ASSOCIATION BETWEEN CORPORATE GOVERNANCE MECHANISMS AND RELATED PARTY TRANSACTIONS IN MALAYSIAN PUBLIC LISTED FIRMS

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UNIVERSITI UTARA MALAYSIA

2011
ASSOCIATION BETWEEN CORPORATE GOVERNANCE MECHANISMS AND RELATED PARTY TRANSACTIONS IN MALAYSIAN PUBLIC LISTED FIRMS

A thesis submitted to the graduate school in partial fulfillment of the requirement for the degree

Master of Science International Accounting

By

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ABSTRACT

This paper examines the roles of corporate governance mechanisms in monitoring the management activity in engaging related party transactions in Malaysian public listed firms. The corporate governance mechanisms such as CEO duality, proportion of non executive directors in board of directors, directors ownership, proportion of non executive directors in audit committee and meeting frequency were used to measure whether corporate governance mechanisms are effective in deterring the management from doing earnings management through related party transactions. The result indicate that there is positively significant relationship between CEO duality and RPT. The findings also support the hypothesis where there is positive relationship between the non executive directors in BOD with RPT. But, the result indicate that there is no significant relationship between the director ownership with RPT. Moreover, from the result, it shows that the audit committee variables which are the non executive directors in audit committee and meeting frequency does not have a significant relationship with related party transactions.
ACKNOWLEDGEMENT

Alhamdulillah for His blessings and love,

This acknowledgement is devoted to those who helped me in any senses, who gave me courage, guts, guidance, assistance, and endless contribution in order to complete this thesis. First and foremost, I would like to thank my great supervisor, Dr Rohaida Binti Abdul Latif for her time, critics, comments, guidance, patience, and encouragement. Secondly, I would like to express my thankfulness to my charming parents Abd Aziz Bin Haron and to my lovely and wonderful mother Sarifah Binti Abdullah for the supports and assistances and of course their prayers. Last but certainly not least, credit to my family members, also to all my associates and my colleagues for their support and encouragement. Thank you so much for your love, aids, supports, assistances, understanding, endurance and patience throughout my study.

Together we are the greatest, May Allah Consecrates us.
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<th>Description</th>
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<tbody>
<tr>
<td>AC</td>
<td>Audit Committee</td>
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<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountant</td>
</tr>
<tr>
<td>BOD</td>
<td>Board Of Director</td>
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<tr>
<td>BMSB</td>
<td>Bursa Malaysia Sdn Bhd</td>
</tr>
<tr>
<td>BRPT</td>
<td>Binary Related Party Transactions</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings Before Interest, Tax, Depreciation and Amortization</td>
</tr>
<tr>
<td>FRS</td>
<td>Financial Reporting Standard</td>
</tr>
<tr>
<td>MASB</td>
<td>Malaysian Accounting Standard Board</td>
</tr>
<tr>
<td>MCCG</td>
<td>Malaysian Code of Corporate Governance</td>
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<td>MTBV</td>
<td>Market to Book Value</td>
</tr>
<tr>
<td>NEDs</td>
<td>Non Executive Directors</td>
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<td>RPT</td>
<td>Related Party Transactions</td>
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<td>UUM</td>
<td>Universiti Utara Malaysia</td>
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CHAPTER ONE

1.0 INTRODUCTION

In 1997, the East Asian Financial Crisis saw the economies of Thailand, Indonesia, South Korea, Malaysia and Philippines severely affected by the exit of foreign capital after property assets collapsed. The lack of corporate governance mechanisms in these countries highlighted the weaknesses of the institutions in their economies. In the early 2000s, the massive bankruptcies of Enron and WorldCom, as well as lesser corporate debacles, such as Adelphia Communications, AOL, Arthur Andersen, Global Crossing, Tyco, led to increased shareholder and governmental interest in corporate governance. These financial crisis indicate weak corporate governance practices of many firms such as the weak financial structure, lack of transparency, disclosure and accountability, existence of a complex system of family control firms, little or no effective laws to ensure that controlling shareholders and management treat small investors fairly and equitably, lack of transparency and ambiguity in the regulatory processes and weaknesses in the credit evaluation processes by the banks.

Although the weak corporate governance practices by these firms did not cause the financial crisis, but it certainly one of the factors that contributed to the economic crisis. Good corporate governance plays a vital role in underpinning the integrity and efficiency of financial markets. Poor corporate governance weakens a firm’s potential and at worst can cover the way
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REFERENCES


