UNIVERSITI TEKNOLOGI MARA

THE RELATIONSHIP BETWEEN CORRUPTION RISK, CORPORATE GOVERNANCE MECHANISMS, AND FIRM PERFORMANCE IN MALAYSIA

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ABSTRACT

The issue of corruption is extensive and proliferate as a systemic phenomenon that may distort firm's success in Malaysia. Therefore, firms have enormous potential for establishing strong corporate governance systems to alleviate the harmful effect of corruption, and, in turn, improve their performance. Hence, the objective of this study is to examine the relationship between corporate governance mechanisms, particularly top management team (TMT) attributes and ownership structure with firm performance among public listed firms in Malaysia. Furthermore, it investigates the moderating effect of corruption risk on the relationship between corporate governance mechanisms and firm performance. The motivation for this study was driven by the mixed and inconclusive findings of previous research works on the relationship between corporate governance mechanisms and firm performance. Moreover, there are few studies on the moderating effect of corruption risk in terms of the relationship between corporate governance mechanisms and firm performance. This study employs panel data regression analysis with 2,925 firm-year observations of non-financial firms listed on Bursa Malaysia over the period 2018 to 2022. The findings document that TMT financial expert, TMT tenure, and foreign ownership are significantly related to firm performance. The findings also report that corruption risk has a moderating effect on the relationship between TMT women, TMT political connections, family ownership, foreign ownership, and institutional ownership with firm performance. However, the findings indicate an insignificant relationship between TMT international experience, TMT women, TMT political connections, TMT age, family ownership, and institutional ownership with firm performance. This study contributes to the growing body of knowledge by using the resource dependence theory and agency theory. Overall, this study offers a reference point for the relevant parties – business players, regulatory bodies, standard setters, and policymakers – towards improving firm performance and corporate governance practices in a highly corruption risk environment.

Keywords: Corruption risk, corporate governance, top management team, ownership structure, and firm performance.

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TABLE OF CONTENTS

CHAPTER 1
INTRODUCTION

1.1 Chapter Overview

This chapter includes the background and issues of the study. Section 1.2 explains the background of the study. Subsequently, Section 1.3 provides the problem statement. Sections 1.4 and 1.5 highlight the research questions and objectives, the scope and limitations of the study are in Section 1.6, while Section 1.7 presents the significance of this study from the practical and theoretical aspects. Section 1.8 deliberates the structure of the thesis and is followed by the operational definitions of the key terms in Section 1.9. Lastly, Section 1.10 provides the conclusion of this chapter.

1.2 Background of the Study

Firm performance has been extensively researched over the years. It has become a very popular subject of interest due to its contributions towards society both locally and globally. Firms have been aggressively executing their strategies and operations to achieve the desired business goals in a complex and challenging corporate environment. As a result, firms are intensely growing and striving to be the best business partners by streamlining their interests with other business stakeholders, which include investors, customers, employees, society, and the environment (Barauskaite & Streimikiene, 2021; Bhagwat et al., 2020; Lee & Raschke, 2023). Performance has become crucial in the twenty-first century to enable firms to blend effectively with the growingly sophisticated customer demands, competition, management practices, and globalisation (Qalati et al., 2022; Tarigan & Siagian, 2021). Therefore, the discussion on firm performance is crucial and continues as an ongoing concern among academicians, regulators, policymakers, and business players around the world.

Irrespective of differences, each and every firm in the world is targeted to achieve sustainable business performance. Firms are intensely competing to enhance their performance