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**THE EFFECT OF CORPORATE GOVERNANCE MECHANISMS ON
FIRM PERFORMANCE: MALAYSIAN PERSPECTIVE**

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**MASTER OF BUSINESS ADMINISTRATION (ACCOUNTING)
UNIVERSITI UTARA MALAYSIA
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FIRM PERFORMANCE: MALAYSIAN PERSPECTIVE**

By

KAMARUL ZAMAN SALI

**Thesis Submitted to the College of Business,
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Kamarul Zaman Sali

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ABSTRACT (BAHASA MELAYU)

Banyak kajian telah dijalankan bagi melihat implikasi struktur tadbir urus korporat terhadap prestasi syarikat. Walaupun penemuan hasil kajian terdahulu tidak sebulat suara dalam kesimpulan mereka, majoriti bersetuju bahawa terdapat hubungan yang signifikan antara struktur/mekanisme tadbir urus dan prestasi firma. Kajian ini dijalankan adalah bertujuan untuk mengkaji kesan, jika ada, terhadap mana-mana mekanisme tadbir urus korporat, terutamanya struktur pemilikan korporat, struktur ahli Lembaga Pengarah, dan pakej emolumen ke atas prestasi syarikat-syarikat dagangan awam yang besar di Malaysia. Tidak banyak kajian dilaksanakan di Malaysia mengenai hubung kait prestasi syarikat dan parameter tadbir urus syarikat yang multidimensi. Kajian ini menggunakan sampel syarikat-syarikat yang tersenarai di Pasaran Utama Bursa Malaysia, khususnya dalam sektor hartanah dan perladangan, dengan meneliti impak pemantauan oleh pelabur institusi, saiz dan tahap kepercualian ahli Lembaga Pengarah, serta emolumen eksekutif, ke atas prestasi firma menggunakan mekanisme pengukuran Tobin's Q, pulangan ke atas aset (ROA) dan pulangan ke atas ekuiti (ROE). Hasil keputusan menunjukkan bahawa terdapat hubungan yang signifikan tetapi lemah antara mekanisme tadbir urus korporat, terutamanya struktur ahli Lembaga Pengarah dan emolumen eksekutif dengan prestasi syarikat. Keputusan tersebut juga menunjukkan bahawa terdapat faktor-faktor lain yang mempengaruhi kadar keuntungan dan prestasi syarikat. Walau bagaimanapun, tahap pematuhan Kod Tadbir Urus Korporat Malaysia adalah tinggi di kalangan syarikat-syarikat awam yang terlibat.

ABSTRACT (ENGLISH)

Numerous studies have looked at the implications of corporate governance structures on company performance. Although the literature is not unanimous in its conclusions, the weight of opinion is that there is a significant relationship between governance mechanisms and structures and firm performance. The aim of this research is to study the effect, if any of corporate governance mechanisms, particularly corporate ownership structure, corporate board, and compensation packages, on the performance of Malaysian public listed companies. The literature on these multidimensional governance parameters on firm performance in the context of Malaysia is lacking. Using sample of large publicly traded Malaysian companies, in particular in the properties and plantations sectors, this research examine the effect of institutional investor monitoring, board size and independence, and executive compensation on firm performance as measured by Tobin's Q, return on assets (ROA) and return on equity (ROE). Results show that there is significant but weak relationship between corporate governance mechanisms in particular corporate board structure and executive compensation, with company performance. These findings suggest that there are other factors which have larger influence on the profitability and performance of companies. Nevertheless, the level of compliance with the Malaysian Code of Corporate Governance is high among the public listed companies.

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LIST OF ABBREVIATIONS

BOD	-	Board of Director
CEO	-	Chief Executive Officer
CG	-	Corporate Governance
EG	-	Enterprise Governance
EPF	-	Employees Provident Fund
ESOS	-	Employees Share Options Scheme
FCCG	-	Finance Committee on Corporate Governance
IASC	-	International Accounting Standards Committee
IFAC	-	International Federation of Accountants
LTAT	-	Lembaga Tabung Angkatan Tentera
LTH	-	Lembaga Tabung Haji
MAS	-	Malaysian Accounting Standards
MCCG	-	Malaysian Code on Corporate Governance
MOF	-	Ministry of Finance
MSWG	-	Minority Shareholder Watchdog Group
NEP	-	New Economic Policy
PLC	-	Public Listed Company
PNB	-	Permodalan Nasional Berhad
RIIAM	-	Research Institute of Investment Analysis in Malaysia
ROA	-	Return on Assets
ROE	-	Return on Equity
SOCSSO	-	National Social Security Organization of Malaysia

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The governance of companies has been the subject of increasing interest in recent years. It has been one of heavily discussed topics in both the business and academic fields. The main focus of the debates concerns on how to appropriately structure the organization and put into place good governance mechanisms that will provide the most effective decision-making process as part of the top managers' roles, particularly the Chief Executive Officers (CEOs), and effective monitoring system mainly by the Board of Directors (BODs), which in turn will boost the performance of the organizations (Coles, McWillimas, and Sen, 2001).

The revelation of corporate misdoings, unethical procedures and management excesses which caused the demise of large corporations such as Enron, WorldCom, Global Crossing, Adelphia Communications, Tyco and Xerox (Porwal and Kumar, 2003; Teng, Aun, and Fook, 2011), have further pressured the calls for greater corporate governance around the world, including Malaysia. A number of reports and journals have been published to improve the governance standards which called for greater transparency and accountability in areas such as executive contracts and compensation, boards structure and operations, and the establishment of board monitoring committees (Abdullah, 2006a and 2006b; Abdul Wahab, How, and Verhoeven, 2008; Grinstein and Chhaochharia, 2009; Ross, 2004). These calls were

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