CORPORATE GOVERNANCE IN SELECTED PUBLIC LISTED COMPANIES IN MALAYSIA

LIM SUE LIN

Bachelor of Science in Economics (Honours)
University of London
1997

Submitted to the Faculty of Business and Accountancy, University of Malaya, in partial fulfilment of the requirements for the Degree of Master of Business Administration

September 2000
# CONTENTS

<table>
<thead>
<tr>
<th>SECTION</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>iii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>iv</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>v</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>vii</td>
</tr>
<tr>
<td>CHAPTER 1: INTRODUCTION</td>
<td></td>
</tr>
<tr>
<td>1.1 Purpose and Significance of the Study</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Hypotheses and Research Questions</td>
<td>2</td>
</tr>
<tr>
<td>1.3 Scope of the Study</td>
<td>2</td>
</tr>
<tr>
<td>1.4 Limitations of the Study</td>
<td>2</td>
</tr>
<tr>
<td>1.5 Organisation of the Study</td>
<td>3</td>
</tr>
<tr>
<td>CHAPTER 2: LITERATURE REVIEW</td>
<td></td>
</tr>
<tr>
<td>2.1 Background</td>
<td>4</td>
</tr>
<tr>
<td>2.2 Good versus Weak Corporate Governance</td>
<td>4</td>
</tr>
<tr>
<td>2.3 Corporate Governance Variables</td>
<td>7</td>
</tr>
<tr>
<td>2.4 Corporate Governance, Investment and Financing Patterns</td>
<td>9</td>
</tr>
<tr>
<td>2.5 Corporate Governance and Corporate Performance</td>
<td>13</td>
</tr>
<tr>
<td>2.6 Conclusion</td>
<td>15</td>
</tr>
<tr>
<td>CHAPTER 3: RESEARCH METHODOLOGY</td>
<td></td>
</tr>
<tr>
<td>3.1 Research Hypotheses</td>
<td>16</td>
</tr>
<tr>
<td>3.2 Selection of Measures</td>
<td>16</td>
</tr>
<tr>
<td>3.3 Sampling Design</td>
<td>21</td>
</tr>
<tr>
<td>3.4 Data Collection Procedure</td>
<td>22</td>
</tr>
<tr>
<td>3.5 Data Analysis Techniques</td>
<td>23</td>
</tr>
<tr>
<td>3.6 Conclusion</td>
<td>25</td>
</tr>
</tbody>
</table>
CHAPTER 4: RESEARCH RESULTS

4.1 Growth and Financial Performance of the Corporate Sector
   4.1.1 The Aggregate Sector 26
   4.1.2 Corporate Sector by Firm Size 27
   4.1.3 Corporate Sector by Corporate Control Structure 30
   4.1.4 Corporate Sector by Industry 33

4.2 Patterns of Corporate Investment
   4.2.1 The Aggregate Sector 38
   4.2.2 Corporate Investment Patterns by Firm Size 39
   4.2.3 Corporate Investment Patterns by Corporate Control Structure 40
   4.2.4 Corporate Investment Patterns by Industry 41

4.3 Patterns of Corporate Financing
   4.3.1 The Aggregate Sector 43
   4.3.2 Corporate Financing Patterns by Firm Size 44
   4.3.3 Corporate Financing Patterns by Corporate Control Structure 45
   4.3.4 Corporate Financing Patterns by Industry 47

4.4 Weak Corporate Governance and its relationship with Corporate
   Performance, Investment and Financing Patterns 50
   4.4.1 Weak Corporate Governance and Corporate Performance 50
   4.4.2 Weak Corporate Governance and Corporate Investment
   Patterns 51
   4.4.3 Weak Corporate Governance and Corporate Financing
   Patterns 53

4.5 Conclusion 55

CHAPTER 5: CONCLUSION

5.1 Summary and Conclusions 56
5.2 Suggestions for Additional Research 57
5.3 Implications 58

BIBLIOGRAPHY 59

APPENDIX

Appendix 1: List of Companies 62
ACKNOWLEDGEMENT

I would firstly like to express my sincere gratitude to my supervisor, Dr Fazilah Abdul Samad, for all the guidance that led to the completion of this research paper. She has been a great inspiration to me.

I would also like to thank my parents, Dr Lim Teh Eng and Madam Ang Cheng Loo, for their unfailing support and constant encouragement throughout the MBA course.

A very special thank you to Cik Rozaini Omar, from KLSE, who has been kind enough to provide me with the KLSE published data.

Finally, to all my friends who have assisted me one way or another in the preparation of this research paper, I would like to say thank you.
ABSTRACT

During economic boom periods, most shareholders and company regulators paid little attention to good corporate governance, hence the reason for weak corporate governance. This study investigates whether weak corporate governance has significant effects on the corporate performance, investment and financing patterns of selected public listed companies in Malaysia. Previous researches done by Xu and Wang (1997) and Saldana (1999) seem to show that there is a close link between these variables. Based on the regression model formulated in this study, a relationship between weak corporate governance with respect to corporate performance, investment and financing patterns have been established. From the regression analysis carried out, statistical tests have proven that a significant relationship holds for the relationship between weak corporate governance and corporate performance. However, the statistical tests for corporate investment and financing patterns are generally not significant. The Malaysian corporate sector has initiated steps to be taken to enhance good corporate governance. It is believed that if sufficient awareness is brought to the attention to the agents of companies, several corporate failures could have been avoided, and the status of these companies could probably be different today. The current development of these companies could be closely monitored and a further research could be carried out to ascertain that good corporate governance is essential for corporate performance, investment and financing patterns.
LIST OF TABLES

Table 4.1  Growth and Financial Performance of Selected Public Listed Companies (1989 –1998)
Table 4.2  Growth and Financial Performance of Selected Public Listed Companies by Firm Size (1989 –1998)
Table 4.3  Growth and Financial Performance of Selected Public Listed Companies by Corporate Control Structure (1989 –1998)
Table 4.4  Growth and Financial Performance of Selected Public Listed Companies by Industries (1989 –1998)
Table 4.5  Average Percentage Share Ownership of Largest Shareholders in selected Public Listed Companies by Industry Sector, 1998
Table 4.6  Corporate Investment Patterns of Selected Public Listed Companies (1989 –1998)
Table 4.7  Corporate Investment Patterns of Selected Public Listed Companies by Firm Size (1989 –1998)
Table 4.8  Corporate Investment Patterns of Selected Public Listed Companies by Corporate Control Structure (1989 –1998)
Table 4.9  Corporate Investment Patterns of Selected Public Listed Companies by Industries (1989 –1998)
Table 4.10 Corporate Financing Patterns for Selected Public Listed Companies (1989 –1998)
Table 4.11 Corporate Financing Patterns for Selected Public Listed Companies by Firm Size (1989 –1998)
Table 4.12 Corporate Financing Patterns for Selected Public Listed Companies by Corporate Control Structure (1989 –1998)
Table 4.13 Corporate Financing Patterns for Selected Public Listed Companies by Industries (1989 –1998)
Table 4.14 Corporate Performance Relative to Corporate Governance Variables
Table 4.15  Corporate Investment Patterns Relative to Corporate Governance Variables

Table 4.16  Corporate Financing Patterns Relative to Corporate Governance Variables
LIST OF FIGURES

Figure 3.1  Events Shaping the KLSE

Figure 4.1  ROE and ROA for Large-, Medium- and Small-size Firms (1989 – 1997)

Figure 4.2  ROE and ROA for Conglomerate and Independent Companies (1989 – 1998)

Figure 4.3  Investments in Fixed Assets by Conglomerate and Independent Companies (1989 – 1997)

Figure 4.4  Debt and Equity Financing Patterns for Consumer Products Sector (1989 – 1998)

Figure 4.5  Debt and Equity Financing Patterns for Finance Sector (1989 – 1998)