

UNIVERSITI TEKNOLOGI MARA

**CORPORATE GOVERNANCE
MECHANISMS, CORPORATE ANTI-
CORRUPTION POLICIES, AND
CORPORATE REPUTATION IN
MALAYSIAN PUBLIC LISTED
COMPANIES**

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ABSTRACT

The rise in corruption in the private sector raises concerns about anti-corruption policies in the business sector. Previously, the issue of corruption was mostly focused on the public sector, commonly known as the demand side of corruption. On the other hand, corruption cannot occur on one side; there must be a supplier of corruption willing to pay public sector officials in exchange for undue benefits, and the private sector is the primary supplier of corruption to secure government projects. As a result, the Malaysian Anti-Corruption Commission Act 2009 has been amended to include corporate liability provisions that took effect on June 1, 2020. The provision compels businesses to implement anti-corruption policies and procedures, as well as whistleblowing rules, in order to combat corrupt practices. Furthermore, the government has released the 2019 National Anti-Corruption Plan (NACP), which highlights corporate governance as one of the priority areas that must be strengthened in order to minimize corruption risk in the business environment. Hence, drawing on two theoretical lenses, agency theory and impression management theory, this study examines the influences of corporate governance mechanisms (board characteristics, effective audit and risk management committee and engagement with stakeholders) on corporate anti-corruption policies and corporate reputation. The anti-corruption policies were measured using an index developed based on 'TRUST' principles outlined by the Malaysian Anti-Corruption Commission (MACC) as guidelines to comply with adequate procedures under corporate liability provisions. Corporate reputation was measured using six dimensions of the RepTrak® reputation index. This study employed the content analysis method on annual reports, sustainability reports, corporate governance reports and companies' websites of 396 listed companies in Bursa Malaysia to extract data for corporate governance, corporate anti-corruption policies and corporate reputation. The study's hypotheses are tested using PLS-SEM as it meets the study's data scale measurement and complexity criteria. The finding indicates that sound corporate governance mechanisms do not influence corporate anti-corruption policies, hence contradicting the agency theory argument that corporate governance acts as monitoring mechanisms in mitigating malpractices in business. Instead, the finding shows that some corporate governance mechanisms have a significant relationship with corporate reputation, which is consistent with impression management theory, which asserts that corporate governance can be used as one of the impression management tools to communicate effective monitoring mechanisms in order to enhance corporate reputation. The finding also indicates that corporate anti-corruption policies have a significant positive relationship with corporate reputation. This study has a number of significant possible implications. First, it addresses an important research gap by underscoring the use of corporate governance mechanisms as impression management tools and emphasises the importance of anti-corruption policies in enhancing a company's reputation. It is also relevant to policymakers in strengthening existing regulations and policies.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter provides an overview and foundation of this thesis. This study focuses on the relationship between corporate governance and private sector corruption, which has received less attention in Malaysian academic studies. Corruption has been a persistent problem in the public and private sectors. Like other business transactions, corruption has both demand and supply sides. The demand-side refers to corrupt public officials, and the supply-side relates to those in the private sector. Corruption is usually a coalition of public officials and private-sector agents. Therefore, the supply side of corruption should also receive due attention as the private sector's role as a contributor to corruption should not be underestimated. Corruption can harm a company's reputation regardless of its size or industry, from international conglomerates to medium- and small-sized businesses. Currently, legislation passed by the government is the primary tool for combating corruption.

Nevertheless, government legislation has struggled for years to deter corruption, especially in the private sector. Thus, the solutions to private sector corruption should come from an external force and an internal commitment to provide a corrupt-free environment in their business operations. Good corporate governance has been one of the important internal forces in curbing corruption in the private sector. Decades ago, the issues of corruption and corporate governance were different, where corruption had never been related to corporate governance issues. Still, there is a growing global consensus on what constitutes good corporate governance practice, specifically in mitigating corruption and for the sustainability of a company.

Therefore, this study seeks empirical evidence on the influence of corporate governance mechanisms on the private sector's anti-corruption policies, specifically in publicly listed companies. Due to the increasing number of private sector corruption cases as reported by the Malaysian Anti-Corruption Commission (MACC), this study focuses on the Malaysian context of corporate governance, which is modelled on Anglo-American corporate governance practice, that appears to have some resistance due to variation in business structures, cultures, values, and practices on corporate anti-