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THE EFFECT OF BOARD OF DIRECTORS AND AUDIT COMMITTEE CHARACTERISTICS ON FIRM PERFORMANCE: EVIDENCE FROM MALAYSIA

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MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING) UNIVERSITI UTARA MALAYSIA MAY 2017
THE EFFECT OF BOARD OF DIRECTORS AND AUDIT COMMITTEE CHARACTERISTICS ON FIRM PERFORMANCE: EVIDENCE FROM MALAYSIA

By

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ABSTRACT

Corporate governance issues are under the attention of the researchers for over three decades due to the increasing global economic crisis. Hence, this study attempts to contribute towards literature by investigating relationships of corporate governance and firm performance in Malaysia as a developing country. In particular, the study investigates the relationship between the board of director’s characteristics and the audit committee characteristics and the performance of non-financial listed companies (excluding financial companies) in Malaysia for the two years (2014 and 2015). The model of this study is theoretically based on the agency theory. To examine the conceptual model, the required data were gathered from the annual reports of top 100 non-financial listed firms in Malaysia. In analyzing the data, this study utilized the liner multiple regression by taking the sample of 100 companies with 200 observations in order analyze the relationship between board of director’s characteristics and the audit committee characteristics and the performance (ROA and Tobin’s Q). Moreover, this study used firm size and leverage as control variables. Based on the liner multiple regression results that was used to examine the effect of the predictors of the firm performance measured by Return on Assets (ROA) and Tobin-Q. The statistical results showed that board size and foreigner board members were a positive determinant of Tobin-Q. While, the government link of board members was negative determinants of Tobin-Q. On the other hand, the government liking of the board and the audit committee meeting were negative predictors of ROA. While, the board size was a positive predictor of ROA. Besides providing suggestions for future research directions, this study also provides several recommendations for regulators, companies, stakeholders and in particular, the shareholders.

Keywords: corporate governance, firm performance, Malaysia, board of directors’ characteristics, audit committee characteristics.
**ABSTRAK**


**Kata kunci:** pentadbiran korporat, prestasi firma, ciri-ciri lembaga pengarah, ciri-ciri jawatankuasa audit Malaysia.
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In the name of Allah, the Most Gracious and Most Merciful. Praise be to ALLAH, the creator and custodian of the universe. Salawat and Salam to our Prophet Muhammad, peace and blessings of ALLAH be upon him and to his family members, companions and followers.

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<td>Corporate Governance</td>
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<td>Malaysia Code on Corporate Governance</td>
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<td>ROA</td>
<td>Return on Asset</td>
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<td>Organization for Economic Cooperation and Development</td>
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<td>VIF</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The current competitive global business environment faced by business organizations has increased their effort to achieve high growth to attract investors who will be willing to finance future expansion plans of their organizations. On a general note, the decision to invest in a venture are mainly influenced by the ability of the business to remain stable and to generate profits (Mallin, 2007). This accounts for the inability of deteriorating businesses to raise funds for their investment projects. This situation can affect not only the specific business organizations but also the overall economic performance. To safeguard and protect the corporate business environment, governments throughout the world have been increasing effort on the implementation of effective corporate governance mechanisms. In accord to Organization for Economic Cooperation and Development (OECD), "good corporate governance is essential for the economic growth led by the private sector and for the promotion of the social welfare". In review, effective from 1997, i.e. from the era of Asian financial crisis, corporate governance has attracted new understanding as the legislations and institutions that regulate the business governance’s as well as the relationships between corporations and government.

To ensure sustainability of an organization, chief executive officers (CEO) together with board of director’s (BOD) members should emphasize more on corporate governance mechanisms. Generally, corporate governance has been acknowledged as an important
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REFERENCES


Blue Ribbon Panel was set up in late 1998 to give recommendations on the role of audit committee in order to strengthen the monitoring role over the reporting process in the USA.


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