UNIVERSITI TEKNOLOGI MARA

THE INFLUENCE OF CORPORATE GOVERNANCE PRACTICES ON BANKS' FINANCIAL HEALTH

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ABSTRACT

This study examines the relationship between disclosure and transparency, board of directors' characteristics, shareholder rights and investor relations and financial health of 54 Malaysian banks. Data has been collected through annual reports in selected bank's website from 2014 to 2016 with a total sample of 162 banks. The findings shown that the financial health of Malaysian banks were influenced by implementation of corporate governance in their management processes. Hence, the result shows a significant relationship between board of directors' characteristics and financial health of Malaysian banks. Nevertheless, the findings discover that the disclosure and transparency as well as shareholder rights and investor relations provided negative relationship with the financial health of Malaysian banks. This study makes a number of contributions. This study provides empirical evidence on the positive relationship between corporate governance mechanisms and financial health of Malaysian banks. Other than that, knowledge derived from this study will assist in minimizing the gap in corporate governance and finance teaching at university level in Malaysia. This study also can assist the bank itself in forecasting their financial health to prevent poor financial performance in the future.

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CHAPTER ONE
INTRODUCTION

1.1 INTRODUCTION

In this chapter, it explains on the introduction, background of study, research question, research objective, scope of research, significant of research and conclusion. This study emphasises on the disclosure and transparency, board of directors' characteristics, shareholders' rights and investors' relations and its effect on financial health of banks in Malaysia.

1.2 BACKGROUND OF STUDY

According to Steger and Amann (2008), every company has its own corporate governance. Corporate governance has a long history since the seminal paper presented by Jensen and Meckling in 1976 on the topic of "principal-agent problem". Jensen and Meckling (1976) claimed that the problem between principal and agent arises due to the separation of ownership and control which is derived from different interests pursued by managers and shareholders. Besides, Berle and Means (1932) argued that the power of decision making delegated from shareholders towards the managers can be abused by managers to pursue their personal interest.

Issues on corporate governance has become a vital topic and gained massive attention from all interest group particularly in wave of CEO dismissals in 1990s and after the failure of Enron, WorldCom, and Lehman Brothers that happened in the 2000s (Bukair & Rahman, 2015). A number of researchers have examined how corporate governance assists in reducing agency problems between shareholders and managers from different perspectives. For instance, Florackis (2008) mentioned that managerial ownership helps in aligning the interests between managers and shareholders which can minimize the potential costs to cater agency problem. Besides, smaller board size can influence the efficiency of asset utilization which at the same time, reduce agency costs. Florackis and Ozkan (2004) also supported these findings by stating that board with larger size were less efficient in utilizing its assets. By