

**The Effectiveness of Corporate Governance:
The Impact of Board Quality on the Performance
of Malaysian listed companies**

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**UNIVERSITI UTARA MALAYSIA
2010**

**The Effectiveness of Corporate Governance:
The Impact of Board Quality on the Performance
of Malaysian listed companies**

BY

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**A thesis submitted to the Graduate School in partial
fulfillment of the requirements for the degree of
Master of Business Administration (Accounting)**

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KOLEJ PERNIAGAAN
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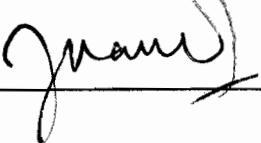
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ABSTRACT

The study aims to empirically investigate board quality namely; multiple directorships, board independence, board meeting and directors' financial expertise in construction and technology companies that are listed in Bursa Malaysia have impact over their firm performance (ROA). For the purpose of this study, 48 construction companies and 89 technology companies have been chosen from Bursa Malaysia. The conduct of testing is controlled by firm size and level of leverage. The findings show those factors of board quality namely, multiple directorships, board meeting and directors' financial expertise have no significant impact on ROA, while board independence has negative impact on ROA. The findings also show firm size has significant positive relationship with ROA; however the result shows that there is no significant relationship between leverage and ROA.

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LIST OF ABBREVIATION

MCCG	Malaysian code of corporate governance
FCCG	Finance committee on corporate governance
CEO	Chief executive officer
LNSA	Natural logarithm of sales
FP	Firm performance (ROA)
MDIR	Multiple directorships
BM	Board meeting
BI	Board independent
DFIN	Directors with financial expert
SIZE	Firm total asset
LEV	Total debt to total asset

CHAPTER ONE

BACKGROUND OF STUDY

1.1 Introduction

For the intervention of investors to invest in any business, businesses around the universe need to develop and be upgraded in their particular field of business. Investors need to be informed that the businesses are capable of improving and developing their business financial status by the means of strong and capable management (Mallin, 2007). The investors need data and information to assist them in making decisions. The data and information may be obtained from many sources, mainly from annual reports and financial statements.

Investors need to be committed and deeply look into the business published annual reports that reflect the business well being and expose its operations standards (Mallin, 2007). One information that is looked for by investors in any business is the company performance. If the business performance and management is lacking and not encouraging, this would lead to business insolvency and collapse, which had happened in some global companies, such as the case of Barings Bank and Enron.

The liquidation of Baring Banks in February 1995 is an example of risk that occurs when financial management is not on the right control system. Another example is the scandal of Enron's collapse which is one of the mighty collapses in the world. It is a collapse that also leads to another collapse of one of the largest audit firm in the world (Arthur Andersen). The main cause of the collapse is due to the financial manipulation. Another competent example is what has been exposed by Jong, DeJong, Mertens and Roosenboom (2005), Royal Ahold was a successful company in the 1990s but later in 2003 had been in a failure list through the result of its failure in its corporate governance.

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