UNIVERSITI TEKNOLOGI MARA

THE EFFECT OF CORPORATE GOVERNANCE MECHANISMS TOWARD HEALTHCARE SECTOR IN MALAYSIA

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ABSTRACT

This paper studies the effects of corporate governance mechanisms towards the firms' performance from companies that are listed in Bursa Malaysia. There are many factors that affect the firms' performance which comprises assets and equity. In this research, there are four factors to be focused on which are the board size (total number of directors in the Board of Directors), number of board meetings, number of independent directors and number of women directors. Multiple regression model was used to analyse the relationship between each factor to the dependent variable which is firm performance that will be measured by using the Return on Equity (ROE) of that certain firm. In particular, a clear assessment of this subject would be very beneficial to the company managers who will be responsible for deciding the form of corporate governance policy that the company can use to improve the efficiency of its company. The total number of companies used as the sample in these studies are consists of 10 healthcare sector firms and a time frame of 10 years being used to retrieve the data from the annual report which make a total of 100 observation been made.

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INTRODUCTION

1.1 Introduction

Corporate governance mechanisms play a big role in shaping the future of a company as it affects the performance of a company. The goal of corporate governance is to improve efficient business monitoring and control. In addition, corporate governance mechanisms also ensure that organizations run transparently, ethically and promote good business practices. The board and management formulate corporate governance strategies that are available to all stakeholders.

The corporate governance mechanism has been divided into two namely internal and external. A large number of corporate governance studies discuss internal concerns related to management opportunism, misalignment of managers and stakeholder objectives, and misappropriation of management incentives. Board of directors and leadership of directors are important corporate governance mechanisms that can be effective in maintaining management discipline and coordinating the interests of owners and managers. Therefore, in this study, several elements of the internal governance mechanism, such as board size, number of board meetings, board independence and women directors were tested.

1.2 Background of Study

A corporate governance mechanism is a system in which a company is directed and operated. The dominant model of corporate governance is for the organization to be under the direction of the board of directors. The board model of corporate governance is characterized by board directors who act together, with equal influence, collectively making decisions about the organization. According to Filatotchev and Nakajima (2010) most of the corporate governance studies discuss internal problems related to management opportunism, managerial misalignment and others.