

# CHAPTER 1: INTRODUCTION

## 1.1 Purpose and Significance of the Study

The recent concern for good corporate governance arose when the Asian region was adversely hit by the economic and financial crisis in 1997. Since then, "Corporate Governance" has been a hot issue in the corporate world.

During boom times, most shareholders and company regulators paid little attention to good corporate governance, hence the reason for weak corporate governance. However, in times when large corporations suffered huge losses, corporate governance became an important issue to consider. Investors are now seeking ways to be assured that companies they invest in are well managed and they take into account the interests of stakeholders.

How well a company is managed, that is the degree of corporate governance embodied in the company, is likely to be reflected on corporate performance, investment and financing patterns.

The purpose of this study is therefore to investigate whether weak corporate governance has significant effects on the corporate performance, investment and financing patterns of selected public listed companies in Malaysia.

This study is aimed at identifying possible trends between weak corporate governance embodied in selected public listed companies and corporate performance, as well as their investment and financing patterns.

## **1.2 Hypotheses and Research Questions**

Based on the research objective, this study will test whether there exists a relationship between corporate governance with respect to corporate performance, investment patterns and financing patterns.

## **1.3 Scope of the Study**

The scope of this study is narrowed down to only public listed companies which have been listed in the main board of the Kuala Lumpur Stock Exchange (KLSE) for the last ten years (1989–1998). All data for this study are gathered from published or publicly available sources, the main source being the KLSE Annual Companies Handbook.

## **1.4 Limitations of the Study**

This study relies heavily on secondary data. In order to ensure only companies with complete financial data over the ten-year period from 1989 to 1998 are included in the sample. Furthermore, companies that have changed their registered names or have been delisted from the KLSE are eliminated from the sample.

However, the very large companies such as Tenaga Nasional Berhad and Telekom Malaysia Berhad are not included in the sample as they were only listed in the KLSE in the 1990's. Hence, their corporate performance, investment and financing patterns are not reflected in this study.

## **1.5 Organisation of the Study**

This chapter is followed by a literature review of previous studies relating to corporate governance and corporate performance in other countries and within the Asian region. After which, details of the paper's research methodology are outlined. Results from the analysis of corporate investment and investment patterns relative to corporate governance will be discussed. Appropriate statistical tests are then applied to determine the significance of the results. Finally, a summary of the important aspects of this study is presented together with recommendations for further research to be carried out.