



اَوْنِوَرْسِيْتِي تِكْنُوْلُوْجِي مَارَا
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**A STUDY OF THE MARKET REACTION TOWARDS BOARD OF
DIRECTOR CHANGES ANNOUNCEMENT IN MALAYSIA**

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“In the name of Allah the Almighty, the Merciful and the Beneficent”

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ABSTRACT

This study investigates the market reaction towards the board of director changes announcement in Malaysia. The study period covers from January 2006 to December 2006. This study used standard event study methodology to find the stock reactions towards those announcements. From the 60 companies selected, this study of new appointments and resignations announcement reveals that there was no significant effect on the wealth of the concern firms. From the test period of 30 days before and after the announcements, this study found that there were no significant relationship between average abnormal returns and cumulative abnormal returns around the announcement day. The CAR on day -30, -3 is 1.62%, while the CAR for five day event window (-2, +2) is 0.22%. The last one is the third event window (+3, +30), where it consists of 28 days. The CAR for the third event window is 1.70%. As a conclusion, this hypotheses testing determined that in answering the Hypothesis 1 and Hypothesis 2, the researcher rejects H_a and does not reject H_o . That means, there were no significant relationship between average abnormal returns and cumulative abnormal returns around the announcement day.

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1.0 INTRODUCTION

1.1 Chapter Description

This chapter explained the background to the study, problem statements, objectives of the research, scope and limitations of study, hypotheses, significance of the study and the definition of terms.

1.2 Background to the Study

The history of the board of directors in Malaysia could be traced as far back as 1965 when it introduced its own Companies Act. The Malaysian Companies Act 1965 has its origins in both the English Companies Act and the Australian Uniform Companies Act primarily due to it being a British colony for almost two centuries until 1957. The Malaysian Companies Act covers issues involving corporate structures, disclosure requirements, the duties and responsibilities of the directors and officers, including auditors and company secretaries, as well as the reporting and compliance requirements.

Board of director is a group of persons chosen to govern the affairs of a corporation or other large institution. In other word, board of director can be defined as a group of individuals that are elected as, or elected to act as, representatives of the stockholders to establish corporate management related policies and to make decisions on major company issues. The issues include the hiring and firing of executives, dividend policies, option policies, executive