

**ISLAMIC CORPORATE GOVERNANCE INDEX, FOREIGN INVESTMENT AND FIRM'S
PERFORMANCE OF SHAR'IAH COMPLIANCE COMPANIES: A COMPARATIVE STUDY
OF INDONESIA AND MALAYSIA**



**RESEARCH MANAGEMENT INSTITUTE (RMI)
UNIVERSITI TEKNOLOGI MARA
40450 SHAH ALAM, SELANGOR
MALAYSIA**

BY :

**HILWANI HARIRI, ROSHIMA SAID
UNIVERSITI TEKNOLOGI MARA**

**TAKIAH MOHD. ISKANDAR
UNIVERSITI KEBANGSAAN MALAYSIA**

**SAIFUL
UNIVERSITAS BENGKULU**

AUGUST 2013

PENYELIDIK

Hilwani Hariri (ARI, UiTM)

Roshima Said (ARI, UiTM)

Takiah Iskandar (UKM)

Saiful (Universitas Bengkulu)

EXECUTIVE SUMMARY

Section A: Islamic Governance

Corporate governance has been a pertinent issue for more than two decades. The regulators in Malaysia have actively participated in addressing issues in corporate governance as observed in the changes that have taken place since the first introduction of the Malaysian Code of Corporate Governance in year 2000 to the Corporate Governance Blueprint 2011. The concept of governance in Islam is highlighted and eventually a checklist on Islamic corporate governance is developed. The checklist is useful to aid governance practice of companies that are categorized as '*Shari'ah*' compliance companies in the Bursa Malaysia. This paper firstly, introduces the dimension of Islamic Corporate Governance Index (ICGI). Secondly it determines the relationship of ICGI to performance with ICGI dimensions from previous literature and content analysis. The relationship was tested on the *Shar'iah* Compliance Companies in Malaysia and Indonesia for the year 2009. The results found that there are significant difference between *Shar'iah* Compliance Companies in Malaysia and Indonesia. The total ICGI also does not influence the performance.

Section B: Foreign Investment

Foreign investment can enhance the global business because it exposes the firm with new markets and marketing channels, access to new technology, products, skills and financing. Foreign investment is important to investors in developed areas who provide funding and expertise to smaller companies in emerging markets to expand and increase international sales. Hence, this paper determines the relationship of foreign investment to the performance. The analyses indicate that there is no significant influence between foreign investments to the performance.

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	v
CHAPTER 1: INTRODUCTION.....	1
1.1 Section A: Islamic Governance.....	1
1.1.1 Development of Corporate Governance in Malaysia.....	2
1.1.2 Islamic Perspective of Governance.....	6
1.2 Section B: Foreign Investment.....	8
1.2.1 Foreign Investment.....	8
1.2.2 The Foreign Investment and Economic Growth.....	10
CHAPTER 2 : LITERATURE REVIEW.....	12
2.1 Section A: Islamic Governance.....	12
2.2 Section B: Foreign Investment.....	18
CHAPTER 3 : RESEARCH METHODOLOGY.....	24
3.1 Section A: Islamic Governance.....	24
3.1.1 Unit of Analysis.....	24
3.1.2 Population and sample selection.....	24
3.1.3 Definition of Variables.....	25
3.1.4 Analysis.....	25
3.2 Section B: foreign Investment.....	27
3.2.1 Unit of Analysis.....	27
3.2.2 Population and sample selection.....	28
3.2.3 Definition of Variables.....	28
3.2.4 Analysis.....	29
CHAPTER 4: FINDINGS.....	30
4.1 Section A: Islamic Governance.....	30
4.1.1 Descriptive analysis.....	30
4.1.2 Regression Analysis.....	32
4.2 Section B: Foreign Investment.....	41
4.2.1 Section 1: Descriptive analysis.....	41
4.2.2 Section 2: Independent T-test.....	43
4.2.3 Section 3: Regression Analysis.....	44

CHAPTER 5: SUMMARY AND CONCLUSION	47
5.1 Section A: Islamic Governance.....	47
5.2 Section B: Foreign Index	50
REFERENCES.....	52
Appendix 1	56
Appendix 2	58
Appendix 3	59
Appendix 4.....	60