BOARD CHARACTERISTICS AND FIRM PERFORMANCE OF PUBLIC LISTED COMPANIES IN MALAYSIA

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BOARD CHARACTERISTICS AND FIRM PERFORMANCE OF PUBLIC LISTED COMPANIES IN MALAYSIA

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Universiti Utara Malaysia

By

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UNIVERSITI UTARA MALAYSIA
2012
DECLARATION

I hereby certify that the substance of this thesis has not been already submitted to any degree and is not currently being submitted for any other qualification.

I certify that any assistance received in preparing this thesis and all sources used have been acknowledged and referenced in this thesis.

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ABSTRACT

The study aims to investigate the influence of board characteristics on firm performance before and after the revised of Malaysian Code of Corporate Governance 2007. The data for study gathered from two years, 2006 and 2010, that represent before and after the revised version of Malaysian Code of Corporate Governance. Regression analysis was performed to examine factors influencing firm performance such as board size, outside directors, family members on the board, audit committee size, audit committee independent, control variables such as firm size, leverage, and firm performance. In addition, firm performance was measured by return on asset (ROA). Using a sample of 80 companies for both years, the result showed that none of the board characteristics, board size, independent directors, family members on the board, audit committee size, audit committee independent, have significant relationship with firm performance. However, the control variables, firm size and leverage, have significantly positive and negative correlation with firm performance in both years.
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<tr>
<td>MCCG</td>
<td>Malaysian code of corporate governance</td>
</tr>
<tr>
<td>FP</td>
<td>Firm Performance</td>
</tr>
<tr>
<td>BSIZE</td>
<td>Board size</td>
</tr>
<tr>
<td>INDS</td>
<td>Independent directors</td>
</tr>
<tr>
<td>FMB</td>
<td>Family members on the board</td>
</tr>
<tr>
<td>AUCSIZE</td>
<td>Audit committee size</td>
</tr>
<tr>
<td>AUTCID</td>
<td>Audit committee independent</td>
</tr>
<tr>
<td>FSIZE</td>
<td>Firm size</td>
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<td>LRAGE</td>
<td>Leverage</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

With increasing trends towards globalization and quick growth of companies, the need of corporate governance structure, spread throughout the world in order to enhance firm performance. These changes attracted the attention of potential investors, who had already lost market confidence, to make wisely investment decision. If the company’s corporate governance strategy towards its performance is very poor, it will lose large market shares of the business and it will also miss the game. Recent financial crisis have renewed attention to corporate governance and it is recognized that firms having better corporate governance structures signals better performance (Chiang, 2005).

In the last two decades the importance of corporate governance increased due to the high-profile collapses of a number of large corporations, most of which involved accounting fraud. In the multinational companies, managers may make decision that conflict with the firm’s goal to maximize shareholder wealth, for example a decision to expand a subsidiary may be motivated by a manager’s desire to receive more compensation rather than to enhance the value of the firm. These personal conflicts can be reduced if clear and proper corporate governance is set up (Madura, 2010).

In order to understand broadly the issues of corporate governance, it is very important to study the role of corporate governance in this matter. Corporate governance is defined as a “system that enhances the relationship between companies’ managers, its board of directors, its potential shareholders, and other stakeholders and it also provides proper allocation of the resources among the competitive uses. In addition to that, it provides structure through which
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References


