



اُونِيُوَرَسِيْتِي تِيكْنُولُوْجِي مَارَا

UNIVERSITI TEKNOLOGI MARA
CAWANGAN KELANTAN

***A STUDY OF THE RELATIONSHIP BETWEEN CORPORATE
GOVERNANCE AND FIRM PERFORMANCE : THE CASE OF MALAYSIA
LISTED FIRMS.***

PREPARED BY :

SITI NOR HIDAYU BINTI MOHAMED SUKRI

2010871884

BACHELOR OF BUSINESS ADMINISTRATION (HONS) FINANCE

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

KOTA BHARU CAMPUS

KELANTAN

ACKNOWLEDGEMENT



"In the name of Allah, the Merciful, the Beneficent. Praise be to Allah"

Alhamdulillah, thanks to Allah S.W.T for His blessing and giving the opportunity and empowered me to succeed in the completion of this project paper at the given date. It has been the most fruitful experience being able to do this research and without His Grace and Mercifulness, this project paper may not be completed on time.

I would like to take this opportunity to give my most sincere gratitude to the following people. Without you, this journey would have been really lonely.

Firstly, to my advisor, Sir Shahsuzan bin Zakaria, who has provided me with guidance, insightful suggestion and additional information. The knowledge obtained through this additional information is invaluable. I would also like to thank Madam Syukuriah binti Idrus for participating in this research. Your extensive knowledge and your input are most valuable. And lastly, to my friends and family. Without your constant encouragement and distraction, not only would i have not finished the paper, i also would not have had fun doing it.

Thank you.

ABSTRACT

Corporate governance is a fairly new concept which has been put into practice because of the needs of companies to constantly perform better; and this is need that has made corporate governance so necessary today. As a set of limitations which must be adhered to in order for a company or firm to reach its optimal performance, corporate governance is a process which ensures growth for a firm and the economy. The globalisation of banking and financial markets has raised important issues regarding corporate governance regulation for banking and finance institutions. This paper examine the relationship between three important corporate governance mechanisms (board composition, board size and CEO status) and firm performance measures (return on assets, ROA), for a sample of 15 Malaysian listed firms between 2007 and 2011. The results provide evidence of a positive significant relationship between ROA and two corporate governance mechanisms (board size and CEO status). The study, however, could not provide a significant relationship between the firms performance measure (ROA) and board composition. Statistical Package for the Social Science (SPSS) was used to analyze the data. That is to examine the relationship between dependent and independent variables. To analyze this study, researcher used both of simple and multiple linear regression.

Keywords : Corporate governance, firm performance, Malaysia

TABLE OF CONTENTS

<u>CONTENT</u>	<u>PAGE</u>
LETTER OF TRANSMITTAL	I
DECLARATION OF WORK	II
ACKNOWLEDGEMENT	III
TABLE OF CONTENT	IV -VI
LIST OF TABLE	VII
ABSTRACT	VIII

CHAPTER 1: INTRODUCTION

1.0	Introduction	2
1.1	Background of study	3
1.2	Problem statement	4 - 5
1.3	Objective of study	6
1.4	Scope of study	7 - 8
1.5	Significant of the study	8 - 9
1.6	Theoretical framework	10
1.7	Research hypothesis	11
1.8	Limitation of study	12
1.9	Definition of terms	13 - 14

CHAPTER 2: LITERITURE REVIEW

2.0	Literiture review	16
2.1	Board composition and firm performance	16 - 18
2.2	Board size and firm performance	19 - 23

2.3	Chief executive officer status and firm performance	23 – 26
-----	---	---------

CHAPTER 3 : RESEARCH METHODOLOGY

3.1	Research methodology	28
3.2	Research design	28
3.3	Method of collecting data	29
3.4	Sampling	30
3.5	Method of analyzing data	31
3.5.1	Simple linear regression model	31 - 32
3.5.2	Multiple linear regression model	32 - 33
3.5.3	Test of correlation	
3.5.3.1	Correlation of coefficients (r)	32 - 35
3.5.3.2	Coefficients of determination (r^2)	35 - 36
3.5.3.3	Durbin – watson	37
3.5.4	Test of significance	
3.5.4.1	T – statistic	38 - 39
3.5.4.2	F – statistic	39 - 40
3.6	Hypotheses testing	38 - 39

CHAPTER 4 : RESEARCH FINDINGS AND ANALYSIS

4.1	Simple linear regression	43
4.1.1	Simple linear regression between board composition and ROA	44
4.1.1.1	Test of correlation	45 - 46
4.1.1.2	Test of significant	47 - 48
4.1.1.3	Conclusion for board composition	49