CHAPTER 5: CONCLUSION

5.1 Summary and Conclusions

This study analyses corporate performance, investment and financing patterns in relation to corporate governance variables from 1989 to 1998. Over this period of ten years, the Malaysian corporate sector has indeed grew in terms of its company size, formation of conglomerates and industrial sectors. Profitability and performance of these companies are also reflected in the way these companies were managed and governed by their agents.

Corporate governance variables considered in this study are firm size, corporate control structure and industry sectors. Based on the findings of the study, weak corporate governance is related to corporate performance, investment and financing patterns.

The relationship between weak corporate governance and corporate performance shows significant statistical results. The regression results between financial performance indicators such as return on equity (ROE), return on assets (ROA) and leverage and corporate governance variables show that as companies grew larger, they tend to attain higher returns on investment and rely less on debt financing. This conclusion reflects those of previous researches carried out by Saldana (1999), Xu and Wang (1997) and Emmons and Schmid (1999).

The relationship between weak corporate governance with corporate investment patterns and corporate financing patterns is also established in this study. Based on the descriptive analysis in this study, the Malaysian corporate sector is relatively efficient in investment and financing activities. However, the statistical results testing the relationship between weak corporate governance with respect to corporate investment patterns and corporate financing patterns were generally insignificant. This could be due to strict criteria used in the sample selection for this study, thus causing the null hypothesis not to be rejected. Hence, statistically, there might be a very weak relationship between weak corporate governance with investment and financing patterns.

5.2 Suggestions for Additional Research

Since the Malaysian corporate sector has initiated steps to be taken to enhance good corporate governance, selected public listed companies could be further researched on once these rules are officially implemented. Careful monitoring of conglomerates and large-size companies whose corporate structure is relatively complex could be studied. Results of such researches could then further prove that there could be a significant relationship between *good* corporate governance with respect to corporate performance, investment and financing patterns.

The Asian Economic and Financial Crisis created a very unusual trend in terms of corporate investment and corporate financing. Perhaps removing the crisis effect could lead to more significant results. A study with a narrower scope

encompassing the years 1994 to 1996 (a three-year study) could give different results. This study could then be compared with an earlier time period between the years 1990 to 1992, to analyse a trend of corporate performance, investment and financing patterns.

5.3 Implications

This study found a significant relationship only between weak corporate governance and corporate performance. Due to this fact, several corporate failures were seen in the recent years, especially during the year of the Asian Economic and Financial Crisis. If sufficient attention was brought to the agents of these companies, the status of these companies could probably be different today.

This goes to show that sufficient knowledge in corporate governance is in fact important in ensuring accountability and transparency. Therefore, steps have been taken by the Malaysian Institute of Corporate Governance (MICG) to ensure all company directors are fully aware of the importance of enhancing and implementing good corporate governance in their companies.

Although the crisis in 1997 distorted the trend of the data, it was this crisis that brought up the important issue of corporate governance that was largely ignored during boom periods. Investment and financing decisions differ during boom and trough times, as well as times when the economy was stable.