, 2015). Thus, high leverage is not always a negative decision that has been made by the companies as it can be used to support the company's expansion by purchasing assets as well as to generate and boost revenue.

LIMITATIONS AND SUGGESTIONS FOR FUTURE STUDIES

This study only looks into manufacturing sectors comprising consumer products, industrial products and healthcare products. Future studies can be extended to other sectors and compared between years. Although within the acceptable sample size for this study, the sample size comprised of 60 companies is quite small and may not be sufficient to measure the impact of BOD ethical commitment and RM & IC system on the performance of the company. Therefore, future studies could expand the sample size to a larger sample size and can also test more explanatory variables to increase statistical capacity.

This study only concentrates on the information on ethical practices, risk management, and internal control that are disclosed in a company's annual report. Future research could use other methods of data collection to gather more reliable information from the companies. For example, data can be collected through interviews and surveys as this method is useful because some information cannot only be extracted from the annual report and company websites.

Future research also could expand the sample size of the financial services sectors to compare with non-financial services sectors to get significant and informative findings. R^2 of the model is 92.3% which shows that BOD ethical commitment and RM and IC system is able to explain 92.3% of ROA. There remaining 7.7% could be due to the nature of business, marketing strategy, economic factors, and political/legal factors (Shiamwama et al., 2014). Thus, future studies can also include these factors in examining ROA.

This research contributes to the current literature on the aspects OF BOD ethical commitment and RM & IC system of companies that comply with the Shariah requirements in Malaysia. This study used RBT to explain the relationship between BOD ethical commitment and RM & IC system on the performance of Shariah-compliant companies. The resource-based theory focuses on the impact of valuable, rare, inimitable, and non-substitutable (VRIN) resources to achieve a state of competitive advantage. Firm resources that meet the criteria of the resource-based theory can be a major factor in long-term competitive advantage and superior firm performance. In terms of practical contribution, it will assist the Security Commission Malaysia to develop a framework or guidelines to strengthen the BOD ethical commitment and the disclosure of RM & IC system in the annual report to achieve better performance in the long run.

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CONFLICT OF INTEREST

The author(s), as noted, certify that they have NO affiliations with or involvement in any organisation or agency with any financial interest (such as honoraria; educational grants; participation in speakers' bureaus; membership, jobs, consultancies, stock ownership, or other equity interest; and expert testimony or patent-licensing arrangements), or non-financial interest (such as personal or professional relationships, affiliations, expertise or beliefs) in the subject matter or materials addressed in this manuscript.

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