MODERATION EFFECT OF CEO CHOICE
ON THE RELATIONSHIP BETWEEN
CORPORATE GOVERNANCE AND
FAMILY FIRM PERFORMANCE

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DOCTOR OF BUSINESS ADMINISTRATION
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MODERATION EFFECT OF CEO CHOICE ON THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FAMILY FIRM PERFORMANCE

By

IBRAHIM BIN MD NOH

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March 2015
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ABSTRACT

Mandatory imposition of Malaysian Code of Corporate Governance (MCCG) since 31\textsuperscript{st} December 2012 seems to be associated with serious endeavours done by the regulators and policy makers to enhance the stakeholder’s value for public listed companies in Bursa Malaysia. Besides establishing the code that involved independent non-executive directors, the world’s trend for choosing outsiders as CEOs becomes familiar amongst family controlled-firms (FCFs) in Malaysia. In terms of shareholder and stewardship theories, this latest trend frequently happens in FCF with opportunity for expropriation due to the highly persuasive cash flow rights. The failure of Minority Shareholder Watchdog Group’s (MSWG) roles in establishing stakeholder theory motivates this study to investigate the moderation effects of CEO choice on corporate governance and FCF performance relationship by using ROA, EVA, and Tobin’s Q with the application of signalling theory. FCF population for the financial year of 2010 and 2011 were consecutively rated accordingly using the MCCG index scores issued by MSWG in 2009. The study reveals that CEO choice has moderating positive effects towards the board of directors’ structure and FCF’s performance relationship that are significant to Tobin’s Q model. After further analysis, it was found that the positive effect comes from insider CEOs. Inevitably, the transformation of negative magnitude seems to have a synergic impact which combining both CEOs of FCF as a new trend for its corporate value and investors’ wealth. Eventually, the present study suggests the regulators and policy makers to reconsider specific governance codes for FCF in order to lessen the dominance of agency theory.

Keywords: Corporate governance, CEO choice moderator, MSWG, Family-Controlled Firm’s performance.

Kata-kunci: Tadbir-urus korporat, pemilihan ketua pegawai eksekutif, badan pengawas pemegang saham minoriti, prestasi firma milik keluarga.
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CHAPTER 1

INTRODUCTION

1.1 Introduction

Corporate governance has become an important agenda for listed companies in any capital market worldwide. The importance can be seen through its evolution in several events. Bolton and Rosell (2002) identified the events due to corporate governance effects such as the worldwide wave of privatization of the past two decades, the pension fund reform and the growth of private savings, the takeover wave of the 1980s, the deregulation and integration of capital markets, the 1997 East Asia Crisis and the series of recent corporate scandals in the US and worldwide.

The cause of corporate governance effects comes from a stiff competition globally as well as rapid changes in technology due to technological advances (Yoshikawa & Phan, 2001). Nevertheless, Yoshikawa & Phan (2001) further claimed that price war among bigger firms especially public-listed firms requires technological advances in order to reduce transaction costs and the costs of information research, rendering global competition between capital markets and the evolution of corporate governance around the world.

Dynamically, public listed firms in a capital market rely on the evolution of corporate governance in order to be more competitive in its respective industry. Basically, public listed firms are governed by the law of a country. Internal governance
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