



**UNIVERSITI TEKNOLOGI MARA**

**THE EFFECT OF CORPORATE  
GOVERNANCE TOWARDS SUKUK  
RATINGS IN MALAYSIA**

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## **ABSTRACT**

Malaysia Capital market is currently in a good track especially for Islamic investment products such as Sukuk. The Sharia capital market is growing thanks to a stronger market and a wide range of investment options especially in Islamic products. However, despite growing in a stronger market, the research on company that issues Sukuk is quite rare. Thus, this study is being conduct to know whether Sukuk rating is depend on the corporate performance since corporate governance reveals can improved operational efficiency and management, which can lead to better decision-making. The objective of this study is to provide findings whether corporate governance have a significant influence on sukuk rating. The study draws on data from top 30 FBM 100 high remunerations in Bursa Malaysia, by using multiple linear regression model. The variables used are board of independence, bard size and chairman duality. This study focuses on Malaysia, with annual data for 5 years from 2015 to 2020. Data analysis will be done using 3 tests, which are descriptive analysis, regression analysis, and correlation analysis on EViews software. The results showed that the all the variables which is board of independence, board size and chairman duality have a positive and significant relationship with the sukuk rating. The existing literature shows that the corporate governance gives a great image to the company sukuk rating. The result of the study also suggested that company need to take a responsibility in managing company according the corporate governance to maintain their company rating.

The keywords are Corporate Governance, Sukuk Rating, Malaysia. The paper type is research paper.

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## **CHAPTER I**

### **INTRODUCTION**

#### **1.0 Introduction**

Despite not progressing as quickly as Sharia banking, the Sharia capital industry is gaining traction. The growth of the sharia capital market is supported by a stronger market and a variety of investment products. According to the latest study by Washington-based pollster Pew Research Centre, Muslims are expected to make up 72.4 percent of Malaysia's population in 2050, up from 63.7 percent in 2010. The total population, combined with the improvement in public understanding of Islamic economy, creates a very profound market potential.

Sukuk ratings of a company, also known as credit ratings or bond ratings, are defined by a rating agency's analysis of the probability distribution of cash flows to investors, which is dependent on cash flow to the company. The adoption of rating is one of the factors influencing the adoption of sharia bonds and bonds. Sukuk and bond ratings are important for a company's issuer or investor to understand as a measurement of the issuing company's debt failure probability and risk. Sukuk and bond ratings are often used to determine a company's level of risk and return on investment.

There are various factors that might influence a company's bond rating, and some researches have suggested that corporate governance mechanisms or effectiveness can influence bond rating. The higher the bond rating, the lesser the possibility that the investor would receive a lower return. On the contrast, the lower the bond ratings, the higher the possibility of bad credit for the investor, and the higher the return (Shinta Melzatia, 2018).

Based on the introduction, the study show that corporate governance has been a good mechanism to measure the effect of corporate governance. However, the studies are mostly including a non shariah company, thus the study to know whether there's a significant relationship between corporate governance towards sukuk rating in Malaysia