UNIVERSITI TEKNOLOGI MARA

CORPORATE GOVERNANCE MECHANISMS, INSTITUTIONAL OWNERSHIP AND YIELD SPREADS OF CONVENTIONAL BONDS AND SUKUK

NORIZA MOHD SAAD

Thesis submitted in fulfilment
of the requirements for the degree of
Doctor of Philosophy

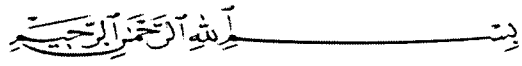
Faculty of Accountancy

August 2017

ABSTRACT

Sukuk yields mimic those of conventional bonds due to having similar features. This motivated the study. Sukuk are shariah-compliant securities that offer different structures to those of conventional bonds. Therefore, it is believed that the spreading of yields should also be different. Agency theory explains the relationship between principal and agent and the possible misalignment of interest of both parties is reflected through what is termed agency cost. Reducing this agency cost requires monitoring and controlling in public listed firms which are represented by institutional investors which delegate this responsibility to the appointed board of directors (BOD). The presence of key institutional investors/owners and certain BOD characteristics as highlighted by the Malaysian Code on Corporate Governance (MCCG) may influence the yield to maturity (YTM) of conventional bonds and sukuk. It is argued that higher institutional ownerships will produce enhanced active monitoring on the cost of debt and presumably more control on the likelihood of default risk as measured by the yield spreads for conventional bonds and sukuk. Thus, the main objective of this study is twofold. First, to investigate the significant mean difference between conventional bonds and sukuk' yield spreads. Second, to investigate the relationship between these two yield spreads instruments with corporate governance mechanisms. The data is obtained from firm issuers' annual reports, the Bondinfo Hub of the Malaysian Central Bank, the Rating Agency Malaysia (RAM), the Malaysian Department of Statistics and Bloomberg databases for the period beginning 2000 to 2014 for 256 and 405 tranches of long-term and medium-term issuances of conventional bonds and sukuk respectively. Thus, unbalanced panel data are applied for the tests which cover the pooled ordinary least square (OLS), fixed effects (FE) and random effects (RE) models. The Bruesch Pagan Lagrangian Multiplier (BP-LM) and Hausman diagnostic tests are applied to determine which among the three models i.e. pooled OLS, RE or FE, is the best-fit and most appropriate model in explaining the relationship between yield spreads and corporate governance mechanisms deals with heterokedasticity problem. The most significant findings show that the presence of top-six and other institutional ownerships as corporate governance mechanism proxy significantly reduce yield spreads within the firm revealed by robust fixed effects and random effects models in long-term conventional bonds and sukuk. Otherwise, they are unable to reduce default risk in medium-term issuances for both financing instruments. With respect to BOD characteristics, only BOD role duality and BOD size have a significant relationship with yield spreads in long-term and medium-term issuances respectively. The study, therefore, proposed that the impact of the fixed effects approach applied in this study is important in future sukuk issuances since it provides the robust coefficient of estimation sign in the regression model. In addition, from the perspective of the random effects, it may facilitate the issuer in predicting the tranches of issuances which are nearing default and invariant correlated to the individual tranches effects. The institutional investors should have more shareholdings in the issuer firms which issue long-term conventional bonds and medium-term sukuk since the default risk is low. The BOD is also highly recommended to comply with MCCG for best practices in the firm.

ACKNOWLEDGEMENTS



In the Name of Allah SWT, the Most Gracious, Most Merciful

Alhamdulillah, I thank Allah SWT for rewarding me with the health, energy and patience necessary to complete this thesis. I surrender my life, my work and everything to You alone. I believe that my PhD journey was smooth because of your Bounty and Blessings by surrounding me with people who are kind, helpful, understanding and supportive. Among those who were central to the successful completion of this thesis are my supervisor Associate Professor Dr. Mohd Nizal Bin Haniff and co-supervisor Associate Professor Dr. Norli Binti Ali. I express my deepest gratitude to both for their time, guidance, caring, patience, valuable comments, and motivation. Their continuous encouragement and support helped me to complete my study within the time given.

My sincere thanks go to Dr. Mohd Noor Mamat (Visiting Professor at Universiti Tenaga Nasional-UNITEN), Prof. Dr. Mohamed Arif Syed Mohamed (Senior Professor at Universiti Putra Malaysia-UPM), Dr. Fakarudin Kamarudin (Senior Lecturer at UPM) and all panel during my PhD progress presentations for their expertise and knowledge that enriched this thesis. My sincere thanks also goes to Mr. Ahmad Suzaini (staff at knowledge management centre of Bursa Malaysia) and Mr. Zakarya Othman (Assistant General Manager Group Chief Executive Officer (CEO)'s Office at Rating Agency Malaysia-RAM) who provided me with the required data and research facilities. Without their support this thesis would have been a great deal more difficult.

My special thanks to UiTM and UNITEN colleagues, Nora Yusma Yusoff, Nor Edi Azhar Mohamad, Noor Raida Abd. Rahman, Suzaida Bakar, Nor Salwati Othman, Nor Hamisham Harun, Noraina Mazuin Sapuan, Mohammad Rahmdzey Roly, Suhaimi Ab. Aziz, Norlida Mat Rohani, Izzamirah Ishak and others who were true companions along this journey. May you all be rewarded in this life and the next.

I would like to express my sincere thanks, love, and devotion to my husband, Mohd Faizal Khairil Bin Mohd Yasim, as well as my children; Nur Faezatul Balqis, Muhammad Fakhri Adam, Muhammad Fikhri Ayman and Muhammad Faheem Asyraf for their understanding and sacrifice. My love and care to my father and late mother, Mohd Saad Bin Abdullah and Nik Dah Binti Ahmad. May Allah SWT receive you both with warmth.

TABLE OF CONTENT