UNIVERSITI TEKNOLOGI MARA

CORPORATE GOVERNANCE AND BANK PERFORMANCE: EVIDENCE FROM EIGHT COMMERCIAL BANK IN MALAYSIA

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ABSTRACT

A firm that has a good corporate governance policy will tend to have a good performance as it is also known as the potential growth of the firm in terms of their efficiency and their operations. One of the biggest failures in corporate governance can be seen after the financial crisis on 1997 where Malaysia is heavily affected by that crisis. Banks is one of the sectors that are highly regulated and acts as an intermediary with the government as well as to contribute in increasing the economy of Malaysia. The issue arose in this research when the banks applied different corporate governance policies with non-banking firms and most of the previous research does not specific on the commercial bank that is listed in the Bursa Malaysia. Thus, this study will investigate the impact of corporate governance on commercial banks performance in Malaysia, by identifying the most significant variables towards the performance of financial firms and best method to improve bank performance. The data selected for this research is from eight commercial banks that are being listed in Bursa Malaysia. This study will analyze on the eight commercial banks within ten years' time frame that contribute to 160 observations. Moreover, the dependent variables in this study are Return on Assets (ROA) as the performance of the bank while the independent variables are board size, independence director, board diversity, board meeting, and age of director and education qualifications as the internal corporate governance factors and a panel data is used in this research. Furthermore, the expected result for this study is that only board size that has a positive relationship with the performance of the bank in Malaysia. To conclude, this corporate governance policy are very important in the banking industry since it will affects the economy of the country as well.

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1.1 Introduction

A company's direction and control are driven by a set of laws, procedures, and processes known as corporate governance. It is also referred to as a system by which organizations or firms are being guided and controlled. Besides, it determines who has authority and duty, as well as who decides organization. Based on The Chartered Governance Institute website it is stated that corporate governance is concerned with procedures and policy to ensure that business or organizations are being managed in a good way while ensuring their goals of the business are achieving.

All firms and organizations are needed this corporate governance policy. However, corporate governance differs between banks and regular firm's businesses. This is due to the nature of the banking industry that has some difficulty and complexity in organizations. According to Fanta (2013), good corporate governance is aimed at minimizing the potential loss of shareholders in a company.

The importance of corporate governance is to serve as standards of rules, procedures, established obligations, and also accountabilities that may use in an organization to address the potential conflicts of interest that can occur in the corporate structure. Therefore, it is important to have this corporate governance policy in an organization especially in the banking industry.

1.2 Research Background

Performance of the firm refers to the firm's potential growth in terms of their efficiency and their operations on daily businesses. It is also known as financial stability or firm value. A firm with a good corporate governance policy will tend to have a good performance and it shows that the company is good at gaining profit, thus attracting more investors to invest. It shows that the corporate governance policy is also important and related to the firm performance. Banks is the firm that is essentially practiced with the corporate governance policy.