The Contribution of Good Corporate Governance in the Commercial Banking Industry in Malaysia

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DECLARATION

I hereby declare that:

(1) This postgraduate research project is the end result of my own work and that due acknowledgement has been given in the references of ALL sources of information be they printed, electronic, or personal.

(2) No portion of this research project has been submitted in support of any application for any other degree or qualification of this or any other university, or other institutes of learning.

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LIST OF ABBREVIATIONS

MCCG	Malaysia Code of Corporate Governance
CG	Corporate Governance
ROE	Return on Equity
PE	Price Earning
BOD	Board of Directors
SPSS	Statistical Package for Social Science

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ABSTRACT

The following study was set to examine the contribution of good corporate governance in the commercial banking industry in Malaysia. Whereas Malaysia has been experiencing sustained growth, banks/financial institution are the key to economic development, need to ensure good corporate governance has been stressed. This has been underlined by the implementation of Malaysian Code on Corporate Governance (MCCG).

Accordingly, the study formulated the following three questions, to examine the corporate governance practices of the Malaysian commercial banking industry, to investigate the bank's performance based on price earning (PE) ratio and return on equity (ROE), and to establish any significant relationship that exists between corporate governance and commercial bank's performance.

To answer these research questions, the study applied both qualitative and quantitative methods. The qualitative approach involved review of the past literature, while the quantitative approach involved undertaking survey by use of questionnaires. A sample size of 200 respondents was used.

The findings indicate that companies that have strong board of directors and practice good governance experience better performance.

CHAPTER 1: INTRODUCTION

1.0 Introduction

The following chapter details the background of the study, problem statement, research objectives, research questions and aim and the scope covered by the study. The chapter presents the basis of the whole study. In general, corporate governance entails the processes, policies, customs, regulations and laws that affect the way corporations are controlled or directed.

1.1 Research Background

In the recent past, Malaysia economy has made remarkable growth. A number of banks that initially began as small enterprises have grown to national and even international levels. More so, foreign direct investments have continued to increase over the years in Malaysia. While this growth has been remarkable, it is irrefutable that some of the banks have failed to implement proper corporate governance policies as required. As asserted by Jensen (2001) without transparency and accountability that ensures good governance, many corporations might go through considerable failures that will surely undermine the general economic development of the country.

Consequently, policy makers as well as scholars in Malaysia have stressed the importance of protecting the corporate world since it is a key economic pillar of Malaysia. Indeed, the past global financial crisis underlined the importance of corporate governance. Scholars like Piesse (2005) believe that it will be highly costly for Malaysia to neglect the significance of corporate governance. It is against such background that Malaysian Code on Corporate Governance (2012) was formulated with the objective of strengthening corporate governance in the country.

Similarly, globalization has put additional pressure on countries such as Malaysia to make sure that governance standards are compatible with the international standards. As mentioned by Spong, and Sullivan (2007) globalization presents developing countries a chance to raise private investment, increase productivity, increase employment, modernize their technologies and speed their economic growth. This explains why researchers such as Rasid (2008) hold that globalization pressure is a blessing for these countries, therefore they need to be more careful regarding their governance standards and guidelines to exploit the benefits brought by globalization. The capability of Malaysia taking the advantages of globalization depends on how fast and efficiently it can handle social economic issues, improve its capital markets, and formulate ethical and general governance standards. As such, like other developing nations, understanding corporate governance practices and strengthening its standards is viewed as necessary for Malaysia.

According to Abdullah (2004); John and Senbet (1998) knowing corporate governance practices through measuring corporate compliance with best practices or codes is highly popular among both developing countries like Malaysia. Empirical studies have shown that disclosure of compliance based on best practice positively impacts the stock market (Rasid, 2008), improves corporate performance (Pfeffer, 1992), and as well assists a country to continue with a positive economic growth (Baysinger and Butler, 1985). Studies of non-compliance in allows nations to establish the gap that exists between corporate governance standards and reality upon suitable action taken for improvement of code (Jensen, 2001; (Pathan et al, 2007)

Recent studies in relation to corporate governance practices (Adams and Mehran, 2008) done in emerging economies concluded that comprehending corporate governance practices in relation to best practices is important specifically in developing world, because it assists to advance the governance standards. This in the end benefits corporations through increased access to funding, decreased cost of capital, improved performance and better treatment of each stakeholder. All these benefits will assist Malaysia to attain its development goals.

It should be noted that for several years, Malaysia has undertaken some significant initiatives to transform its corporate governance policies, financial systems and capital markets (Abdullah, 2004). For example, in 2000, the Malaysian Code on Corporate Governance (Code) was issued. The aim of these changes has been to prioritize the global requirement of aligning Malaysia corporate governance policies and standards to best practice. For example, the 2012 corporate governance standards have been intended improve the corporate governance in the country.

Though a number of studies have been taken to understand the status of corporate governance in Malaysia in relation to some compulsory provisions (see, Chang, 2004), while some have established audit and accounting issues (see, Abidin, et al 2009), very few have examined the contribution of good corporate governance in the commercial banking industry in Malaysia. Accordingly, this thesis will test the relationship between the elements of corporate governance mentioned in the MCCG 2012 with bank's performance. It will seek to know whether good CG practices will affect a bank's performance in terms of profitability, EPS and ROE.

1.2 Problem Statement

Banks and other financial institutions were in the centre of highlights of the recent global financial crisis that was characterized by the decline of these banks asset portfolios was mainly due to bad credit management (Kashif, 2008; Sanusi, 2010).

This crisis was largely a result of poor corporate governance in the banking sector. As noted by Sanusi (2010) poor corporate governance can be attributed to the relationship between the government, the banking industry and the organizational structure of the banks. In a number of countries for example, Kuwait, banks are family owned, and therefore used as an instrument of maximizing profits for the family and not for the benefit of other stakeholders. Similarly, in other examples where banks are privately owned, there was high interference in governance from the government.

In line of the Malaysian Code on Corporate Governance (Code) (2007) and subsequently that of (2012) it is important to examine the contributions that corporate governance play in the banking sector. However, in Malaysia, few studies have been done on this subject hence the need for the present research that aims to examine the contribution of good corporate governance in the commercial banking industry in Malaysia.

1.3 Research Objectives

The primary objective of the present study is to examine the contribution of good corporate governance in the commercial banking industry in Malaysia. To achieve this primary objective, the following secondary objectives have been formulated.

1. To examine the corporate governance practices of the Commercial banking industry.
2. To investigate the banks performance based on price earning (PE) ratio and return on equity (ROE).
3. To establish any significant relationship that exists between corporate governance and commercial banks performance.

1.4 Scope of Study

The present study examines the contribution of good corporate governance in the commercial banking industry in Malaysia. The researcher has selected this industry on the basis that the stability of the banking industry has a significant positive externality in country. Indeed, banks are the main financial institutions that maintain payment systems of the country's economy that is necessary for the growth and stability of Malaysian financial sector. In turn, the stability of the financial sectors has a considerably impact on the economy of the country as whole. Accordingly, the study will generally look at corporate governance in Malaysia with the focus being on the banking industry particularly after the implementation of Malaysian Code on Corporate Governance (Code) of 2012. The selection of this period enables the researcher to review the impact of the new The Malaysian Code on Corporate Governance (2012) had on the banking industry particularly on the performance of the banks. More so, the focus on the banking sectors is because of the important role played by the banks in growth and economic stability of the country. Accordingly, the study will cover main areas of corporate governance (board size, board composition, CEO duality) in relation to the financial performance.

1.5 Significant of Study

The present study is significant in a number of ways. First, it will contribute to the body of knowledge of corporate governance by examining how various aspects such as board of governance, audit committees and role of CEO interplay, and how this affects the performance of banks in Malaysia. More so, the study looks at corporate governance in general and therefore will contribute in establishing the best strategies or policies to adopt. In addition, the study is significant since it will contribute to the managerial knowledge that will can be used in shaping the decision making process of banking managers as well as policy makers in relation to corporate governance.

1.6 Chapter Layout

The study will comprise five chapters as underlined below:

Chapter 1: This is the introductory chapter and it covers the background of the study, the research problem, research objectives and questions, the copy of the study and the importance of the study.

Chapter 2: This is the second chapter and givers an in-depth literature review that introduces the theoretical understanding of corporate governance and provides several concepts and theories applicable in the study.

Chapter 3: The chapter underlines the methodology that will be used in the study. It details the research design, data collection approach, sampling method, research instruments data analysis and ethical consideration.

Chapter 4: This chapter will discuss the findings of the previous chapter to determine if they agree with the literature review.

Chapter 5: This is the final chapter and gives the conclusion, recommendations, limitation of the study and suggests future areas of research.

1.7 Conclusion

This chapter has laid down the background of the study. As noted in the introduction, the importance of corporate governance has increased particularly in the banking industry because of the key role played by this industry in economic growth of a country. The chapter as well has underlined the research problem, listed the research objectives and outlined the significance of the study and the scope that will be covered. Lastly, the chapter has outlined the structure of the whole dissertation.

CHAPTER 2: LITERATURE REVIEW

2.0 Introduction

This chapter reviews various literature related to the study variables. The literature review covers different sources such as journals, books among the main secondary sources. The chapter cover relevant theoretical models, banks ownership structure, composition of Board of directors of the banks, related literature, conceptual framework and hypothesis development which will relate issues that relate to corporate governance for commercial banks in Malaysia and how it can affects their financial performance based on a number of financial metrics.

2.1 Theoretical Model of the Study

This study provides a number of theoretical assumptions such as agency theory, stewardship theory, resource dependence theory and stakeholder theory. The discussion that follows explains corporate governance from these theories.

2.1.1 Agency theory

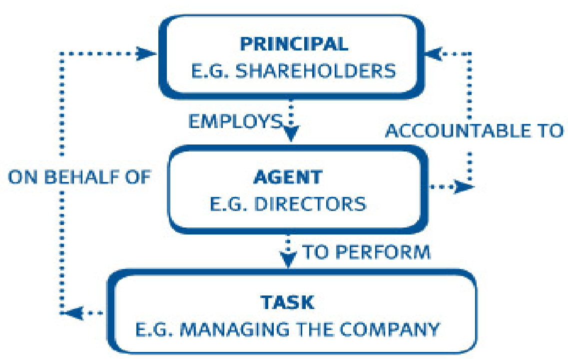


Figure 1: Diagram showing Agency Theory

Agency theory deals with the relationship between the bank's shareholders and its managers. Agency theory offers a point with which the debate on corporate governance can be initiated; the theory was originated by Berle and Means (1932), and covered modern corporation and private property. The agency theory suggests an agency relationship whereby the principal delegate decision-making powers to a single or more agents who are to transact on behalf of the principal(s).

Agency theory underlines the agency problem whose origin is mainly when the agent and the principal are driven by different goals. This results in the two parties (the agent and the principal) being driven by different goals and objectives while there is normally a mismatch in the amount of information possessed by either party (Bebchuk& Fried, 2005), in most cases the agent will have more information compared to the principal. This asymmetric information between the parties' results in a situation that the principal cannot make sure the agent works on their interest; this is especially true in the case when the activities being undertaken by the agent costs more for the agent. The agency problem at times may result in the principal avoiding transacting with the agent (Bebchuk and Fried, 2005).

2.1.2 Stakeholder Theory

Stakeholders play a key role in corporate governance, without the stakeholders any banks cannot exist as they provide the company support in different ways that helps ensure smooth running of the bank's daily operations and activities (Harrison, Bosse and Phillips, 2010). The practices of a bank affects its stakeholders in a number of ways, while the stakeholders too affect the bank's operations in almost equal number of ways, consider a customer who provides a bank its market, an employee that helps the bank fulfill its goals and objectives, in addition to a shareholder who invests their money to help the bank move forward and deliver on its objectives.

Stakeholder theory helps in management of banks and organizations as it addresses values and morals required for efficient and effective management. Through this approach banks are able understand the stakeholders of the banks and their interests and how such interests can be met (Freeman et. al., 2010).

Stakeholder theory adoption in principal-agency relationship has been due to the view of some researchers like (Savage et. al., 2010) that bank's activities have impact internally and on the external environment calling for the need for the bank to be accountable on a wider audience that just meeting shareholder interest. Thus by focusing on only the shareholder interest a bank is bound to limit collaboration which is essential if the bank is to adequately tackle its external macro-environmental problems, that focusing on internal interest cannot solve.

Stakeholder theory considers all the people involved with a bank as being important, this is a departure from the traditional view of the bank that only met shareholder’s interest as being the main goals and objectives of the company. Despite the bank having the fiduciary duty of meeting the shareholder interests in daily bank activities, there is need to ensure the stakeholders are served well as the banks existence boils down to having satisfied stakeholders. Thus stakeholder theory considers parties such as customers, employees, communities, political groups, government organizations, and trade unions among other stakeholders as being critical to a bank's existence.

Stakeholder theory unlike agency theory places much emphasis on the stakeholder interest instead of shareholder interest which is key in agency theory. Stakeholders by virtue of having direct and clear relationship-exchange with an organization play a key role in the success of a business entity (Friedman & Miles, 2006). The stakeholder theory has been criticized by a number of scholars, it is premised on the idea that the existence of a business is to serve stakeholder interest and not that of the shareholders who have invested in the business. Jensen (2001) for instance critiques the theory for its assumption of the firm having one objective that is meeting stakeholders concerns. Jensen (2001) argues that an organization's performance measurement needs to transcend the gains that stakeholders get.

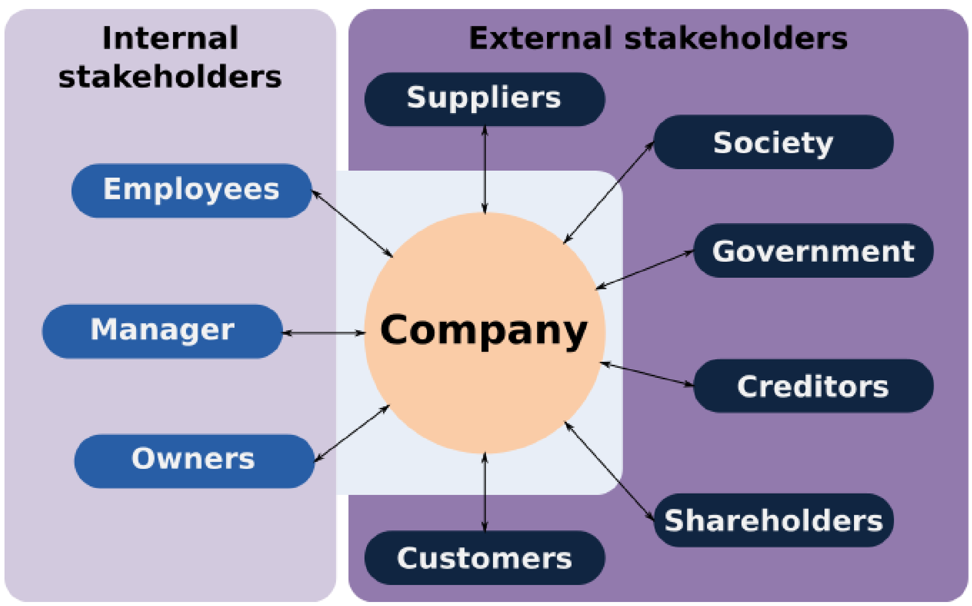


Figure 2 Diagram of Stakeholder Theory

2.2 Related Literatures Review

2.2.1Theoretical Perspective of Corporate governance

The Board of Director (BOD) of the banks play an important role in its overall management, as they are directly concerned with the shareholders needs has an important role in the management of banks. The bank's BOD is key if the bank is to realize effectiveness in its management and governance for better performance. The importance of the board of directors in corporate governance has resulted in a number of studies being undertaken, linking Board of directors and bank performance, (Baysinger& Butler, 1985) observes that the board of directors has the power to fire and hire, in addition they are charged with compensation of senior management and mitigating against problems that faces the senior management, not to mention their role in strategy formulation and implementation.

Board of directors are charged with being the custodians of banks and organizations that they run, in the event of things not working as planned they are the ones that are questioned first and to some extent held liable. Looking at scandals such as those of Enron, Parmalat and Worldcom, it was the directors of some of these companies that were held accountable for fraud that took place within those companies. This resulted in Enron directors paying up to $168 million to the company shareholders, of this settlement $13 million came from the board's pocket; Worldcom on the other hand had its directors paying more than $18 million out of their pocket .Cases such as these shows the importance of BODs when it comes to ensuring corporate governance and instrument reforms of organization's corporate governance (Adams, Hermalin & Weisbach,2008).

Organizations perform better when they realize the roles of the Board of directors, the roles of the board as observed in (Finkelstein and Money, 2003) are quite a number and of great importance, among the roles of board of directors is control of the organization as they facilitate the development of strategic choices and decisions which the management adopts. Controlling in this case involves directors ensuring that managers perform on their roles and fulfill the shareholder interests; in addition they are charged with the hiring and dismissal of company executives, not to mention determining the compensation of top management. In terms of service the board is charged with offering the company management advice on a number of issues in addition to helping with formulating of business strategy and goals.

The agency, stakeholder and stewardship theories play an important role in understanding the role of board of directors when it comes to corporate governance. Agency theory for instance assumed that the board controls managers thereby reducing their opportunistic behaviours which may result in the managers serving their own interests in place of that of the principal(s). However, there are some studies that calls for redefinition of agency theory (Lan&Heracleous, 2010) which proposes comprehensive rethinking of the theory based on three key areas, that is: changing the principal to the corporation from the shareholder, the status of the company's board of directors to be changed into autonomous fiduciaries from the current state where they act as shareholder's agents, and lastly the study calls for redefining the boards role to mediating hierarchy from the present where they act as monitoring body. This redefinition of agency theory is thought to give netter conceptualization that can be used to study and understand corporate governance through agency theory.

Choe and Lee (2003) observe that the composition of the board plays a key role in reducing the organization's agency costs. There is need to have the bank's executive directors duties being complemented by independent directors as this will result in new idea generation within the board and objectivity being adopted (Firth et al., 2006). Through involvement of non-executive directors in the bank's board, a bank is most likely to reduce its agency costs (McKnight & Weir, 2009).

The size of the board plays a key role in the bank's overall performance, banks with smaller board of directors tend to be more effective compared to those with larger boards as portrayed in the study by (Cheng, 2008) which gave empirical evidence showing firms having larger BOD tend to exhibit lower variability when it comes to corporate governance and performance. The study's results showed that the size of the board had negative association with variability in performance metrics such as extraordinary items, monthly stock returns, research & development spending, restructuring, merger &acquisition, annual returns on assets among other metrics. The findings of the study is consistent with the idea that larger boards require more banks to come to consensus , resulting in decisions that are not that extreme which impacts less on the bank's corporate performance.

2.2.2 Corporate Governance and Bank Performance

The ownership structure of a bank is important when it comes to discussing its corporate governance and general performance. According to the study by (Chen, Firth &Xu, 2009) which traced the identity of the main shareholders of Chinese listed companies into a number of ownership structures, the study determined that the operating efficiency of the companies varied based on the company's ownership structure with companies affiliated to the central government from the study performing better compared to the other companies.

Corporate governance has a number of definitions, in summary it is the act of piloting, steering and guiding what board of directors should do when in session in essence it defines how the board of directors, shareholders and a bank's top management relate in determining the direction and how the bank will perform (Claessens and Yurtoglu, 2013).

In Malaysia the Malaysian Code on Corporate Governance (Code) that was initiated in the year 2000 signaled a key milestone in the country's reform when it comes to corporate governance. The code was revised in the year 2007 so as to be able to strengthen the board of directors' roles and responsibilities, internal audit and the audit committee's function. The Malaysian Code on Corporate Governance 2012 which is the focus of this study places emphasis on how to strengthen the composition and structure of the board, in light of the role played by BOD who act as responsible and active fiduciaries. BOD are required to be effective guardians and stewards of the banks through a number of ways, that is; setting the bank's strategy, overseeing how the bank conducts its business, ensuring the law is followed in addition to ethical values being complied with, and lastly maintenance of an effective structure of governance that ensures mitigation of risks and better internal control (MCCG, 2012).

The MCCG (2012) suggest further for the need for bank's management and boards to being mindful of their roles in ensuring that the bank's resources are used for the bank's best interest and those of the principal shareholders. In doing this the banks should ensure that the stakeholders' interests are also upheld and not compromised in any way. For a bank to have a well informed decision-making there is need to have in place transparency and disclosure. When there is accuracy, availability and quality information on an bank's financial performance the market is able to express confidence while the investors are also protected.

Most studies done on corporate governance are mainly in developed countries in Western Europe, the Americas and Asia, less have been done focusing on Malaysia especially the banking sector. This is despite the country greatly embracing corporate governance in the day to day operations of organizations and companies.

2.2.3 Corporate Governance Framework

The Corporate Governance is defined as the system that offers the board of directors' guidelines to help them deliver on their responsibilities so as to meet the shareholders interests. Different countries adopt different corporate governance structures, for instance Malaysia has its MCCG 2012. The growth in corporate governance adoption the world over has been as a result of the need to ensure organizations operate within the law and studies have shown that there is a link between corporate governance and firm's performance. In (Sanda et al., 2005) best performing companies have been shown to have a strong corporate governance structure compared to those that perform poorly. Other than improving the bank's performance, strong corporate governance is a sure way of ensuring that the shareholder interests are protected by their agents.

Malaysia has the MCCG 2012, which is the country's common corporate governance framework. Having in place a corporate governance framework has a number of benefits. This helps company BODs to have better knowledge of what is expected of them especially with regard to their oversight role .The MCCG 2012 has attributes which results in effective governance as it helps in addressing some of the perceived risks associated with issue of governance of public companies. The MCCG 2012 has also resulted in a better metric that can be used to undertake evaluation of the board's role in oversight and how management delivers on their responsibilities. The structure of MCCG 2012 consists of principles and recommendations, the principles are made up of broad concepts which underpins good corporate governance that are key for companies to apply when it comes to implementing the framework's recommendations. Recommendations on the other hand consist of the standards which companies are to adopt as a component of their governance processes and structure. Publicly listed companies in Malaysia are required to show in their annual report how they have complied with the MCCG 2012. Companies can determine what is best for them when it comes to adopting the MCCG 2012 principles. In the event any companies choose to ignore given recommendation they should give the reason.

A corporate governance framework like the MCCG 2012 comes in handy for management teams and BOD since such frameworks defines the role played by both the management team and the board, it helps in delineation of duties in the process limiting and preventing duplication of duties, corporate governance helps the board to execute its main processes as it gives it a structure to tools and policies. This benefits results in the board being able to focus on important issues and make proper use of time and the resources at the bank's disposal. A governance framework helps the board have a structured way of collaborating with the bank's management on a number of issues facing the bank without losing on the overall productivity. Lastly, through a framework a bank and the board is able to clarify the role of each committee in terms of fulfilling the BODs objectives as it pertains to governance (Claessens, 2006).

2.2.4 The Role of the Board of Directors

The board of directors plays a number of roles depending on the company they are working in, According to (De Andres &Vallelado, 2008) there is relationship between how banks perform and the size of their BOD, and between the banks performance and the proportion of the board members that are not executive directors. The size and composition of the board of directors influence the ability of the directors to advise and monitor the bank's management. The study further shows that having a large board that is less independent that is full of executive directors may result in more efficiency when it comes to advising and monitoring the banks activities.

For a board of directors to ensure a bank posts better performance there are five critical factors that should be put into consideration in the governance program that the bank has adopted and these include: Issues related to the bank's talents, its strategy, integrity, performance and governance. The bank's stakeholders have greater expectation from the board, and view it as more than a body that is in charged with monitoring of the management. In each of these respective elements, stakeholders expect that the board is not solely serving as a monitor of management programs. Among the functions of the board includes selecting the bank's CEO. The core of bank's corporate governance covers the issue of culture and risk; this is because boards in their daily undertakings need to ensure that it promotes the best organizational culture and that the bank operates in a environment that has limited risks, through adoption of adequate risk moderation measures (Harris &Raviv, 2008).

2.3 The Board and Corporate Governance Issues

2.3.1 The Board Size

The board of a bank has been shown to have a number of roles among which is monitoring of the management and giving advice. The size of the board has been shown by a number of studies to have impact on the performance of the bank; there are those studies that hold the larger the size of the board, the poorer the bank's performance.

According to Cheng (2008) banks having smaller boards have more effectiveness compared to those with larger boards of directors, the study showed that larger boards tend to have lower variability in terms of performance and corporate governance. This resulted in the size of the board having a negative association with variation in performance metrics like monthly stock returns, spending on research and development, mergers and acquisitions and company restructuring. These was because in the case of larger boards they tend to take longer and make more comprises when it comes to coming to a consensus, resulting in decisions made having low impact of the bank's performance.

However in the study by De Andres and Vallelado (2008) there was a relationship between bank's performance and size of their boards. In addition to the makeup of the board, the study concluded that having a large board having less independent board members compared to executive board members brings the bank more efficiency when it comes to matters of monitoring the management.

Generally most studies agree that a smaller board size results in better performance on almost all levels of the banks. Smaller boards have efficient communication channels, more hands on monitoring and reporting and are quick to make decisions. Big boards on the other hand are less in effectiveness in addition to taking more time to come up with decisions, this works towards impacting on the bank's performance (Pathan, Skully&Wickramanayake, 2007).

2.3.2 The Board Composition

Boards of Directors as shown above have a number of roles and benefits that they bring to a bank. In their day to day activities they represent shareholder and stakeholder interests at the bank in addition to ensuring that the bank does not violate any law due to its activities. This has resulted in the need to have a more inclusive board that mirrors the characteristics of the shareholders and stakeholders to facilitate better decision making that will in no way affect any given population group.

Among the roles of BOD as stated in Harris and Raviv (2008) includes the aspects of control, strategy formulation and ensuring service delivery by the banks. These roles will only be realized when there is an all inclusive board in place in terms of its makeup and characteristics.

2.3.3 Ownership Structure and Type of Bank Ownership

Banks have different ownership structures; the type of ownership of a bank affects its corporate governance and also its eventual performance. Ownership of a bank may be either a structure having dispersed owners, like the case of a public company that sells its shares to anyone in the stock market, or it may be a concentrated ownership structure, where its shares are not openly traded (Firdaus&Kusumastuti, 2015).

Chen, Firth and Xu (2009) observe that ownership structure in addition affects how a bank performs in the market. In the case where the ownership is concentrated on a single family or business conglomerate it may result in having a single shareholder wielding control, in addition to how the monitoring of the management will take place. There is more investor confidence and protection in the case where some members in the management own parts of the bank, as it is expected that managers with share ownership will always act to their best interests and that includes those of other shareholders. This results in a better leadership and monitoring process.

Though as can be observed in Demsetz and Villalonga (2001) in their study observed the relationship between the company ownership structure and its impact on the firm's performance. The study did not find any statistically significant relationship that existed showing the firm ownership structure and how it performs. The reason for this as explained in the study was that diffuse ownership, in as much as it tends to increase agency problems; it has the advantage of compensating for such agency problems.

2.4 Financial Performance

Financial performance is a common way that the stability of a bank can be measured against. It is used in measuring the utilization of assets and other resources by a firm for the purpose of generating revenue and profits to its owners. Banks that has poor financial performance may end up losing its customers as it is a signal for lack of stability.

To measure the financial stability of a bank there are a number of measures that can be adopted among which includes the camels rating system that is used in the classification of the condition of a bank. Bank regulators use it globally to determine the financial health of financial institutions. Banks may fail due to a number of reasons, some are beyond the control of a given bank while others it can control.

The CAMELS measure according to (Barr et al, 2002) consists of the following :

Capital Adequacy.

This helps show the ability of a bank to cope with shocks that bank may face. Banks measure their capital adequacy through using a number of ratios. This is normally measured by looking at the capital a bank is required to have based on the requirements by the financial regulator. Capital adequacy is measured as the ratio of the bank's equity that needs to be held by the bank as the percentage of the bank's risk-weighted assets. Capital adequacy helps ensure banks do not become insolvent by taking more leverage than they can manage.

Asset Quality

This measures the credit risks associated with the bank's assets. Asset quality is important to a bank as through it a bank gets incomes. Some assets that are considered to be of high quality include treasury bills and government bonds compared to corporate credits given to firms scoring low credit. Poor asset quality may result in business having a loan that brings no income to the bank. banks need to ensure that their assets are not impaired failure to which they may become insolvent.

Earnings

Earnings involve the ability of a business to make money from its capital and assets. A bank with good earnings will be able to achieve competitive advantage over those with less earnings and in the process be able to increase its capital base and overall asset quality.

Liquidity

Liquidity shows the degree to which a bank is able to turn its assets and securities into cash at the shortest time possible. This is without the bank affecting its assets price, banks should ensure that they have short term liquidity. This helps reduce their exposure to risks.

2.4.1 Measurements of Financial Performance variables

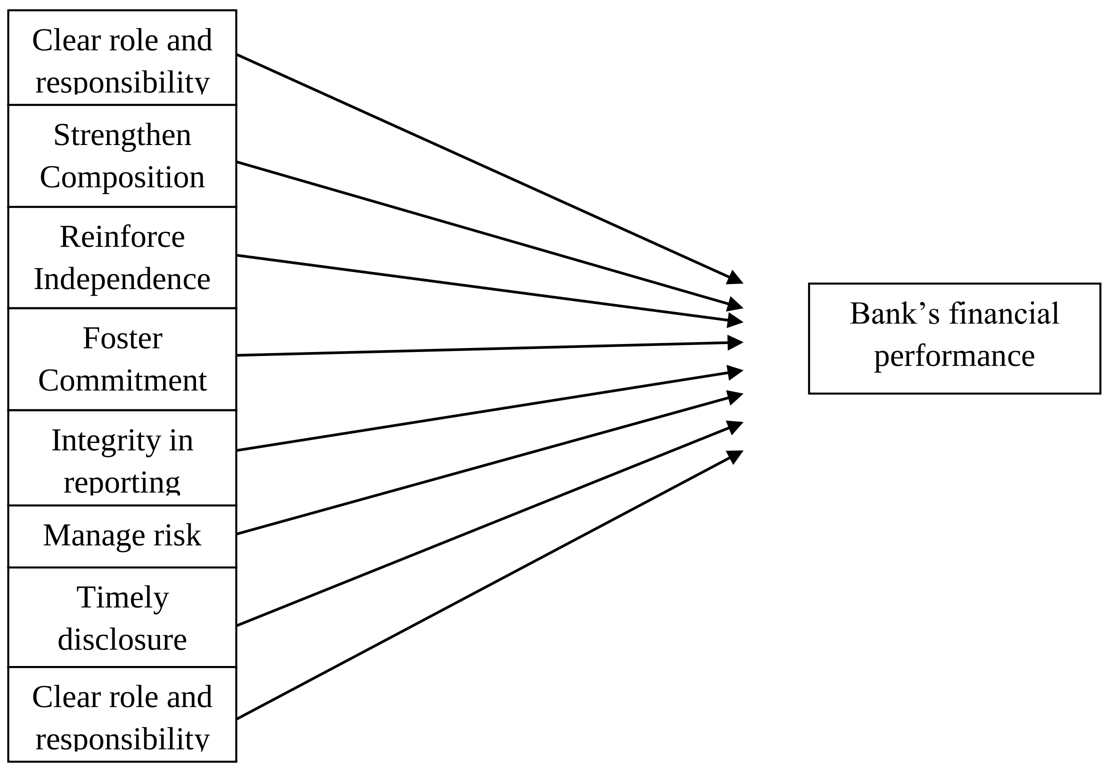
There is a lot of studies have linked the performance of firms with good corporate governance. The study is widely acclaimed that good corporate governance enhances a firm’s performance (Freeman,Wicks and Parmar, 2004) Despite this there are those studies that oppose the notion that good corporate governance improves performance, among such studies there is that by Bathala and Rao (1995) which showed that good corporate governance resulted in poor bank performance.

Yet other studies have shown no significant relationship between bank performance and good corporate governance (Young, 2003). This inconsistency in findings has resulted in a number of explanations with some arguing on the issue of ownership of the companies being different or usage of data that does say a lot about the performance of companies.
This study will seek to address some of the issues raised on the existing inconsistencies by using correlation of bank's financial performance based on a number of principles contained within the MCCG 2012. This will entail multivariate analysis of the correlation between the performance and corporate governance.

2.5 TheTheoretical Framework

A structure that can hold or support a theory of a research work is called the theoretical framework. It presents the theory which explains why the problem under study exists. Thus, the theoretical framework is a theory that serves as a basis for conducting research (Khan, 2008). In this section, a relationship between dependent variable - bank's performance in terms of financial and independent variables - the eight principles of (MCCG) in a framework as Figure 3.

Figure 3 : Theoretical Framework



2.6 Hypotheses Statements

Hypotheses 1

H_0: Banks in the commercial banking industry in Malaysia are not practicing good corporate governance.

H_1: Banks in the commercial banking industry in Malaysia are practicing good corporate governance.

Hypotheses 2

H_0: There is no significant relationship between establish clear roles and responsibility and bank’s financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between establish clear roles and responsibility and bank’s financial performance in the commercial banking industry in Malaysia.

Hypotheses 3

H_0: There is no significant relationship between strengthen composition and bank’s financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between strengthen composition and bank’s financial performance in the commercial banking industry in Malaysia.

Hypotheses 4

H_0: There is no significant relationship between reinforce independence and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between reinforce independence and bank's financial performance in the commercial banking industry in Malaysia.

Hypotheses 5

H_0: There is no significant relationship between foster commitment and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between foster commitment and bank's financial performance in the commercial banking industry in Malaysia.

Hypotheses 6

H_0: There is no significant relationship between uphold integrity in financial reporting and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between uphold integrity in financial reporting and bank's financial performance in the commercial banking industry in Malaysia.

Hypotheses 7

H_0: There is no significant relationship between recognize/manage risk and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between recognize/manage risk and bank's financial performance in the commercial banking industry in Malaysia.

Hypotheses 8

H_0: There is no significant relationship between ensure timely/high quality disclosure and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between ensure timely/high quality disclosure and bank's financial performance in the commercial banking industry in Malaysia.

Hypotheses 9

H_0: There is no significant relationship between strengthen relationship between company and shareholders and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between strengthen relationship between company and shareholders and bank's financial performance in the commercial banking industry in Malaysia.

2.7 Summary

The relationship between corporate governance and bank's performance is complicated as there are issue's such as board of directors, their size and composition in addition to the bank ownership structure which affects governance and bank's performance. Though most of the studies analyzed above point out that good corporate governance result into better performance by the bank.

CHAPTER 3: RESEARCH METHODOLOGY

3.0 Introduction

The following chapter will describe the methodology approach that will be applied by the researcher. Accordingly, the following aspects will be explained, research design, the study population used, reliability and validity tests, data collection process, and data analysis.

3.1 Research Design

To investigate the contribution of good corporate governance in the commercial banking industry in Malaysia, this study will apply a quantitative approach that will specifically involve analytical and cross sectional research approach. Accordingly, this will involve collecting data from selected banks and respondents to analyze the relationships that exist between study variables. The chosen research design is suitable for the present study since it allows respondents to provide required information about the topic under investigation as suggested by Copper and Schindler (2003). Data was collected on the performance of the selected banks between [2012 and 2015], with the objective of examining their financial performance in relation to implementation of MCCG.

3.2 Data Collection Approach

3.2.1 Primary Data

Primary data is a data originated by the researchers for the purpose of addressing the research problem. Primary data collection method that adopted by the researchers were by conducting questionnaire survey.

Primary data is very important to confirm the findings and conclusion of the secondary data obtained. The nature of the problem, availability of time and money has influence the choice of method used. Therefore, in this research, questionnaires are mainly used based on the sample size of 200 employees working in the commercialbanking industry in Malaysia. Cluster sampling and snowball procedures were used to choose the respondents. The questionnaire were administered to the selected sample of 200 respondents and was collected back upon completion.

3.3.2 Secondary Data

According to Malhotra (2002), secondary data are data that has already been collected for purposes other than the problem at hand. Some secondary sources of data are available from within or outside an organization while some are available from previous research, case studies, library records and online search engines. Sources of external data such as books, journals, magazines as well as the Internet were used for findings. Books obtained from the library were a standard source of information because books were officially written and published; therefore, it provides a clearer guideline. Books were informative and constructive because relevant references were provided at the end of each book. Besides that, the search engines such as Google, Yahoo, and MSN were effective for a wider range of information from various groups of research specialists in contributing and sharing their knowledge relating to the topic. In addition, e-journals were found to serve as references to the study.

The advantages of using secondary data are considerably cheaper to obtain, as it does not involve survey where questionnaires have to be sent out. Besides, secondary data can help researchers identify problem, develop an approach to the problem, and formulate an appropriate research design. From secondary data, the information is likely to be reliable as they are published and recognized work by qualified writers and researchers. Secondary research helps to avoid unnecessary repetition of prior fieldwork.

3.3 Sampling Design

The sampling design is a fundamental part of data collection for scientifically based decision making. A well-developed sampling design plays a critical role in ensuring that data are sufficient to draw the conclusions needed (Environmental Protection Agency ([EPA], 2002). In this section, how samples were identified and chosen will be described.

3.3.1 Target Population

The population for this research was made up of employees from the commercial banking industry in Malaysia. Employees working in the 10 commercial banks (comprise of 6 local established commercial banks and 4 foreign commercial banks) located in Klang Valley of Malaysia were targeted as the respondents for the research project because there are more commercial banks located in the particular area allow the researcher to approach.

3.3.2 Sampling Elements

Employees range from junior staffs towards the senior management staffs were selected because all level of the employees are involve in the day to day operation of the banks and will have an impact towards the bank financial performance. They will also have the ideas of whether their employers are practicing good corporate governance.

3.3.3 Sampling Technique

Both probability and non-probability sampling techniques were adopted by in this research project. Cluster sampling was chosen as one of the sampling techniques due to the fact it is more economical. The other most common method used is the geographical cluster sampling in the research project. This sampling technique is adopted because we do not have a list of sample population of the respondents. It helps to reduce the number of area where needed to be visit by adopting cluster samplingAt the same time, it also helps to reduce travel expenses, cost minimization and also maximize the efficiency of the supervision of the fieldwork.

Besides, the researcher also adopted the non-probability sampling technique, snowball sampling in the research project. Snowball sampling tends to ask the group of people they know who fit the researchers' study requirements and follow up with the new groups of respondents. The process of snowball sampling is much like asking the subjects to nominate another person with the same trait as next subject. The researcher then observes the nominated subjects and continues in the same way until the obtaining sufficient number of subjects (Castillo, 2009). After the researcher distributed the questionnaires to a group of people in a company, the group of people will help to identify with a similar trait of interest in order to get more target respondents in a short period of time. When conducting the research project, the researcher distributes the hard copy of questionnaires to the group of target respondents working in the banking industry. These groups of target respondents will help the researcher to disseminate the questionnaires to new groups of respondents in order to get more completed questionnaires in a short period of time.

3.3.4 Sampling Size

Sampling is the process of selecting a sufficient number of elements from the population (Sekaran, 2003). Due to the time constrain, a total number of 200 questionnaires was administered to the targeted respondents. Of these 200 questionnaires, the researcherreceived 200 responses occupying 100% for respond rate.

3.4 Research Instrument

3.4.1 Questionnaire Design

Questionnaire were chosen by the researcher as a tool of collecting data rather than observation and interview because the responses to questionnaire is gathered in a standardized way and the data gathered will be more objective, certainly better than interviews. Generally, it is relatively more effective to collect information using a questionnaire and potential information can be collected from a large numbers of respondents.

The research questionnaire consist of three sections which are Section A, Section B, Section C and Section D. Section A measured the demographic variables of respondents which include four questions. The questions measured respondents' gender, age range, education qualification and ranking position in the bank. In Section B, an average of two to seven questions was developed for each independent variable which comprises the 8 principles of recommendations in the Malaysia code of Corporate Governance 2012 (MCCG 2012).

Section C measured the dependent variable which is the bank's financial performance. Section D measured how well is the bank practices the disclosure of policies and practices. The respondents were required to answer the questions based on the five-point Likert scale which range from strongly agree to strongly disagree. A total of 39 questions were developed in the questionnaire.

3.4.2 Fieldwork

The questionnaires were administered to the targeted respondents in approximately one week. All 200 questionnaires were distributed in person to respondents which occupied for a total of 200 questionnaires.

3.5 Constructs Measurement

According to Zikmund (2003), likert scale is a measure for attitude designed to allow respondents to indicate how strongly they agree or disagree with carefully constructed statement that range from very positive to very negative toward an attitudinal object. Business researchers employed the summated ratings method, developed by RensisLikert, the method is simple to administrated therefore it is a extremely popular method.

The item were measured on a five-point likert scale format, which ranged from (1) “Strongly disagree” (2) “Disagree” (3) “Neutral”(4) “Agree” and (5) Strongly disagree. The lowest rating represented with 1 until the highest that is 5. Questions in section B,C and D were using likert scale. For each point on the scale the researchers developed a label to express the intensity of the respondent feelings. There are several statements that typically all relate to a single concept such as the impact of bank's performance through good corporate governance. The questionnaire on CG dimension was grouped into eight elements, which based on the 8 recommendation principle of MCCG 2012. Number of questions ranged from two to seven for each element.

3.6 Data Processing

As explained by Cooper & Schindler (2003) data processing comprises of data entry process, editing as well as transforming of data. Accordingly, data entry is the first step involved data entry, where data collected from Microsoft Excel was passed to SPSS for analysis. Upon the completion of data entry, the researcher undertook data editing to ensure that any error was dealt with. As mentioned by Sekaran&Bougie (2010) data editing involves detecting and correcting incorrect data. For example, this could involve a blank column without any value, and this has to delete. The importance of this process as noted by Saunders et al (2009) is to uphold correct results.

3.7 Data Analysis

A transformation of raw data into a form that would provide information to describe a set of factors in a situation that are easy to understand and interpret is called a Descriptive analysis (Sekaran, 2003). It is particularly useful for describing discrete categories of the data which is multiple choices response formats. This analysis describes the demographic characteristics of the respondents and given information for the data through the frequency distribution, central tendency, and the dispersion. Data collected from demographic variables are processed and reported in percentages.

The analysis aims to provide an overview of the respondents from the selected sample on their insight between good practice of CG and the Bank'sfinancial performance. This section provides a description of the respondent's demographic profiles. In descriptive analysis, the most common graphs and charts were used are histograms, bar charts, pie charts, line charts and tables. In this study, only tables used to explain the descriptive analysis.

Similarly, narrative analysis approach was used to analysis data collected. This allowed the researcher to gauge the level of which the collected data offers insights regarding the issues touching on corporate governance.

3.8 Inferential Analysis

Inferential analysis is used to make judgments regarding a population on the basis of a sample Zikmund (2003). Inferential analysis makes an inference about an unknown population from a sample. It helps to set the estimation and hypothesis testing. According to Sekaran, (2003), inferential analysis can be applied to examine the relationship between independent and dependent variables, differences in a variable among different subgroups as well as how several independent variables might explain the variance in a dependent variable.

Inferential statistical methods are divided into two categories which are parametric statistics and nonparametric statistics. According to Hair et al., (2007), it is appropriate to use parametric statistical methods when sample size is large and data are interval-scaled or ratio-scaled. Thus, parametric statistics are considered to be appropriate for this study which involves a large sample (n = 200) and the data were measured using interval scale. The statistical techniques that used in this present study are Pearson correlation and regression analysis to test the research hypotheses.

3.8.1 Pearson Correlations

Pearson correlation measures the linear relationship between two variables (Hair et al. 2007). The number in Pearson correlation is representing as a correlation coefficient (r). According to Zikmund, (2003), a correlation coefficient is used to indicate the magnitude and direction of a linear relationship. The correlation coefficient ranges is from r = +1.00 to r = -1.00. If r = +1.00, there is a perfect positive linear relationship. If r = -1.00, there is a perfect negative linear relationship. If r = 0, it representing absolutely no relationship between the two variables. Choudhury proposed the rule of thumb for correlation value.

Table 3.1: Rule of Thumb for Correlation Value (r-Value)

r-Value	**Strength of relationship**
0.5 to 1.0	Strong
0.3 to 0.5	Moderate
0.1 to 0.3	Weak
-0.1 to 0.1	None or very weak

Source: Choudhury, A. (2009). *Pearson Product Moment Correlation*. Retrieved August 2, from Experiment Resources: http://www.experiment-resources.com/pearson-product-moment-correlation.html

Pearson correlation was used in this study to measure the significance relationship between MCCG's 8 principles and bank's financial performance.

There are two different types of tests that can be performed. A one-tailed test looks for an increase or decrease in the parameter whereas a two-tailed test looks for any change in the parameter (which can be any change- increase or decrease). According to Freund (2005) in general a test is called two-sided or two-tailed if the null hypothesis is rejected for values of the test statistic falling into either tail of its sampling distribution, and it is called one-sided or one-tailed if the null hypothesis is rejected only for values of the test statistic falling into one specified tail of its sampling distribution. In this study, two-tailed test is considered to be appropriate to assess the relationship between the independent variables and dependent variables because the framework of original corporate governance has been modified. It is due to no strong prior theory to suggest whether the relationship between the principles of MCCG and bank's financial performance would be positive or negative.

3.8.2 Regression Analysis

According to Hair et al., (2007), regression analysis is the most widely used technique for measuring linear relationships between two or more variables. It also measures how many percentage of the dependent variable can be explained by the independent variable(s). Regression analysis assesses the relative impact of each independent variable and is useful in forecasting. Regression analysis is divided into simple regression analysis and multiple regression analysis.

The multiple regression analysis is applied in this study. It is an extension of simple regression analysis that examines the simultaneous effects of several independent variables on a dependent variable (Sekaran, 2003). The current study used multiple regression analysis to evaluate the relative impact of MCCG's 8 principles on bank's financial performance. Furthermore, this technique was used to determine the extent to which the variance in bank's financial performance can be explained by the 8 principles of MCCG.

3.9 Conclusion

This chapter had outlined the all the respective research methodology of the study. The chapter also had explained all the research design, data collection approach, sampling design, research instrument, constructs measurement, data processing, and data analysis and scale measurement. It described the measurements of each variable and analysis methods in detail. In the next chapter, the researcher will perform statistical analysis to the data collected and conduct hypotheses testing in order to obtain result for new findings.

CHAPTER 4: DATA ANALYSIS

4.0 Introduction

In this chapter the data analysis of the study will be presented. The analysis was done using SPSS (Statistical Package for the Social Sciences) version 20 computer software. The data collected from the survey was cleaned and analysed, this consisted the data from a study sample of 200 respondents. The employees interviewed in this survey occupied different positions within Malaysian banks. The analysis will consist of descriptive statistics there after inferential statistics that will help with hypothesis testing.

4.1 Descriptive Analysis

Descriptive analysis is used to analyze characteristics of the sample of the survey. The descriptive analysis will cover aspects of gender, age, education and position within the bank of the employees being interviewed.

4.1.1 Respondents' Demographic Profile

4.1.1.1 Gender

Figure 4.1: Gender of Respondents

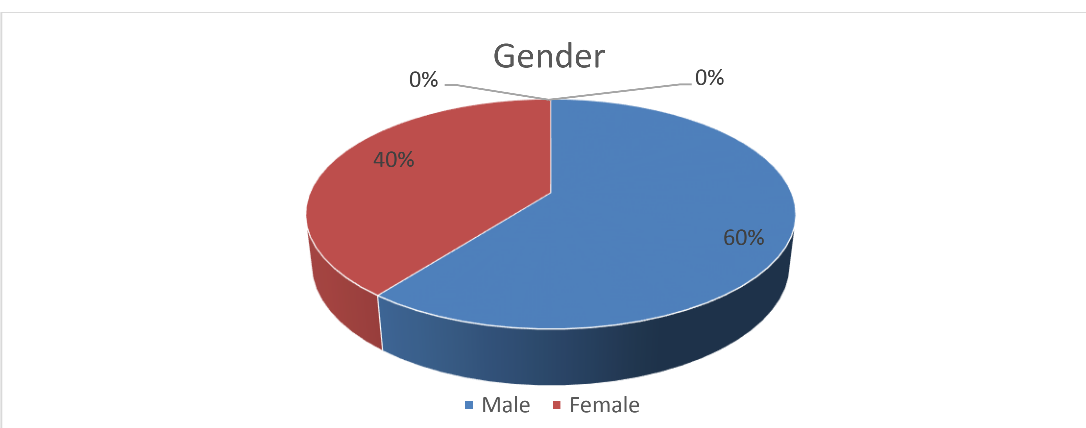


Table 4.1:Frequency Analysis on Gender of Respondents

Gender	Frequency	Percentage
Male	121	61%
Female	79	39%

From Table 4.1, 61% of the respondents were male, while 39% were female these represented a frequency of 121 and 79 respectively. Male respondents were more than female respondents.

4.1.1.2 Age Range

Figure 4.2:Age Range of Respondents

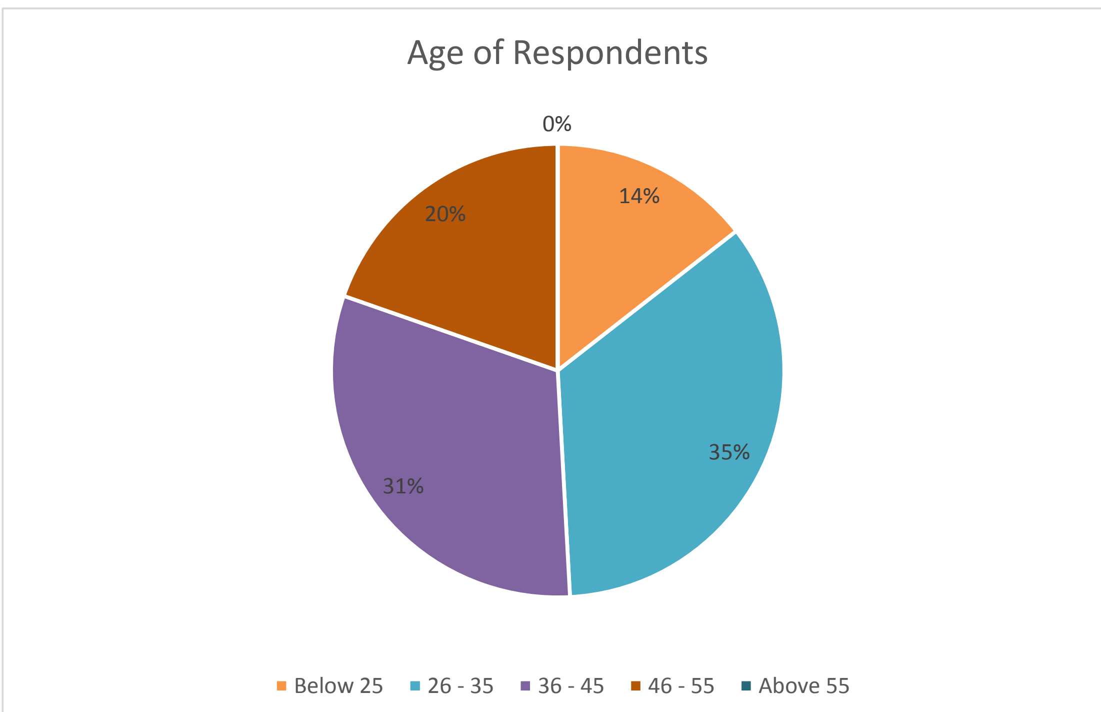


Table 4.2:Frequency Analysis on Respondents' Age Range

Age Range	Frequency	Percentage
Below 25	25	12.5%
26-35	60	30 %
36-45	54	27 %
46-55	34	17 %
Above 55	27	13.5%

Table 4.2 shows the age range of employees of the different banks who were part of the survey. The range of respondents' age was categorized into five, which is those below 25 years old, 26 – 35 years old, 36-45 years old, 45-55 years old and above 55 years old. From the Table 4.2, majority of the respondents are aged at the range of 26-35 which contributed 30% with frequency of 60. Followed by those aged 36 – 45 who were 27% with a frequency of 54, 46-55 years old are contributed 17% with the frequency of 34. Lastly, respondents who were above 55 and those aged below 25 made up 13.5% and 12.5% respectively.

4.1.1.3 Highest Education Level

Figure 4.3: Respondents' Highest Education Level

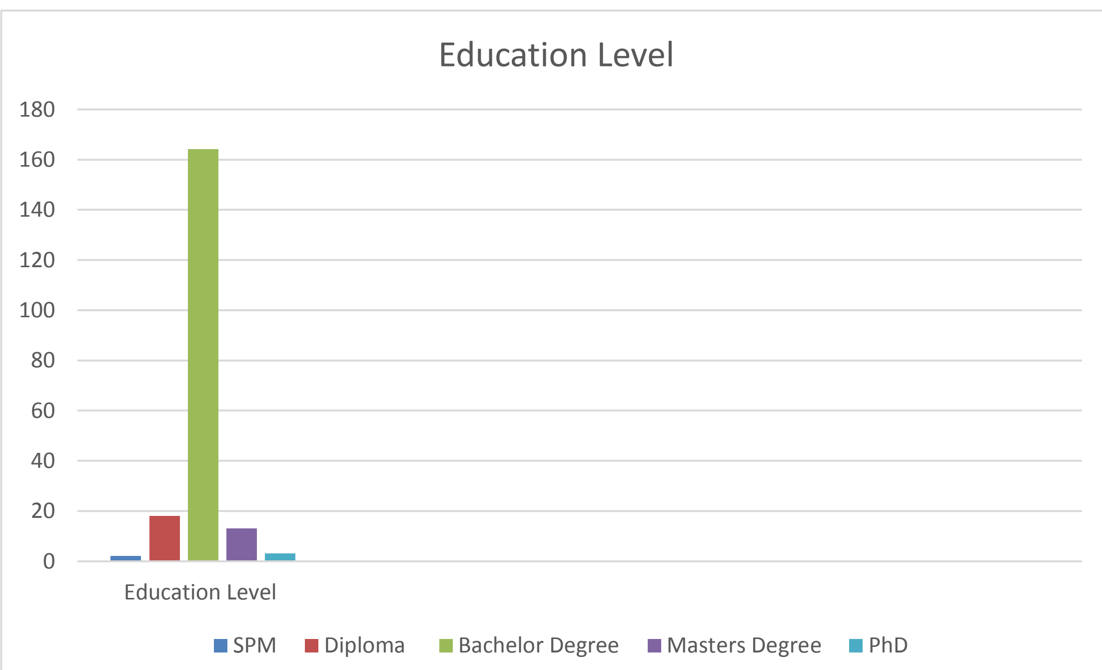


Table 4.3: Frequency Analysis of Respondents' Highest Education Level

Education Level	Frequency	Percentage
SPM	2	1%
Diploma	18	9%
Bachelor Degree	164	82%
Master Degree	13	6.5%
PhD	3	1.5%

Table 4.4 shows the education level of the respondents. From the table, majority of the respondents 82% had a Bachelor Degree with frequency of 164. Diploma educated employees was the second most majority comprising of 9% of the respondents. Other respondents had SPM, PhD and Masters Qualifications as can be seen in the table.

4.1.1.4 Position within the Bank

Figure 4.4: Position within the Organization

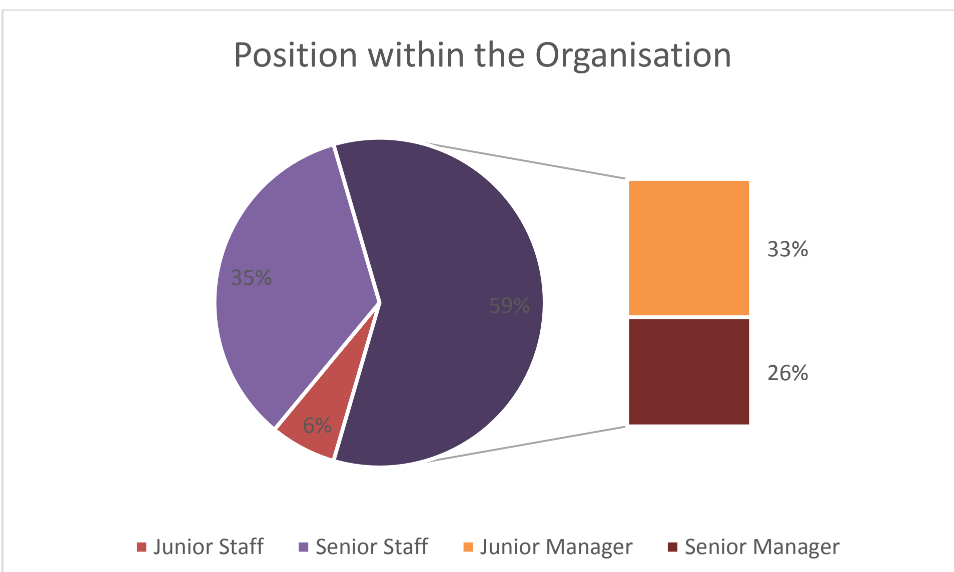


Table 4.4: Frequency of Position of the Respondents

Position within Organization	Frequency	Percentage
Junior Staff	13	6.5%
Senior Staff	69	34.5%
Junior Manager	66	33%
Senior Manager	52	26%

Table 4.5 shows the position of the respondents within their respective organizations. From the table, 34.5% of the respondents' were senior staff, 33% were junior managers while 26% were senior managers the rest comprised junior staff.

4.2 Multiple Regression Analysis

4.2.1 Hypotheses 1

H_0: Banks in the commercial banking industry in Malaysia are not practicing good corporate governance.

H_1: Banks in the commercial banking industry in Malaysia are practicing good corporate governance.

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.273[a]	.075	.036	1.77592

a. Predictors: (Constant), Average summated score of Clear Roles and responsibility, Average summated score of Strengthen composition, Average summated score of reinforce independence, Average summated score of foster commitment, Average summated score of

integrity in reporting, Average summated score of manage risk, Average summated score of timely disclosure, Average summated score of clear role and responsibility.
b. Dependent Variable: Average summated.

Table 4.6: The Regression Table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	20.141	3.629		5.551	.000
	PRINCIPLE1	.161	.066	.174	2.446	.015
	PRINCIPLE2	.038	.099	.027	.380	.704
	PRINCIPLE3	-.046	.077	-.042	-.591	.555
	PRINCIPLE4	-.293	.128	-.162	-2.290	.023
	PRINCIPLE5	-.017	.128	-.009	-.135	.893
	PRINCIPLE6	.076	.141	.039	.539	.590
	PRINCIPLE7	.127	.122	.074	1.037	.301
	PRINCIPLE8	-.083	.098	-.059	-.843	.400

a. Dependent Variable: Average summated score of Job satisfaction

Multiple regression analysis was performed to test the relationship between the principles of MCCG and bank's financial performance whether it is a positive or negative relationship.

Table 4.5, the model summary shows the R Square value, 7.5 percent (0.075) indicated that the variance in MCCG 2012 principles have been explained by the 8 principles.

Table 4.6, the regression table shows the result of regression analysis where each principle's level of significant were shown. The researcher found that out of the 8 principle of MCCG 2012, only 2 principles achieved significant value where the p-value of the principles are less than 0.05. This indicates the overall value shows the relationship between principles of MCCG 2012 and bank financial performance is not so significant. Hence, the null hypothesis can be retained.

4.3 Pearson Correlation

Pearson correlation analysis was used by the researchers to test hypotheses of the eight independent variables of corporate governance against bank's financial performance. The researchers determine the strength of relationship of r-value by following the rule of thumb below which proposed by Choudhury (2009).

Table 4.7: Rule of Thumb for Correlation Value (r-Value)

r-Value	Strength of relationship
0.5 to 1.0	Strong
0.3 to 0.5	Moderate
0.1 to 0.3	Weak
-0.1 to 0.1	None or very weak

Source:Choudhury, A. (2009).

4.4 Testing of Hypotheses

This study's hypotheses that were formulated in chapter two will be tested using correlation analysis that will test the statistical significance to either reject or uphold the null hypothesis. In hypothesis testing the null hypothesis is normally tested. Through correlation the association between the study variables will be tested while through significance testing the association's likelihood of occurrence is tested.

4.4.1 Hypothesis 1

H_0: Banks in the commercial banking industry in Malaysia are not practicing good corporate governance.

H_1: Banks in the commercial banking industry in Malaysia are practicing good corporate governance.

Table 4.8 One sample Statistics

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Do you agree that your bank fully complies with corporate governance guidelines?	200	4.52	.796	.056

Table 4.9 One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Do you agree that your bank fully complies with corporate governance guidelines?	80.259	199	.000	4.515	4.40	4.63

Table 4.10 Pearson Correlation- hypothesis 1

		Do you agree that your bank fully complies with corporate governance guidelines?
The bank has had good improvement on return on equity in the last two years	Pearson Correlation	.145*
	Sig. (2-tailed)	.041
	N	200

The correlation between the whether the bank complied with corporate governance and whether the bank had experienced improvement in its return on equity over the last two years showed a correlation coefficient of 0.145 which was weak. The Pearson correlation calculation was based on a sample of N=200 resulting in a correlation coefficient of 0.145 which is a weak correlation. Significance is p=0.041 as shown above, this level is significant at 0.05 level.

From the above it the null hypothesis can then be rejected, thus banks in the commercial banking industry in Malaysia are practicing good corporate governance.

4.4.2 Hypotheses 2

H_0: There is no significant relationship between establish clear roles and responsibility and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between establish clear roles and responsibility and bank's financial performance in the commercial banking industry in Malaysia.

Table 4.11 Pearson Correlation- hypothesis 2

		Establish Clear Roles and Responsibilities
The bank has had good improvement on return on equity in the last two years	Pearson Correlation	.110
	Sig. (2-tailed)	.121
	N	200
The bank has had good improvement on return on assets in the last two years	Pearson Correlation	.159*
	Sig. (2-tailed)	.024
	N	200
The bank has return on equity than the industry better	Pearson Correlation	-.027
	Sig. (2-tailed)	.706
	N	200
The bank has had better profitability in the last two years	Pearson Correlation	.049
	Sig. (2-tailed)	.487
	N	200
The bank has better return on assets than industry	Pearson Correlation	.020
	Sig. (2-tailed)	.779
	N	200

The correlation between the whether the bank had established clear roles and responsibilities in discharging its fiduciary and leadership functions and bank performance had different correlation coefficients as shown above, the performance variable of the bank having have improved its return on assets in the last two years has a significance of p=0.24 which was not significant at the 0.05 level of significance.

From the above it the null hypothesis can be retained since most of the variables were not significance thus be rejected, thus there is no significant relationship between establish clear roles and responsibility and bank's financial performance in the commercial banking industry in Malaysia.

4.4.3 Hypotheses 3

H_0: There is no significant relationship between strengthen composition and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between strengthen composition and bank's financial performance in the commercial banking industry in Malaysia.

Table 4.12 Pearson Correlation- hypothesis 3

		Strengthen Composition
The bank has had good improvement on return on equity in the last two years	Pearson Correlation	-.055
	Sig. (2-tailed)	.439
	N	200
The bank has had good improvement on return on assets in the last two years	Pearson Correlation	.029
	Sig. (2-tailed)	.686
	N	200
The bank has return on equity than the industry better	Pearson Correlation	.038
	Sig. (2-tailed)	.592
	N	200
The bank has had better profitability in the last	Pearson Correlation	.104
	Sig. (2-tailed)	.142

two years	N	200
The bank has better return on assets than industry	Pearson Correlation	.059
	Sig. (2-tailed)	.407
	N	200

The correlation between the strengthen composition variable and the bank performance had varied correlation coefficients as can be seen in the table above. All the levels of significance were not significant at the 0.05 level of significance.

From the above the null hypothesis is to be retained, thus there is no significant relationship between strengthen composition and bank's financial performance in the commercial banking industry in Malaysia.

4.4.4 Hypotheses 4

H_0: There is no significant relationship between reinforce independence and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between reinforce independence and bank's financial performance in the commercial banking industry in Malaysia.

Table 4.13 Pearson Correlation- hypothesis 4

		Reinforcing Independence
The bank has had good improvement on return on equity in the last two years	Pearson Correlation	-.080
	Sig. (2-tailed)	.260
	N	200
The bank has had good improvement on return	Pearson Correlation	-.167*
	Sig. (2-tailed)	.018

on assets in the last two years	N	200
The bank has return on equity than the industry better	Pearson Correlation	.008
	Sig. (2-tailed)	.908
	N	200
The bank has had better profitability in the last two years	Pearson Correlation	-.001
	Sig. (2-tailed)	.989
	N	200
The bank has better return on assets than industry	Pearson Correlation	-.090
	Sig. (2-tailed)	.207
	N	200

The correlation between the reinforcing independence variable and the bank performance had varied correlation coefficients as can be seen in the table above. All the levels of significance apart from the correlation between the variable and bank performance in terms of improvement on its return on assets were not significant at the 0.05 level of significance.

From the above the null hypothesis is to be retained, thus there is no significant relationship between reinforce independence and bank's financial performance in the commercial banking industry in Malaysia.

4.4.5 Hypothesis 5

H_0: There is no significant relationship between foster commitment and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between foster commitment and bank's financial performance in the commercial banking industry in Malaysia.

Table 4.14 Pearson Correlation- hypothesis 5

		Fostering Commitment.
The bank has had good improvement on return on equity in the last two years	Pearson Correlation	-.051
	Sig. (2-tailed)	.473
	N	200
The bank has had good improvement on return on assets in the last two years	Pearson Correlation	.051
	Sig. (2-tailed)	.472
	N	200
The bank has return on equity than the industry better	Pearson Correlation	-.048
	Sig. (2-tailed)	.496
	N	200
The bank has had better profitability in the last two years	Pearson Correlation	.032
	Sig. (2-tailed)	.658
	N	200
The bank has better return on assets than industry	Pearson Correlation	.126
	Sig. (2-tailed)	.075
	N	200

The correlation between the fostering commitment variable and the bank performance had varied correlation coefficients as can be seen in the above table. All the levels of significance were not significant at the 0.05 level of significance.

From the above the null hypothesis is to be retained, thus there is no significant relationship between foster commitment and bank's financial performance in the commercial banking industry in Malaysia.

4.4.6 Hypothesis 6

H_0: There is no significant relationship between uphold integrity in financial reporting and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between uphold integrity in financial reporting and bank's financial performance in the commercial banking industry in Malaysia.

Table 4.15 Pearson Correlation- hypothesis 6

		Uphold Integrity
The bank has had good improvement on return on equity in the last two years	Pearson Correlation	-.051
	Sig. (2-tailed)	.473
	N	200
The bank has had good improvement on return on assets in the last two years	Pearson Correlation	.051
	Sig. (2-tailed)	.472
	N	200
The bank has return on equity than the industry better	Pearson Correlation	-.048
	Sig. (2-tailed)	.496
	N	200
The bank has had better profitability in the last two years	Pearson Correlation	.032
	Sig. (2-tailed)	.658
	N	200
The bank has better return on assets than industry	Pearson Correlation	.126
	Sig. (2-tailed)	.075
	N	200

The correlation between the upholding integrity variable and the bank performance had varied correlation coefficients as can be seen in the above table. All the levels of significance were not significant at the 0.05 level of significance.

From the above the null hypothesis is to be retained, thus there is no significant relationship between uphold integrity in financial reporting and bank's financial performance in the commercial banking industry in Malaysia.

4.4.7 Hypothesis 7

H_0: There is no significant relationship between recognize/manage risk and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between recognize/manage risk and bank's financial performance in the commercial banking industry in Malaysia.

Table 4.16 Pearson Correlation- hypothesis 7

		Recognize and Manage Risks
The bank has had good improvement on return on equity in the last two years	Pearson Correlation	-.002
	Sig. (2-tailed)	.972
	N	200
The bank has had good improvement on return on assets in the last two years	Pearson Correlation	-.078
	Sig. (2-tailed)	.272
	N	200
The bank has return on equity than the industry better	Pearson Correlation	-.001
	Sig. (2-tailed)	.986
	N	200

The bank has had better profitability in the last two years	Pearson Correlation	-.030
	Sig. (2-tailed)	.677
	N	200
The bank has better return on assets than industry	Pearson Correlation	-.038
	Sig. (2-tailed)	.590
	N	200

The correlation between the recognizing and managing risks and the bank performance had varied correlation coefficients as can be seen in the above table. All the levels of significance were not significant at the 0.05 level of significance.

From the above the null hypothesis is to be retained, thus there is no significant relationship between recognize/manage risk and bank's financial performance in the commercial banking industry in Malaysia.

4.4.8 Hypothesis 8

H_0: There is no significant relationship between ensure timely/high quality disclosure and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between ensure timely/high quality disclosure and bank's financial performance in the commercial banking industry in Malaysia.

Table 4.17 Pearson Correlation- hypothesis 8

		Ensure timely and high quality disclosure
The bank has had good improvement on return on equity in the last two years	Pearson Correlation	-.037
	Sig. (2-tailed)	.607
	N	200
The bank has had good improvement on return on assets in the last two years	Pearson Correlation	-.077
	Sig. (2-tailed)	.277
	N	200
The bank has return on equity than the industry better	Pearson Correlation	.007
	Sig. (2-tailed)	.927
	N	200
The bank has had better profitability in the last two years	Pearson Correlation	.135
	Sig. (2-tailed)	.057
	N	200
The bank has better return on assets than industry	Pearson Correlation	.293**
	Sig. (2-tailed)	.000
	N	200

The correlation between ensure timely and high quality disclosure and the bank performance had varied correlation coefficients as can be seen in the above table. All the levels of significance apart from bank performance in terms of bank having better return on assets than that of the industry were not significant at the 0.05 level of significance.

From the above the null hypothesis is to be retained, thus there is no significant relationship between ensure timely/high quality disclosure and bank's financial performance in the commercial banking industry in Malaysia.

4.4.9 Hypotheses 9

H_0: There is no significant relationship between strengthen relationship between company and shareholders and bank's financial performance in the commercial banking industry in Malaysia.

H_1: There is a significant relationship between strengthen relationship between company and shareholders and bank's financial performance in the commercial banking industry in Malaysia.

Table 4.18 Pearson Correlation- hypothesis 9

		Strengthen Relationship between company and Shareholders.
The bank has had good improvement on return on equity in the last two years	Pearson Correlation	-.039
	Sig. (2-tailed)	.587
	N	200
The bank has had good improvement on return on assets in the last two years	Pearson Correlation	-.029
	Sig. (2-tailed)	.685
	N	200
The bank has return on equity than the industry better	Pearson Correlation	.015
	Sig. (2-tailed)	.833
	N	200
The bank has had better profitability in the last two years	Pearson Correlation	-.063
	Sig. (2-tailed)	.374
	N	200
The bank has better	Pearson Correlation	.020

return on assets than industry	Sig. (2-tailed)	.778
	N	200

The correlation between strengthening relationships between company and its shareholders, and the bank performance had varied correlation coefficients as can be seen in the above table. All the levels of significance were not significant at the 0.05 level of significance.

From the above the null hypothesis is to be retained, thus there is no there is no significant relationship between strengthen relationship between company and shareholders and bank's financial performance in the commercial banking industry in Malaysia.

4.5 Conclusion

This chapter has statistically presented the result of the findings whereby the different variables of the Malaysian Code on Corporate Governance that is ;Clear role and responsibility,Strengthen Composition, Reinforce Independence, Foster Commitment, Integrity in reporting, Manage risk, Timely disclosure and Clear role and responsibility and how these affects the bank performance. Most of the studies null hypotheses were retained following the correlation and significance testing. An overall finding of the research will be concluded in the next chapter.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter shows the summary of the study's findings, at the end coming up with conclusions based on these findings. Upon which recommendations will be made from such conclusions. At the end the chapter will wind up by giving suggestions of potential areas future research can focus upon based on the findings from this study.

5.1 Summary of Findings

The purpose of the study is to investigate the implementation of the Malaysian Code on Corporate Governance (Code) by commercial banks in Malaysia and the impact of the implementation on the performance of the bank. From the study, majority of the respondent who took part were male compared to women as shown in the previous chapter. The respondents were from different age groups and occupied different positions within the organization from junior staff to senior manager. In regard to corporate governance the study aimed to find out different aspects of corporate governance within banks. The employees considered corporate governance to be important within their banks, and thus the bank ensured that it complied fully with it, and through regular board meetings its implementation was monitored throughout the bank. Most of the banks have widely adopted the Malaysian Code on Corporate Governance which is a code tailored towards monitoring the implementation of corporate governance among publicly traded companies in the country MCCG (2012).

The MCCG code has eight principles and a number of recommendations for each of the principles, from the study it was determined that most of the employees considered their banks to have implemented the different principles and recommendations.

The study also determined that the commercial banks through implementing the MCCG had experienced slight improvement in their financial performance and general development these included improvement on return on equity, return on assets, their performance bettering that of the industry, experiencing better profitability and better return on assets compared to the industry average.

There is significant relationship between transparency disclosure of banks through their adoption of corporate governance code and their overall performance financially. This is as a result of the bank's through upholding the MCCG code have been able to gain shareholder and stakeholder trust which has worked to its advantage, in the form of having better performance financially.

Corporate governance plays an important role in ensuring bank's maintain financial stability and success making them to be able to remain liquid despite financial uncertainty and volatile market conditions.

5.2 Discussions of Major Findings

Corporate governance is important for any organization as it helps giving an organization's board of directors the necessary guidelines that will help it to deliver on its responsibilities and be able to meet the interests of the company's shareholders. This involves guiding the relationship of the organization internally and outside for

the best of the organization. Through corporate governance an organization is able to improve its outlook outside in addition to enhancing its general competitiveness.
This study examined the implementation of the Malaysian Code on Corporate Governance among commercial banks in Malaysia and its impact on the bank's general performance through different financial performance metrics such as return on investments. From the study findings it has been determined that, corporate governance does play an important role in success and development of commercial banks. The findings from the implementation of the MCCG code among banks and the financial performance of the banks has shown that the two go hand in hand. Implementation of corporate governance practices is key in enhancing the firm's overall financial performance. Adoption of the MCCG code by the Malaysian banks has resulted in the banks having improved financial performance, thereby enhancing their overall value.

From the study results, it can be concluded that with a good governance structure in place organizations, especially financial institutions such as commercial banks are able to improve their performance and overall competitiveness.

5.3 Recommendations

Commercial banks need to maintain stability in their growth and development; this can only be assured if these banks put in place the best practices when it comes to corporate governance. For any organization in Malaysia adopting the MCCG code is key to better performance and less government scrutiny as it will work in helping organizations to meet the requirements expected for business organization in the country. Corporate governance is key in ensuring organizations get to manage the shareholder investment in an open and transparent manner.

From the study findings the board of directors plays an important role when it comes to adoption and putting to operation the code of corporate governance within the bank. Adoption of corporate governance practices positively impacts on organization's performance. Through this study it can be recommended that organizations need to incorporate corporate governance practices in their day to day running and administration as it helps ensure such organizations deliver on their promise to the shareholders and other stakeholders. Through corporate governance practices banks are able to mitigate risks and improve on their overall performance, thereby increasing the public confidence in their operations.

This study recommends that banks especially those in Malaysia should seek to implement the MCCG code in their daily operations as it will help them conform to the country's rule of law in addition to working towards improvement of their general performance. There is need for the Malaysian government to work towards increasing information of companies' about the MCCG code and its benefit to the organization and the shareholders. Banks need to work towards informing their staff on the need and practices expected when it comes to corporate governance and its actual implementation.

5.4 Limitations of the Study

This study encountered a number of limitations, one such limitation is limited access to a wider pool of commercial banks to undertake the study, and this would limit the overall findings especially when it comes to generalizing the findings to the population. There is high potential of subjectivity from the study as the employees were used in the study to give feedback about their organization, this has the potential of eliciting comments and answers that are self-rewarding.

It was difficult when it came to getting the employees to take part in the study as most were busy with their work forcing the researcher to seek other methods that would help get the respondents to answer the research questionnaires.

5.5 Recommendations for Future Research

Corporate governances as an issue in organization management is wide and it elicits mixed reactions from different people. This field from the high number of academic research papers written to understand it shows its importance, hence such great attention. Most of the existing literature dwells on issues mainly focused on the practices of corporate governance and its effect on organization performance, this study for instance has focused on the Malaysian code of corporate governance and its impact on financial performance of commercial banks in Malaysia. With the study focusing on a single country results in non-representative results, making it hard to infer on other countries or regions especially considering the MCCG is country specifically.

Future studies should seek ways of creating a form of analysis that can cut across countries by providing studies and research that is easy to duplicate in other countries, there's need to develop general outlook when it comes to corporate governance that results in studies that are not localized to be able to facilitate comparison between countries and regions when it comes to implementation of corporate governance.

More research is needed to understand the implementation of corporate governance across different countries for instance using multinationals as examples a study can seek to unearth how it ensures adoption of common practices across countries.

5.6 Conclusion

This chapter had concluded the findings of the research. The chapter had discussed major findings from the analysis of data, contribution of good corporate governance practice towards the bank's financial performance, and the limitations of the study. The researchers had also made recommendations for future researchers in order to obtain better findings.

As an overall conclusion for this research project, we can see that the most of the MCCG dimensions may not have significant relationship toward the bank's financial performance, however, banks should practices good corporate governance with the recommendation of all principles in MCCG2012 elements that are proposed by the researchers in order to achieve a strong competitive advantage in the banking industry.

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APPENDIX 3.1: Questionnaire

UNIVERSITI TUNKU ABDUL RAHMAN

Academic Research Survey on Corporate Governance (CG)

Dear respondents,

I am a final year student pursuing Masters of Business Administration (Corporate Governance) from Universiti Tunku Abdul Rahman (UTAR). I am currently conducting a survey as a partial requirement for the course entitled "***The contribution of good corporate governance in the commercial banking industry in Malaysia.***" The purpose of this research is to study the relationship between the practice of good CG and bank's financial performance.

Please answer all the questions provided. Your answer to these questions is only for academic purposes and will be strictly kept confidential. Your cooperation in carrying out this questionnaire is greatly appreciated. Please do not hesitate to contact us for further clarification if you have any queries regarding to the questions.

Students' Name and Contacts:

Student's Name	**E-mail Address**	**Contact Number**
LEE WING FATT	wayne_leewf@hotmail.com	012-4335645

Thank you for your participation.

RESEARCH QUESTIONS

1. How does good corporate governance contribute to the healthiness of the banking industry in Malaysia?
2. Does good corporate governance affect Malaysia banks performance in terms of profitability, ROE and EPS?
3. Is there a relationship between transparency, disclosure and financial performance of Banks in Malaysia?

Questionnaire

Section A: Personal information

Q1. Please indicate your gender

- ☐ Male
- ☐ Female

Q2. Please indicate your age range (in years).

- ☐ Below 25
- ☐ 25 - 35
- ☐ 35 - 45
- ☐ 45 – 55
- ☐ Above 55

Q3. Please indicate your highest education qualification.

- ☐ SPM / High School
- ☐ Diploma
- ☐ Bachelor Degree
- ☐ Master Degree
- ☐ Doctorate / PhD
- ☐ Others. Please specify………………..

Q4. Please indicate your position within the bank

- ☐ Junior staff
- ☐ Senior staff
- ☐ Junior manager

- Senior manager
- Other

Section B: Independent Variable

Kindly state your response to the following questions using the 5 point Likert Scale as follows:-

- Strongly Disagree (SD)
- Disagree (D)
- Neutral (N)
- Agree (A)
- Strongly Agree (SA)

I. Corporate Governance	SD	D	N	A	SA
1. Do you think corporate governance is important in your bank?	1	2	3	4	5
2. Do you agree that your bank fully complies with corporate governance guidelines?	1	2	3	4	5
3. BoD has regular meetings	1	2	3	4	5
4. The Bank provides formal performance appraisal review of the BoD regularly	1	2	3	4	5
5 To what level, you think the ' bank's Code is useful for ensuring better governance	1	2	3	4	5

CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

Principle 1 –Establish clear roles and responsibilities

Measure	**SD**	**D**	**N**	**A**	**SA**
1. The board has established clear functions reserved for the board and those delegated to management.	1	2	3	4	5
2. The board has established clear roles and responsibilities in discharging its fiduciary and leadership functions	1	2	3	4	5
3. The board has formalized ethical standards through a code of conduct and ensures its compliance.	1	2	3	4	5
4. The board ensures that the company's strategies promote sustainability.	1	2	3	4	5
5. The board has procedures to allow its members access to information and advice.	1	2	3	4	5
6. The board ensures it is supported by a suitably qualified and competent company secretary.	1	2	3	4	5
7. The board formalizes, periodically review and makes public its board charter.	1	2	3	4	5

Principle 2 –Strengthen composition

Measure	SD	D	N	A	SA
1. The board has a nominating committee which is made up exclusively of non-executive directors, a majority of whom are independent.	1	2	3	4	5
2. The Nominating Committee develops, maintains and reviews the criteria to be used in the recruitment process and annual assessment of directors.	1	2	3	4	5
3. The board has established a formal formal and transparent remuneration policies and procedures to attract and retain directors.	1	2	3	4	5

Principle 3 –Reinforce independence

Measure	SD	D	N	A	SA
1. The board undertakes an assessment of its independent directors annually.	1	2	3	4	5
2. The tenure of an independent director does not exceed a cumulative term of nine years. Upon completion of the nine years, an independent director may continue to serve on the board subject to the director's re-designation as a non-independent director.	1	2	3	4	5
3. The board justifies and seeks shareholders' approval in the event it retains as an independent director, a person who has served in that capacity for more than nine years.	1	2	3	4	5

4. The positions of chairman and CEO is held by different individuals, and the chairman is a non-executive member of the board.	1	2	3	4	5
5. The board comprises of a majority of independent directors where the chairman of the board is not an independent director.	1	2	3	4	5

Principle 4 – Foster commitment

Measure	SD	D	N	A	SA
1. The board has set out expectations on time commitment for its members and protocols for accepting new directorships.	1	2	3	4	5
2. The board ensures its members have access to appropriate continuing education programmes.	1	2	3	4	5

Principle 5 – Uphold integrity in financial reporting

Measure	SD	D	N	A	SA
1. The Audit Committee ensures financial statements comply with applicable financial reporting standards.	1	2	3	4	5
2. The Audit Committee has policies and procedures to assess the suitability and independence of external auditors.	1	2	3	4	5

Principle 6 – Recognize and manage risks

Measure	SD	D	N	A	SA
1. The board has a sound framework of managing risks.	1	2	3	4	5
2. The board has an internal audit function which reports directly to the Audit Committee.	1	2	3	4	5

Principle 7 – Ensure timely and high quality disclosure

Measure	SD	D	N	A	SA
1. The board ensures that the bank has in place appropriate corporate disclosure policies and procedures.	1	2	3	4	5
2. The board encourages the bank to leverage on information technology for effective dissemination of information.	1	2	3	4	5

Principle 8 – Strengthen relationship between company and shareholders

Measure	SD	D	N	A	SA
1. The board takes reasonable steps to encourage shareholder participation at general meetings.	1	2	3	4	5
2. The board encourages poll voting.	1	2	3	4	5
3. The board promotes effective communication and proactive engagements with shareholders.	1	2	3	4	5

Section C: Bank Financial Performance

Measure	SD	D	N	A	SA
1. The bank has had good improvement on return on equity in the last 3 years	1	2	3	4	5
2. The bank has had good improvement on return on assets in the last 3 years	1	2	3	4	5
3. The bank has better return on equity than the industry in the last 3 years	1	2	3	4	5
4. The bank has had better profitability in the last 3 years	1	2	3	4	5
5. The bank has better return on assets than industry in the last 3 years	1	2	3	4	5

Section D: Disclosure Policies and Practices

Measure	SD	D	N	A	SA
1. Your bank offers equal access to information for all Shareholders and investment analysts	1	2	3	4	5
2. The annual financial reports for shareholders have basic information of sufficient details to enable investment analysts to establish the financial and non-financial performance of the bank	1	2	3	4	5
3. The Bank posts its financial results and management	1	2	3	4	5

report on the internet.					