



THE EFFECT OF BOARD COMPOSITION ON CORPORATE
FINANCIAL PERFORMANCE: EVIDENCE FROM
TRADING AND SERVICES LISTED COMPANIES
AT BURSA MALAYSIA

HALISA BINTI RASSA
2015228928

BACHELOR OF BUSINESS ADMINISTRATION
(HONS.) FINANCE
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
SABAH

JUNE 2017

AKNOWLEDGEMENT

This final year project paper marks an end to my study at the University of Technology Mara (UiTM) Sabah. The completion of this cannot be done without due acknowledgement of inputs made by some important people.

Firstly, I would like to express my sincere gratitude to my advisor, Miss Anastasiah Binti Harbi, for all valuable advices and academic insights in assisting me to have this work accomplished to this end.

Secondly, I am grateful to Madam Sarmila Binti Udin have provided clues, reviews as well as critical comments and suggestions to improve my work.

I would like also to thank my parents, my families and friends for their support and encouragement in all aspects of my life.

TABLE OF CONTENTS

DECLARATION OF ORIGINAL WORK	ii
LETTER OF SUBMISSION	iii
AKNOWLEDGEMENT	iv
TABLE OF CONTENT	v
LIST OF FIGURES	vii
LIST OF TABLES	viii
LIST OF ABBREVIATIONS	ix
ABSTRACT	x
CHAPTER 1 INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 The Malaysian Code on Corporate Governance 2012	2
1.1.2 Board Composition	3
1.1.3 Corporate Financial Performance	4
1.2 Research Problem	4
1.3 Research Question	4
1.4 Research Objective	5
1.5 Significant of the Study	5
CHAPTER 2 LITERATURE REVIEW	6
2.1 Introduction	6
2.2 Theoretical review	6
2.2.1 Agency theory	6
2.2.2 Stewardship theory	7
2.2.3 Resource Dependency Theory	8
2.3 Board Composition and Financial Performance	9

CHAPTER 3 DATA AND METHODOLOGY	11
3.1 Introduction	11
3.2 Research Design	11
3.3 Population	11
3.4 Data Collection	11
3.5 Analytical Model	12
CHAPTER 4 DATA ANALYSIS AND INTERPRETATION	14
4.1 Introduction	14
4.2 Descriptive Statistics Analysis	15
4.3 Unit Root Test	15
4.4 Breusch-Pagan Lagrange Multiplier (BPLM) Test	16
4.5 Diagnostic Test	17
4.5.1 Multicollinearity Test	17
4.5.2 Heterocedasticity Test	17
4.5.3 Serial Correlation Test	18
4.6 Multiple Linear Regression Test	18
CHAPTER 5 CONCLUSION, RECOMMENDATION,	
 LIMITATION OF STUDY	20
5.1 Introduction	20
5.2 Conclusion	20
5.3 Recommendation	21
5.4 Limitation of Study	21
REFERENCES	22
APPENDIX 1: TRADING AND SERVICES LISTED COMPANIES	
 AT BURSA MALAYSIA	25
APPENDIX 2: RAW DATA	27

ABSTRACT

In this study, board composition itself concerns the issues related to the type and number of board members in a company. Board of directors can be classified into independent non-executive directors and non-independent executive directors. This study aims to determine the relationship between board composition and corporate financial performance of trading and services listed companies at the Bursa Malaysia. Therefore, a descriptive research design was used to identify whether there is a relationship between board composition and corporate financial performance of listed companies at Bursa Malaysia. The population of interest in this study constituted all listed companies in trading and services sector quoted at the Bursa Malaysia for the period of five years from 2011 to 2015. Secondary data sources was used for the study, where corporate performance (measured as Return on Assets) was extracted over the five years. The details regarding board composition was obtained from the annual report where the proportion of non-independent executive directors, proportion of independent non-executive directors and board size is disclosure. As hypothesized and in accordance with some previous researchers, this study found that the proportion of non-executive directors and the size of board have a significant strong positive impact on company's ROA.

Keywords: Board Composition, Financial Performance, Independent Non-Executive Directors, Non-Independent Executive Directors, Board Size, Bursa Malaysia