UNIVERSITI TEKNOLOGI MARA

THE EFFECT OF OWNERSHIP STRUCTURE TOWARD THE BOARD GOVERNANCE MECHANISM INDEX AND PERFORMANCE OF MALAYSIAN PUBLIC LISTED COMPANIES

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ABSTRACT

This paper aims to examine the effect of ownership structure on the relationship between the board governance mechanism index (BGMI) and performance on 209 Malaysian public listed companies from 2009 until 2013. Times series cross-sectional data, also known as panel data were employed. Both the direct effect as well as the moderating effect of 5 types of ownership structures with BGMI and performance were analysed by Ordinary Least Square (OLS) with Panel Corrected Standard Error (PCSES) model. The direct effect on the relationship between the BGMI and performance was analysed to determine the influence of the Malaysia Corporate Governance 2007 (MCCG 2007) and Malaysia Corporate Governance 2012 (MCCG 2012) transformation to companies' capabilities of implementing corporate governance compliance and sustain the companies' performances for over 5 years. Ownership structure as the moderating variable played an important part to identify the strength of the relationship between the board governance mechanism index and performance after considering the changes made on the MCCG 2007 and MCCG 2012. The result from the direct effect reveals that the BGMI had a positive relationship with both the market and financial performance proxies by Tobin's Q and Return on Assets (ROA). There was a strong positive relationship between the BGMI and Tobin's Q compared to the relationship between the BGMI and ROA, especially after the implementation of the MCCG 2012. The positive impact on the BGMI and performance explained that most of the Malaysian public listed companies had developed acceptable levels of corporate governance disclosure following the standard formats and terms of reporting their governance practices in the annual report although the transformation of the MCCG 2007 to MCCG 2012 was less than 5 years. The moderating effect proxies by Managerial Ownership (PMO) and Percentage of Large Individual & Domestic Shareholding (PIDSL) had a significant negative relationship on the BGMI and market performance (Tobin's Q); whereas, other moderators' variables, namely, Concentration Ownership (POC), Percentage Medium Individual & Domestic Shareholding (PIDSM), and Small Individual & Domestic Shareholding (PIDSS) had a significant positive effect on the relationship between the BGMI and market performance (Tobin's Q) but not on financial performance (ROA). The PMO and PIDSL had significantly moderated the relationship between the BGMI and performance (Tobin's Q) with a high coefficient positive effect as expected, but the POC and PIDSM moderated the relationship between the BGMI and financial performance (ROA) with a negative coefficient effect. The result showed that that the interaction term between ownership structure and BGMI were more sensitive to market performance compared to financial performance. Although the findings presented differently, the result implies that different ownership structure as the moderating variable affected the relationship between the BGMI and performance.

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CHAPTER ONE
INTRODUCTION

1.1 Introduction

Corporate governance has been a strong indicator in evaluating a company's performance, mainly due to the mandatory and obligatory practices prescribed by the government to raise the standard of good governance momentum amongst the companies in Malaysia. The people behind the companies are the boards of directors, who are responsible to sustain the momentum of corporate governance practices in the companies for the sake of the shareholders' wealth and for the continuous performance improvement of the companies. The performance of the companies does not rely on the investment return only but also through the way the directors govern and implement the corporate governance system in their companies. In order to achieve a high standard of corporate governance, the board of directors and management team need to mitigate agency problems by strengthening the level of responsibility and accountability amongst the directors in the companies. Past researchers found that monitoring costs, restrictions of law in corporate governance implementation, influence of political patronage, and ownership were some of the indicators used to identify the relationship between corporate governance and company performance (Rashidah, 2006).

Many studies in the past analysed the direct relationship between corporate governance and company performance but most of them came out with different results and findings which motivated other corporate governance researchers to continue searching for the best findings. They also developed new methodologies, created new elements or dimensions, and even created the corporate governance index that could improve the company performance. The need for the continuous monitoring of corporate governance systems and performance is crucial. No matter how good the corporate governance mechanism index developed by a researcher is, it will not work effectively without the full commitment from various parties, especially the board and the management team. In order to boost the board of directors and management team commitment, the shareholders need to utilise their voting and controlling power, so that they can monitor and ensure that the corporate governance and company performance