AN INVESTIGATION OF THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE OF FUND MANAGEMENT FIRMS AND PERFORMANCE OF UNIT TRUSTS IN MALAYSIA

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DECLARATION

I hereby declare that:

(1) This Research Project is the end result of my own work and that due acknowledgement has been given in the references to 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.

(3) The word count of this research report is 11697.

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LIST OF ABBREVIATIONS

CG	Corporate Governance
MCCG	Malaysia Code of Corporate Governance
KLSE	Kuala Lumpur Stock Exchange
SC	Securities Commission
SEC	Securities and Exchange Commission
ASB	Amanah Saham Bumiputera
NAV	Net Asset Value
BS	Board Size
NND	Number of Non-executive Director
NID	Number of Independent Director
GD	Gender Diversification
FA	Fund Age
P-value	Probability Value
No.	Number
DV	Dependent Variables
IV	Independent Variables

ABSTRACT

This purpose of this research is to examine the corporate governance mechanisms and the influence on the performance of unit trusts in Malaysia. The corporate governance mechanisms selected for the study are board size, number of non-executive directors, number of independent directors, and gender diversification, to measure the relationship and how they contribute towards the unit trust performance. The performance of unit trust will be measure by Total Annual Return for each unit trust. The study focused on the unit trusts which run by 23 fund management firms in Malaysia with at least provide two equity funds. The sample size is total 275 equity fund. The time frame chosen for the research was the year 2020. Cross-sectional data analysis was applied for this research which is multiple regression. The researcher found that corporate governance mechanisms which is number of non-executive directors and gender diversification have a significant relationship with the performance of unit trusts. However, the researcher also suggests future researchers can explore other corporate governance mechanisms for this study, and policymakers are still advised to strengthen the code of corporate governance in Malaysia to improve the performance of unit trust.

Keywords: Corporate Governance, Total Annual Return, Unit Trusts, Board Size, Number of Non-executive Directors, Number of Independent Directors, , Gender Diversification

CHAPTER 1

INTRODUCTION

This chapter highlighted the corporate governance mechanism towards unit trusts in Malaysia. This chapter included parts of the research background, problem statement, research questions, research objectives, significance of the study, and scope of the study.

1.1 Research Background

Mutual fund or more commonly known in the Malaysia as unit trust. Malaysia's unit trust market was emerged as early year 1959 compare to its Asian neighbour and where the first established by a firm called Malayan Unit Trust Ltd. Development of unit trusts in Malaysia have gone through more than four decades. From year 1991 to 1999 is the fastest growth of the Malaysia's unit trust industry in terms of the number of new fund management firm established. With the establishment of the Securities Commission (SC) on 1993, the implementation of the Securities Commission (Unit Trust Scheme) Regulations in 1996 and ASB (Amanah Saham Bumiputera) adopted wide range marketing strategies, industry regulations began to be centralized, and made unit trusts a household product in Malaysia.

Although the of growth of Malaysia's unit trust funds has slow due to the financial crisis of year 1997 to 1998, but it has nevertheless maintained the upward trend (Ripain & Ahmad, 2018). Salim and Yadav (2012) had shown that the Asian Financial Crisis (1997-1998) is originated from Thailand, was due to the depreciation of Thai Baht to pay-off the massive borrowing in dollars. Nevertheless, this issue was spread through Asian markets and its neighbouring countries as a currency declines rapidly will cause the declining in stock market, reducing importing revenues as well as raising government upheaval. Additionally, the loss of confidence by local or foreign investors in all emerging market leads to a rapid growth in capital outflows and a fall in capital inflows which they are going to hamper the financial development and decrease the economic efficiency at the same moment. In short, the outcomes or result that obtained from the previous studies by the past researchers has confirmed that the corporate governance does influence the fund performance in Malaysia (Cheah, 2010).

The unit trust industry has a very good start in 21st century. This industry recorded double digit growth for the first 7 years. However, this strong growth was undermined by the special financial crises in year 2008. These crises began with the outbreak of the subprime mortgage crisis in the United States, the global credit crunch, the bursting of the real estate bubble, the rapid decline in global stock prices and the banking crisis.

Initially, the concern of the corporate governance in Malaysia is originated from the event of Asian Financial Crisis which it has occurred in 1997 which made the failures of companies in public or private sectors as well as local or foreign investors that they lacked confidence started to withdraw their investment capital due to the depreciation of the currency. In addition, the term of corporate governance was decided by local government to introduce and it is clearly stated in the codes and standard rules from the political economy perspectives to sustain the strong culture of corporate governance practice (Ponnu & Karthigeyan, 2010).

Besides, a voluntary code of prime practices for the corporate governance was introduced such as Malaysian Code on Corporate Governance (MCCG) in March 2000 to allow the shareholders and public to determine or access the criterion of corporate governance that practiced by all public listed corporations. Furthermore, there have several agencies for instance, Kuala Lumpur Stock Exchange (KLSE), Ministry of Finance, Securities Commission (SC) as well as the Registrar of Company will involve into the discussion of the corporate governance by generating a substantial amount of analysis about issues of macroeconomics, systematic stability as well as regulations of international investors for enhancing their good corporate management practices (Haniffa & Hudaib 2006).

This research examines corporate governance and performance of unit trusts in Malaysia. This research studies some corporate governance mechanisms, aimed at reducing conflicts of interest in unit trust's management firm, so as to maximize shareholder value. Conflicts of interest become a problem as the shareholders and managers have different goals and the structure of fund management firms are separation of ownership and control (Mahoney, 2004). When shareholders aim to maximize the return performance, however managers may have other goals, such as maximizing their salaries, or market share growth (Maher & Andersson, 1999).

1.2 Problem Statement

From the research studies of Wellman & Zhou (2007), they had shown that result a of high profile worldwide corporate governance scandals in the United States and elsewhere in the late 1990s and early 2000s. Corporate failures of recent times internationally are the market timing and late trading fraud scandals that hit Wall Street and United States firms centres on the unit trust's industry in 2003. Twenty-five mutual fund families including large families such as Janus, Franklin Templeton, Putnam, AIM, MFS and Alliance Capital and others have recently settled cases with the New York Attorney General in which they allowed certain large clients to engage in late-trading and illegal market-timing activities. As a result, some large clients profited greatly, at the expense of other shareholders. To date, over $3.1 billion in fines and restitution have been levied against these fund families. The boards of directors of those funds were either unaware of the activity or were unable to stop it. This reflected the corporate governance issue in the firm.

This financial problem also happened in Malaysia. There was a financial scandal of Tabung Haji in late November 2018. The firm's board of directors filed a police report against the former chairman and UMNO MP for Baling Abdul Azeez Abdul Rahim. Before the police report was released, the board members stated that the RM22 million used for Yayasan Tabung Haji was abused and suspected of engaging in political activities. A week later, PM's Department Mujahid Yusof Rawa issued a statement revealing that Tabung Haji had an asset deficit of RM4.1 billion. However, Tabung Haji still paid dividends, which is illegal under the law. According to the law governing the fund, if assets fall below the level of its liabilities, dividends and bonus payments are prohibited (Saw, 2018).

In addition, former unit trust consultant Afkariah Md Noraini was sentenced in June 2020 to six months in prison and fined RM4 million for allegedly defrauding four individuals worth RM50,000. The victim was defrauded to invest in a scheme allegedly guaranteed by RHB Investment Bank Bhd. and promised monthly dividends of 2% and 3%. But the investment plan never existed, and the capitals paid by the investors were actually deposited into Afkariah's stock trading account in RHB Investment Bank Bhd. and used for her personal stock trading (Lim, 2020). Thus, inadequate supervision and imperfect of corporate governance have led to financial fraud scandals in Malaysia and indirectly affect the performance of fund management firm and unit trust.

From the information they gathered, over 25 percent of broker-dealers admitted to allowing customers to engage in late-trading in unit trusts. These scandals were due to improper disclosure, creative accounting and conflict of interest between the management and the corporations. To avoid such misfortune, countries and their regulatory bodies have initiated codes on corporate governance which has lead to formalisation of rules and regulations. These rules and regulations helped in shaping the present corporate governance structures across the world (Wellman & Zhou, 2007).

Lastly, there is insufficient research on the relationship between the corporate governance and the performance of fund management firm or unit trust whether is in Malaysia or foreign countries. Board size, number of non-executive directors, number of independent directors, and gender diversification are the mechanisms that needed further attention. For that reason, it is significant as to investigate the relationship of these CG mechanisms and the effects on the performances of unit trusts to identify the current practices of the MCCG codes.

1.3 Research Questions

The purpose of this research is to indicate the effect of CG mechanisms towards performances of unit trusts in Malaysia. 6 research questions of the proposed study are as follows:

i. How corporate governance effect the performance of unit trusts?
ii. How good or bad is the result or in other word performance of unit trusts if a firm have a good Corporate Governance?
iii. Is board size significantly influences the performances of unit trusts?
iv. Is number of independent directors significantly influences the performances of unit trusts?
v. Is number of non-executive directors significantly influences the performances of unit trusts?
vi. Is gender diversification significantly influences the performances of unit trusts?

1.4 Research Objectives

This research aims to highlight the relationship between CG mechanisms and the influences on unit trusts in Malaysia as per the MCCG. This includes mechanisms such as board size, number of non-executive directors, number of independent directors, and gender diversification. The measurements are conducted based on the Total Annual Return to determine whether the implementation of the MCCG will have an impact on the unit trust return performances. Therefore, this study is to provide attention to the related issues and authorized body on the CG mechanism and related parties on unit trust performance.

1.4.1 Specific Objectives

The specific objectives of this research are:

i. To determine the impact of board size towards performances of unit trusts in Malaysia.

ii. To determine the impact of number of non-executive directors towards performances of unit trusts in Malaysia.
iii. To determine the number of independent directors has an impact on performances of unit trusts in Malaysia.
iv. To study whether gender diversification has an impact on the performances of unit trusts in Malaysia.

1.5 Significant of the study

In this research, researcher narrow down the range of this study centres on the effect of corporate governance towards performances of unit trusts in Malaysia. The purpose of this study is to investigate how significance the corporate governance can affect the performances of unit trusts, and provide more information through the result.

Besides, this study promotes the importance of corporate governance to future researcher and unit trust industry in Malaysia. This research provides more detailed information that helps the firm to improve their performance by using the corporate governance variables. Fund management firm in Malaysia are able to prevent losses when they understand the situation and the correlation between the variable of corporate governance and their capital structure.

Other than that, this study using Total Annual Return to determine the performances unit trusts. Moreover, researchers will use corporate governance mechanisms to determine the enhancement of the fund performance after the implementation of MCCG 2017. So that, this research will be more or less helping the future researcher to have more in-depth knowledge about the indirect effect of the financial crisis.

This study also examines the agency, stakeholder, stewardship and resource dependency theory in relation to the accountability of the shareholders and other stakeholders of the company in managing and operating in an economic environment through the implementation of good corporate governance practices and its contribution towards the company overall performances. This research would eventually diminish the knowledge gap between corporate governance and company performance thus enhancing the performance of unit trusts.

1.6 Scope of the study

Given the vast amount of data collection and research that needs to be provided about the corporate governance and performance of unit trusts in Malaysia, there is every need to define the boundaries and scope of this research. It is practically not possible at this stage to cover every research issue about the performance of the industry. For this reason, the scope of this study shall be limited to the research objectives provided above. The study focused on the unit trusts which run by 23 fund management firms which provide at least two equity funds in Malaysia. However, due to time and data constraints, the research is limited to the equity fund only which is total 275 equity funds in year 2020.

CHAPTER 2

LITERATURE REVIEW

Corporate governance is the widely used term and it is an essential criterion for the corporation and businesses in terms of failure and success. Even so, the corporate governance practices throughout the globe vary in terms of laws, rules, and regulations sets by the government of a country respectively. Chapter 2 is to analyse the relationship between the corporate governance mechanism and the performance of unit trusts. Firstly, this chapter would illustrate what is good disclosure companies, followed by, review of the corporate governance in Malaysia, the theoretical framework, literature review, hypothesis development, and conceptual framework.

2.1 Unit Trust

Unit trust is a form of collective investment plan established on the basis of a trust deed. This type of collective monies from investors who have the same investment goals and seek the investment management of a specific firm. This is an investment plan managed by professionals. The monies are pooled together to buy a large number of different types of shares. This will create a larger market position for all investors. According to the investment objectives of the unit trust and permitted by Securities Commission (SC) Guideline on Unit Trust, the pooled monies in the unit trusts are invested in units in a variety of securities investment portfolios including shares, short-term money market, bonds, instruments and other assets (Unit Trusts in Malaysia, n.d.).

These securities are pooled, and then investors participate in reflecting the returns of their designated products. Different unit trusts have different investment goals. Some people will invest for capital gain, some invest for income, some invest only in Malaysia, some across Asian countries, and some will invest in the world market. The savings of investors are invested and managed. The investment plan of a unit trust can be described as a tripartite relationship between the unit trust's manager, the trustee and the unit holder. The manager unit trust is responsible for the management and operation of the unit trust, while the trustee will hold all the assets of the unit trust. Investment decisions are made by professional unit trust's managers. The unit trust's manager receives annual fees in return. The transaction price is called the net asset value (NAV). It is the total market value of the asset divided by the number of issued units that give the bid and ask price. Malaysia's unit trust has a single price. The value of the unit trust is calculated daily by the trustee. Under this single price system, the purchase price is the same as the selling price, and the sales expenses are announced separately (Unit Trusts in Malaysia, n.d.).

2.1.1 Equity Fund

An equity fund is a unit trusts that only invests primarily in stocks. This allows the investors to buy a basket of stocks more easily than they could purchase the individual stocks. This will diversify the risk of investment. There are many types of equity funds, and each type has its unique characteristics (Tracy, 2020). The distinctions between unit trusts are not always clear, but in general, the equity funds pursue one of these three main goals which is capital gains, income or both. Furthermore, the equity funds categorised based on geography which is global, domestic or both. Moreover, equity fund also categorised by Islamic and Non-Islamic.

2.2 Corporate Governance

Corporate governance is the widely used term and it is an essential criterion for the corporation, and businesses in terms of failure and success. Even so, the corporate governance practices throughout the global vary in terms of laws, rules and regulations sets by the government of a country respectively. OECD (2004) determines corporate governance as a system for guiding and controlling commercial companies. The corporate governance structure stipulates the allocation of rights and responsibilities between different participants in the company such as the board of directors, managers, shareholders, and other stakeholders. It also clarifies the rules and procedures for making corporate decisions. It also provides a structure for setting company goals, as well as methods for achieving those goals and monitoring performance. In addition, corporate governance can be defined as the application of a powerful set of micro-policy tools in a company to ensure the effective use of resources to achieve the main objectives of its capital provider, achieve success in a highly competitive market, and maximize its positive impact on other stakeholders, while minimizing its adverse impact on other stakeholders (Castellini & Agyemang, 2012).

Corporate governance is the use of thoroughness, formality and transparency in the policy structure of the merged company to ensure that the company organization only takes prudential risks to achieve shareholder value and succeed in the market (Lamm, 2010). Taking into account the stakeholder-oriented corporate governance perspective, Solomon (2007) broadly redefines corporate governance as a system of balances and checks within and outside and inside the company to ensure that the company assumes responsibility for all stakeholders and adopts a socially responsible approach. The corporate governance system is a mechanism to establish corporate accountability in financial reporting and the objectivity of management decisions. Its ultimate goal is to align the interests of shareholders and management, and it can also improve transparency to ensure the quality of financial reports within the organization. According to Agyemang et al. (2013), corporate governance guidelines can promote effective and efficient resource allocation, help corporate organizations attract capital at low cost, and help corporate organizations maximize their performance and ability to meet community needs.

2.3 Corporate Governance Theories

2.3.1 Agency Theory

Agency theory describes that the principal and the agent are considered to use the firm as a contact method through functional delegation (Pechlaner, Volgger, & Herntrei, 2012). Shareholder are principal, and manager are agent who represent and work for the interests of the principal. The agency relationship arises when the principle (shareholder) delegates decision making authority to the agent (director and manager) to implement certain functions (Pechlaner, Volgger, & Herntrei, 2012).

The idea of agency explains two key issues surrounding agency. The first problem is that the goals or desires of the principal (shareholders) and agents (directors and managers) do not match. The second problem is that it is difficult to obtain common interests due to different risk preferences. Agency theory assumes that the principal and the agent are self-interested utility maximisers, and they drive the agent to deviate from the principal's goal. In the case where the agent has better information than the principal, it can lead to information asymmetry, which leads to the agent engaging in self-interested behaviour which will harms the principal’s interest (Bosse & Phillips, 2016). The theory shows that in order to realize common benefits, agency costs called supervision costs, guarantee costs and residual losses will be incurred (Saltaji, 2013).

Managers can be monitoring through internal and external control mechanism. Under the internal control mechanism, managers can be monitoring by adjusting the incentive contract, in which the managers are paid corresponding remuneration according to the performance investment plan. If managers fail to perform their duties in accordance with the expected goals, the managers must be dismissed because the managers fail to meet the expectations of the board. In order to give high salaries to performance managers, the board of directors can also reward managers through stock option plans. This purchase right plan gives the owner a sense of ownership and enables managers to act in good manner. On the other hand, shareholders are external monitoring forces because they need to ensure that shareholder wealth is maximized (Walsh & Seward, 1990). Especially the shareholders which hold large amounts of unit would like to prevent any management activities that damage the firm's value.

2.3.2 Stakeholder Theory

The stakeholder theory is another theory that describes the maximization of shareholder wealth in corporate governance. Gooyert, Rouwette, Kranenburg & Freeman, 2017 explaind that for a firm to create value in an ethical and sustainable, there must balance the various stakeholder’s interests

Freeman (2001) determined that stakeholders in two different scopes which is wide field view and narrow field view. The wide field view of stakeholders refers to any distinguishable group or individual who have the right to influence by the achievement of organizational goals. In other perspective, the narrow field view refers to any identifiable group or individual that the organization relies on to achieve sustainability. Stakeholders are divided into three categories based on the property they own. These three categories are expectant stakeholders, potential stakeholders and definite stakeholders. These stakeholders include suppliers, shareholders, customers, society and employees. Based on the past research, when management is stakeholder-oriented, company performance will be positively affected (Harrison & Wicks, 2013).

2.3.3 Stewardship Theory

Another theory that explains the relationship between principals and agents in corporate governance is stewardship theory. Stewardship theory delineate the agent. Under the stewardship theory, principal's wealth is maximized by the agent and the agent will protect the interests of the principal (Davis, Schoorman and Donaldson, 1997).

Davis (1997) determined that the structure of the stewardship relationship stems from the principal’s sociological characteristics and psychological characteristics. Agents in stewardship relationships seek achievement, self-realization and growth, and tend to achieve firm’s goals rather than personal gain. In addition, an agent can choose to act as an agent or a steward in stewardship theory and the choice is depends on the individual’s surrounding environment and psychological motivations. For example, if a person believes that the surrounding environment is unfavourable, he/she will act in an agency manner and will optimize his/her personal gains rather than organizational gains (Davis et al., 1997).

In addition, the stewardship relationship makes the agent and the principal mutually beneficial. The altruistic nature of this relationship encourages agents and principals to participate together and ultimately eliminate conflicts of interest. The development of this participatory strategic process can improve the firm's sustainability and ultimately become a firm's competitive advantage (Eddleston & Kellermanns, 2007).

2.3.4 Resource Dependency Theory

There are a lot of research have been conducted using the resource dependency theory to understand the correlation between corporate governance mechanisms and performance of firm in the past (Bhatt and Bhattacharya, 2015). The resource dependency theory explains the role of the board in transferring important resources or knowledge to the firm through contact with the external environment (Abdullah and Valentine, 2009). The resources that directors hope to bring into the firm include advice and consultation, legality, information exchange channels, and priority opportunities for external support from the firm (Hillman and Dalziel, 2003). For example, in a data base firm, appointing a director with marketing background would likely to improve the marketing strategy of a data base firm whose core business is data management.

Hillman and Dalziel (2003) stated that the resources or knowledge provided by the directors are critical to firm performance Nam, Liu, Lioliou, and Jeong (2018) believed that instead of relying on the external environment to provide support to the firm, appointing different field of directors can bring their experience, expertise and reputation to the firm, thereby reducing the uncertainty and ultimately improving firm performance. Hillman and Dalziel, 2003 stated that according to the resource dependency theory, the directors can divide into business experts, insiders, support experts, and influential communities. Different directors will have different roles because business experts will provide professional knowledge about business strategies; insiders will provide professional knowledge about finance and general directions; support experts, including marketers, bankers, lawyers, and their respective provide their respective expertise; influential communities, including politicians and community leaders, use their social networks to improve company performance.

2.4 Board Governance and Performance

2.4.1 Board Size and Firm Performance

Board size is crucial factor that consist of directors who are responsible to control and monitor the firm management and ultimate performance (Kusuma & Ayumardani, 2016). Board size can defined as the number of directors in the board of directors. Board size is the essential governance tools for consideration (Fanta et al, 2013). The issue in the board size is one of the vital in the field of finance and economic literature in respect of solving agency issue. However, Jensen (1993) believes that as the board size of directors increase, the effectiveness of the board of directors in supervision and management decreases due to the free-riding problem among directors and the increase in decision-making time. Existing unit trust's corporate governance research focuses on the board of directors and concludes that a smaller size of board of directors is an effective supervisor. Ding & Wermers (2005) found that when the size of the board of directors in the unit trust is larger and the proportion of outside directors is higher, the possibility of replacing under-performing managers is greater.

In the relevant literature, the findings of a lot of research in investigated the relationship between board size and firm performance is reported mixed results. Researchers claimed that larger board size will bring the diverse talent and decisions with the mix of directors educational background, technical knowledge, talent and skills etc. (Abeysekera, 2010). There are mainly two contrasting ideas on board size and firm performance. Stakeholder theory indicates that increase in the number of board of directors will enhance the degree of stakeholders' representation as a result it will be difficult for individuals or minor group to dominate the decision of board (Ghayad, 2008). The large board size is suitable for the complex firms where more advice is needed for corporate performance which can be attain from wide range of skillful and knowledgeable expertise who can improve the board decision (Abeysekera, 2010).

However, further due to larger board cost became higher which certainly makes ineffective corporate performance. Mak & Kusnadi (2005) in his study on 400 Malaysian and Singapore companies found that board size and firm performance are inversely correlated. They found that large board falls due to dismissal in directors' role, ineffective decision-making and higher directors' remuneration. Mak & Kusnadi (2005) mentioned that the performance of the board can be hampered with the increment of board size. This is because the growth might increase the communication barrier when many executives involved in the decision-making process (Hajer & Anis, 2018). Referring to the agency theory larger board size can create conflicts of interest among directors and mangers due to free-riding leaders (Hajer & Anis, 2018).

However, Fanta, (2013) suggest that 8 members are enough for effective board performance. Shakir (2008) found negative relationship between board size and firm performance. It should have a relatively small board of directors for the firm can be effectively monitoring. Reduce agency costs due to poor management, leading to better financial results. Hence a firm with strong governance systems does not need larger board size in order to perform.

H_1: There is negative relationship between the board size and the performances of unit trusts.

2.4.2 Number of Non-executive Directors and Firm Performance

Non-executive director is member of the firm's board and not members of the executive management. Non-executive directors usually do not participate in the daily management of the firm, but participate in policymaking and planning firm future direction. Moreover, the The duties of non-executive directors also include supervising executive directors and acting for the benefit of the company's stakeholders of non-executive directors also include supervising executive directors and acting for the benefit of the company's stakeholders. Establishment of non-executive directors is to challenge the performance and direction of the firm and its executive team. Non-executive directors have a more objective understanding of the company's interests than executive directors who may have agency problems with the investors as there do not hold management positions (Barone, 2020).

The non-executive director helps to alleviate the principal-agent problem. The participation of non-executive directors enhances the company's ability to protect itself from environmental threats and aligns the company's resources, thereby gaining greater advantages. However, Fama and Jensen (1983) argue that unit trust's boards are irrelevant due to investor monitoring. This implies a alternative effect between internal and external monitoring In the case of weak market monitoring, the board of directors should be more effective. Abdullah and Parvez (2012) found that the number of non-executive directors is negative and insignificant to firm performance. John and Senbet (1998) believe the board of directors of a firm will becomes more independent if the proportion of non-executive directors increases.

However, research on the impact of non-executive directors has grown significantly, but the conclusions are still inconclusive. Agrawal and Knoeber (1996) proved from different perspectives that even considering the interdependence between various corporate control mechanisms, non-executive director will have a negative impact on corporate performance. Ansah (2015) believed that adding non-executive directors to the board unable to improve corporate governance practice, especially in jurisdictions where the labor market for non-executive directors may be underdeveloped and the ownership is highly concentrated.

On the other perpective, some research have found that board of firms which are dominated by non-executive directors perform better, and found that there is a positive correlation between the number of non-executive directors and performance. The positive reaction of stock prices to the appointment of non-executive directors even though non-executive directors had already been in the majority (Rosenstein and Wyatt,1990). This indicating that non-executive directors provided expertise in addition to supervisory services. It can be said that the non-executive directors represents a key issue in the agency theory for managers to deal with opportunistic behavior. Some believe that this reduces conflicts of interest and ensures the independence of the board in overseeing and passing fair and impartial management judgments.

H_2: There is positive relationship between the number of non-executive directors and the performances of unit trusts.

2.4.3 Number of Independent Directors and Firm Performance

An independent director refers to individual who holds the position of the director only without any other post in the firm and has no relations with its major shareholders which would influence their independent judgments. The independent directors are the ones trusted by the owners to safeguard their very interest and to represent them thus, also reducing the agency problem as well (Joher and Ali, 2005). According to MCCG code 2017, at least half of the board of directors should be composed of independent directors; for large firm, the board should be composed of a majority of independent directors. The board of directors should evaluate independent directors annually.

However, the board must undertake annual assessment to measure the independence of the directors as there are potential for the judgment to be influenced by the familiarity and close relationship among the members. Apart from assessing the independent directors' family background, relationships and economic status, the board should ensure the independent directors can constantly convey independently and objectively judgments to the board deliberations. Independent directors can actively participate in the board discussion by contributing their independent views and ideologies. The independent directors must practice independence in the presence, performance and decision they make by steer clear of the influence by the insiders and management. According to Shukeri, Shin, & Shaari (2012), the composition of the independent directors as per the MCCG is insufficient to monitor the directors and management. Moreover, they indicate most of the firms in

Malaysia comprise of 30 percent independent directors on the board, yet it did not have a major effect on the management earning or firm performance.

A caution must be exercised prior to the appointment of independent directors into the board as the independent directors can possibly lead to a compromised control on the part of the board. Wallison (2006), indicates that firm comprises of independent directors have efficient governance and enhance corporate social performance rather than better financial performance. Representation of the independent directors in board should project a positive outcome in the financial performance. Moreover, Wang and Oliver (2009) states the power on the duties of directors are also being neutralize even when the firm is complying with the standard number of independent directors.

Moreover, there is negative correlations between independent directors and ROA especially when the boards have a majority of independent directors and vice versa (Koerniadi & Rad, 2012). The independent directors on board are also free from influences and are able to monitor the board effectively by protecting the shareholders and increasing the ROA (Maude et al., 2018). Another study done by Ntim (2011) found that there is significant and positive effect of independent directors with both TSR and ROA. Hence, the following hypothesis is formulated to test the arguments and measure the relationship between independent directors and firm performance.

H_2: There is positive relationship between the number of independent directors and the performances of unit trusts.

2.4.4 Gender Diversification and Firm Performance

Malaysian regulators continue to encourage gender diversification in the board by implementing various policies for the private and public sectors. In 2004, the civil service proposed for the first time the policy of increasing women's representation among senior management. Nowadays women plays an important role in the corporate zone by showing their knowledge, creativity and problem solving skills and which increase the interest of several researchers to study on this variable. According to Carter, Simkins, & Simpson

(2003) women are crucial for the organization due to their capabilities of providing solution of the problem. Further, Catalyst (2004) argued that presence of female directors enhance the performance of organization. She mentioned that female are lesser to have attendance problem in board meeting. In MCCG 2017 encourage the board to practice gender diversity where it mentioned that for public listed companies there should be at least 30% of women present in the board. This initiative allows women to stay in top management and take part in decision making. Subsequently, the Securities Commission Malaysia has recommended that big firms must have at least 30% of female directors. This shows that the role of female in senior management and the role of government in female leadership is very important and determined to empower more women to participate in decision-making.

There are positive, negative and no relationship between gender diversification and firm performance based on different researches and different theories. Researchers in the past have conducted extensive research and debate on the importance of women serving as board directors. Women directors actively participate in the work of the supervisory committee as they perform better in supervisory work (Adams and Ferreira, 2009). In addition, women directors have better attendance records than male directors and help to reduce absent problem of male directors. Furthermore, Erhardt et al. (2003) found that more woman directors support the firm's financial growth. Woman directors have a better quantitative impact on a firm's profitability, especially for firms with good performance (Conyon & He, 2017).

Konrad, Kramer and Erkut (2008) stated that some outstanding qualities of female directors, such as cooperation, courtesy, caring and open-minded board meetings will help to solve difficult issue in the board. The female's views is particularly important evident in the practice of market segmentation (Daily, Certo & Dalton, 1999). Firms with a higher concentration of female consumers will perform better if there are woman directors in the board who can provide some different views to make their products most suitable for the female consumers. In addition, compared with firms with only male directors, as companies include female directors, companies tend to retain or recruit female talents.

However, some researchers have found that woman directors have no effect or negative effect on the firm's performance. Shukeri, Shin and Shaari, (2012) found that women directors did not coincide with the firm's financial growth. Their research suggests that too much oversight in a gender-diversified board of directors may lead to a decrease in shareholder value. The impact of firms with good governance is more pronounced if compared with firms with poor governance,

H_4: There is a positive relationship between the gender diversification and the performances of unit trusts.

2.5 Overview of Total Annual Return

The total annual return is the return provided by an investment in a certain period of time. The sources of returns can include capital gain, dividends income and capital returns (Chen, 2020). The calculation the total annual return of an investment allows investors to analyze the performance of the investment in any given year. Total annual return is relatively simple to calculate compared with annualized return and used more frequently among investors. Total annual return can be calculated with the initial investment price at the beginning of the holding period and the investment price at the end of the year. The initial price is subtracte from the final price and determine the change in the investment price over time (Banton, 2019).

2.6 Fund Age

The age of a unit truts may play a very important role in determining performance, because young unit trusts may face higher costs during the start-up period. This is beacause the marketing costs and initial cash flow as it will put a greater burden on the unit trust's transaction costs. According to Bauer (2005), one of the reasons for the poor performance of young unit trusts is because they invest in fewer stocks, so they face higher market risks.

A research conducted by Otten and Bams (2001) showed that young unit trusts do better than old unit trusts. Yong and Jusoh in 2012 also argued that there is an inverse relationship between fund age and performance which is young unit trusts perform better than old unit trust.

However, Peterson (2001) determined that there is no relationship between the performance and fund age. But there is a relationship between fund age and fund size. The size of young unit trusts is often smaller than that of old unit trusts, which makes the returns and ratings of young unit trusts more susceptible to manipulation. Adkisson and Fraser (2003) mentioned that the smaller the size of the unit trust, the few stock selections can boost the performance of the entire unit trust. In addition, since young unit trusts are usually small, the unit trusts has the ability to waive part of the expenses.

2.7 Hypothesis Development

The following hypothesis is made based on the literature studies.

Hypothesis 1

H_1: There is negative relationship between the board size and the performances of unit trusts.

Hypothesis 2

H_2: Number of non-executive directors is positively significant with the performances of unit trusts.

Hypothesis 3

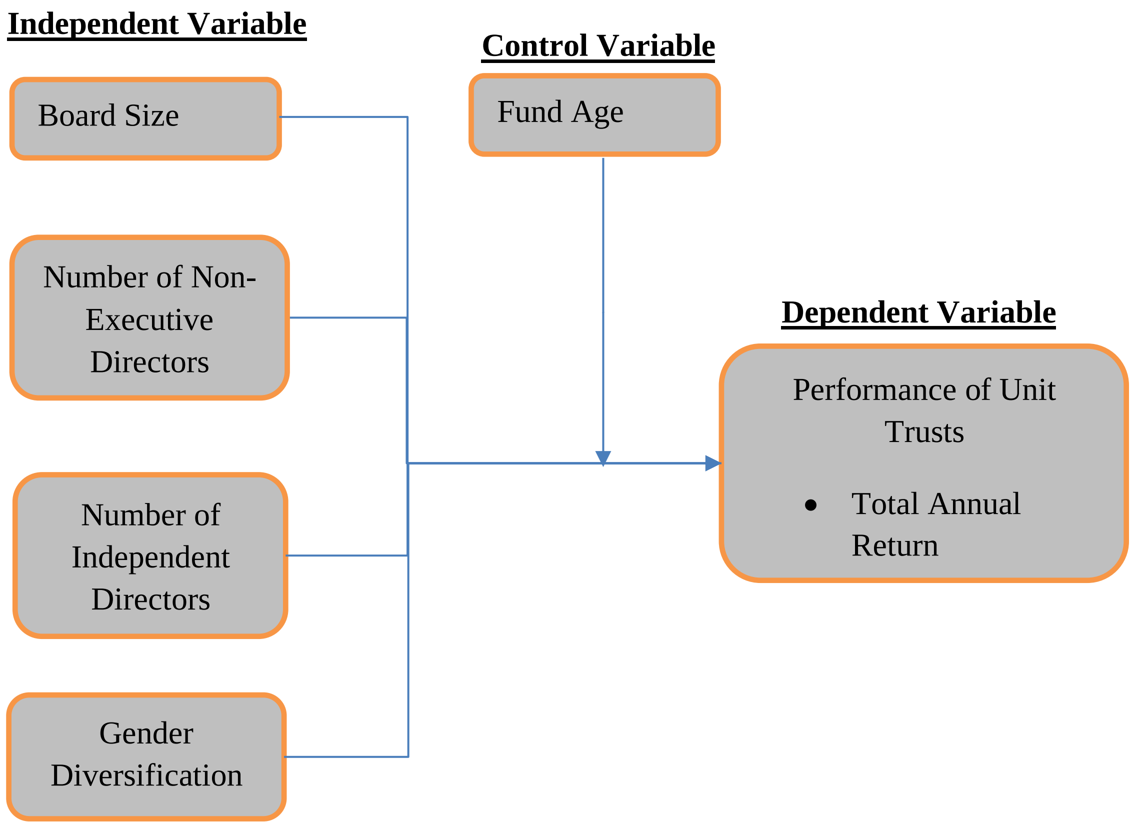
H_3: Number of independent directors is positively significant with the performances of unit trusts.

Hypothesis 4

H_4: Gender diversification is positively significant with the performances of unit trusts.

2.8 Research Framework

Figure 2.8: Corporate Governance Mechanisms and Performance of Unit Trusts



Based of the research framework for this research dependent variables and independent variables will be define in table above. The construct of instruments are made on the basis of past studies. The following table are built for the current study and both the tables indicate for dependent and independent variables:

The conceptual framework comprises of the independent variable which are Board Size, Number of Independent Directors, Number of Independent Directors, and Gender Diversification. The control variable is fund age. Meanwhile, the dependent variables are the performances of unit trusts measure by Total Annual Return

CHAPTER 3

Methodology

This chapter describes the methodology involved in selecting the samples, collecting data and analyzing the data. This research is conducted in the sequence of research design, sampling targeted, data collection method, varianle defination and data analysis. It also includes methods used in order to examine the objectives of this study.

3.1 Research Design

Research design is the basic direction of research because it includes numerical data collection and its interpretation is based on the attributes of the data source. The aim of this research is to examine the unit trust governance issues and its implications on the performances of unit trusts in Malaysia in 2020. The historical trend of conducting a quantitative research comprises of designing the research, collecting data, measuring and analyzing the data. According to Williams (2007), quantitative research method will be used when the information and data collected can be quantified and a statistical analysis could be conducted to support the hypothesis hence, the quantitative research will be used in this research. Besides, it also indicates the relationship between independent variables and dependent variables (Lodico, Spaulding & Voegtle, 2010). For this study, numeric data are used to determine the corporate governance mechanisms and the performances of unit trusts and the data will be collected from the fund's annual report, fund product highlights sheet, fund management firm's website, Securities Commission Malaysia

3.2 Sampling Targeted

Table 3.2: List of Fund Management Firms

No.	Fund Management firm
1	Public Mutual Berhad
2	Affin Hwang Asset Management Berhad
3	RHB Asset Management Sdn Bhd
4	Kenanga Investors Berhad
5	AmInvestment Service Berhad
6	Maybank Asset Management Sdn Bhd
7	CIMB Principal Asset Management Bhd
8	Eastspring Investments Berhad
9	Hong Leong Asset Maanagement
10	UOB Asset Management Berhad Berhad
11	Apex Investment Services Berhad
12	BIMB Investment Management Berhad
13	KAF Fund Management
14	Manulife Investment Management (M) Berhad
15	Phillip Mutual Bhd
16	PMB Investment Berhad
17	MIDF Amanah Asset Management Berhad
18	TA Investment Management Bhd
19	Permodalan BSN Berhad
20	Aiiman Asset Management Berhad
21	Inter-Pacific Asset Management Sdn Bhd
22	Areca Capital Sdn Bhd
23	Pheim Unit Trusts Berhad

3.2.1 Judgmental Sampling

Judgment sampling is a non-probability sampling technique in which sample members are selected based only on the judgment and knowledge of researchers. The results obtained are likely to achieve highly accurate results with the smallest margin of error as the researchers' knowledge helps to create samples using this sampling technique,

The total number of fund management firms registered under Securities Commission Malaysia is 40. The total number of launched funds is 710. Out of the 40 fund mangement firm, 10 firms do not launch any equity fund. Furthermore, out of the 25 fund management firms, 2 firms only lauch one equity fund. Thus, from the list of fund management firms, 23 fund management firms in Malaysia are choosed. This 23 fund management firms are choosed is due to this firms provide at least two equity funds in Malaysia. But the equity funds from these investment firm will be considered as the sample only. Thus, out of the 710 funds, 275 equity funds in year 2020 with complete set of data are selected.

Malaysia's equity funds continued to generate higher returns for investors in 2020, and outperform other equity funds and their benchmarks. Equity funds benefited from a low interest rate environment and investments in Covid-19 winners, the most famous of which are healtcare and technology sector stocks, which have risen sharply in 2020. During the pandemic, the demand for gloves increased, pushing up the average selling price of gloves. This helped the glove compaies achieve excess profits in 2020 and caused their stock prices to skyrocket. By the end of this year, as the valuation of glove stocks became frothy and positive vaccine news surfaced, the fund began to profit from glove stocks and moved more to other areas, such as technology, financial and consumer sectors. Looking to the technology sector, because companies that are unwilling to participate in the technological process are forced to digitize their operations to survive the pandemic, the pandemic has brought more technology adoption (FSMOne Malaysia, 2021). Therfore, only equity funds are selected.

Moreover, some fund management firm do not include the information of board in the annual report, thus researcher enable to obtain the the past information of board of directors.

Therefore, researcher can only conduct the study based on the lastes information of board of directors, which is year 2020. Information on CG mechanisms such as board size(BS), number of non-executive directors(NND), number of independent directors(NID), gender diversification(GD) and were obtainable manually from the firm management website. The fund's annual reports data are more reliable due to mandotory audit of independent and qualified auditors.

3.3 Data Collection Method

3.3.1 Secondary Data

Secondary data is data collected by a third party for multiple factors other than the problem in hand (Zeithaml et al., 2010). The secondary sources varies in terms of data available from within or externally from the organization whilst some are available through case studies, online search engines, previous research and library records. External data such as journals, e- journals, magazines, articles, books and internet can be used to acquire the information. Secondary data are also inexpensive as it could be obtained with ease in contrast to the primary data.

The search engines such as Google, Websites, Internet and so on are widely recommended due to its effectiveness in obtaining wide range of information from various group of research that are specialist in sharing their knowledge relating to the topic.

Moreover, secondary data can help researchers to identify and developed problem-solving methods by formulating appropriate research designs. The data and information acquired from the secondary sources are also more reliable as they are published and recognized by qualified scholars and researchers.

3.3.2 Fund's Annual Report, Fund's Product Highlights Sheet, Fund Management Firm's Website

The secondary data will be used for this research and the data are obtained widely from fund's annual reports which were obtained from each investment firm website. The list of launched unit trusts provide by all fund management firm registered under Securities Commission Malaysia are acquired from Securities Commission Malaysia webiste.The total annual return are acquired from each fund's annual report. The data required from the each fund mangement firm's website is the board size, number of non-executive directors, number of independent directors, gender diversification.

Moreover, MCCG 2017 (Practice 4.5) stated that a public listed company of women directors must comprehend at least more than thirty percent of the board. Number of independent director in the board will be considered to verify that a board should comprise a majority independent directors of 50% according to MCCG 2017 (Practice 4.1). MCCG 2017 stated that a PLC women directors must comprehend at least more than thirty percent of the board. The number of independent directors in the board was calculated as well. The data reflects the corporate governance practices as the resources are collected based on the MCCG 2017 requirement and the codes of best practices.

3.4 Variable Definition

Based of the research framework for this research dependent variables and independent variables, the construct of instruments are made on the basis of past studies. The following table are built for the current study and both the tables indicate for dependent and independent variables:

Table 3.4.1: Dependent Variable Definition

Dependent Variable	**Formula**	**Reference**
Total Annual Return	Total Annual Return =Capital growth + Income growth	(Banton, 2019)

Table 3.4.2: Independent Variable Definition

Independent Variable	**Formula**	**Reference**
Board Size	Number of Directors in the board	(Kyereboah-Coleman & Biekpe, 2006)
Number of Non-executive Directors	Percentage of non-executive directors in the board	(Abdullah and Parvez, 2012)
Number of Independent Directors	Percentage of independent directors in the board	(Ponnu & Karthigeyan, 2010)
Gender Diversification	Percentage of women directors in the board	(Yusoff & Ramin, 2013)

Table 3.4.3: Control Variable Definition

Control Variable	**Formula**	**Reference**
Fund Age	Number of years unit trut being launched	(Yong & Jusoh, 2012)

3.5 Data Analysis

3.5.1 Descriptive Analysis

Descriptive statistics combine measures of various aspects of a population or distribution. It gives the researcher an overview image of the population. These analysis consist of mean, median, standard deviation or interquartile range as measure of scale, skewness, kurtosis and correlation (Bickel & Lehmann, 1975). For the study, this method is used to obtain the mean, standard deviation, minimum and maximum, for independent, dependent variables and the control variables.

3.5.2 Reliability Test

Reliability test ensure the researcher about the data accuracy where similar result will obtain in multiple analysis (Hair, Bush and Ortinau, 2002). In this study correlation analysis was conducted to ensure data reliability. According to Tabachnick and Fidel (2007) multicollinearity problem occurs when the correlation exceeding 0.9. Therefore all the variables showed in the correlation table are below the maximum point.

3.5.3 Cross Sectional Regression Analysis

In this cross sectional data estimation techniques were used. According to Qiao, Chen, Dong and Dong (2019), cross-sectional analysis is an analysis in which investors, analysts, or portfolio managers compare a particular firm with its industry peers. This regression analysis focus on a head-to-head analysis between a firm and the competitors, or can analyse from the perspective of the whole industry to identify the strengths of firm. Cross-sectional regression analysis is often used to try the data points beyond the usual the balance sheet numbers to evaluate the investment opportunities and performance (Chen, 2019).

The empirical model to determine corporate governance and its impact on performance of unit trusts is designated as

Model 1-

Total Annual Return$_{it}$=α_1+β_1BS$_{it}$ +β_2NID$_{it}$ +β_3NND$_{it}$ +β_4GD$_{it}$ +δFA$_{it}$ +ε_{it}

Where for fund *i* form firm *t*, Total Annual Return is the performance of fund. The independent variables are board size(BS), number of executive directors(NND), number of independent directors(NID), gender Diversification(GD) and fund age(FA) is control variables which is fund age. α is the Regression constant and β is Beta Co-efficient.

CHAPTER 4

RESEARCH RESULT

The findings of the study that were analysed using the SPSS will set out in this chapter. The results from the secondary data were collected to determine the relationship between the variables. Descriptive analysis will include median, mean, maximum, and minimum value as well as standard deviations for all variables followed by the correlation matrix. Cross-sectional multiple regression will be used to test the significance of the explanatory variables. Finally, the explanatory data and clarifications will be written in a detailed and clear manner according to the results obtained from the studies.

4.1 Descriptive Analysis

Table 4.1 is the analysis of statistics descriptive of the variables from dataset. Moreover, this analysis covers the unit trusts's data of fund management firms in Malaysia. This includes a description of the independent variables, dependent variables and control variables used for the study. The main information discloses by descriptive analysis include mean, minimum value, maximum value, and standard deviation. The mean is used to measure the central tendency.

Tabe 4.1: Descriptive Analysis

	Entire Sample				
Dependent Variable	Mean	SD	Min	Max	N
Total Annual Return %	8.62	17.17	-24.65	65.75	275
Independent Variable					
Board Size	6.58	1.79	4	10	275
No. of Independent Directors %	47.77	11.86	25.00	80.00	275
No. of Non-executive Directors %	76.04	13.68	28.57	100.00	275
Gender Diversification %	17.40	10.20	0.00	40.00	275
Control Variable					
Fund Age (Year)	13.36	8.52	1	54	275

Notes: 1. Number of observation for entire sample = 23 fund management firms

According to Table 4.1, the number of observations 275. The mean of the Total Annual Return is 8.63%. This mean that the avaerage Total Annual Return on unit truts's performance is approximately 8.62% with a standard deviation of 17.17% meaning that the volatility of the unit trusts under this study is 17.17%.

The mean of Board Size for fund management firms is 6.58 with a standard deviation of 1.79. With regards to the Number of Independent Directors measured as the proportion of independent director to total number of board of directors, the mean value is 47.77% with a standard deviation of 11.86%. This results indicate that the some of the fund management firms are not practicing good corporate governance which requirement of MCCG 2017 (Practice 4.1), stated that at least half of the board contains independent directors. Besides, the mean of Number of Non-executive directors is 76.04% with a standard deviation of 13.68%. This means that board of director of fund management firms have more non-excutive directors than executive directors. MCCG 2017 (Practice 4.5), stated companies require to have 30% women directors in the board, while the Gender Diversification of fund management firms had an average high as 17.40% with a standard deviation of 10.20% and with a maximum of 40% and minimum of 0%.

The result of control variable which is Fund Age had the mean value of 13.36 years with minimum of 1 year and maximum of 54 years.

4.2 Correlation Analysis

Table 4.2: Correlation Analysis

	TAR	BS	NID	NND	GD	FA
TAR	1.000					
BS	0.067	1.000				
NID	0.092	-0.182	1.000			
NND	0.251	0.071	0.373	1.000		
GD	0.137	0.522	0.149	-0.025	1.000	
FA	-0.183	0.039	0.110	-0.064	0.050	1.000

Notes: 1. TAR = Total Annual Return, BS= Board Size, NID= No. of Independent Director, NND= No. of Non-executive Director, GD= Gender Diversification, FA= Board

This research is to explain the relationship between dependent variable and independent variables. Multicollinearity issues arise when two or more variables are strongly correlated, which indicates a negative effect on regression. High correlation could make the regression unreliable.

In Table 4.2, the analysis indicates the Total Annual Return have a highest positive correlated with Number of Non-Executive Directors at 0.251. There are also positive correlation between Total Annual Return and Board Size, Number of Independent Director and Gender Diversification with significant at 0.067, 0.092 and 0.137. But there are negative correlation between Total Annual Return and Fund Age with significant at -0.183.

Board Size is positively correlated with Number of Non-Executive Directors, Gender Diversification and Fund Age significant at 0.071, 0.522 and 0.039. But there are negative correlation between Board Size and Number of Independent Director with significant at -0.182. Number of Independent Director is positively correlated with Number of Non-

Executive Directors, Gender Diversification and Fund Age significant at 0.373, 0.149 and 0.110. Number of Non-Executive Directors is negetively correlated with Gender Diversification and Fund Age significant at -0.025 and -0.064. Gender Diversification is also positively correlated with Fund Age significant at 0.050.

4.3 Regression Analysis Results

Table 4.3: Regression Analysis Result on the Corporate Governance and Performance of Unit Trusts

Dependent Variable: Total Annual Return

Independent Variables	Coef.	Std. Err.	T	P-values
TAR	-0.362	0.701	-0.517	0.606
BS	-0.023	0.099	-0.230	0.818
NID	0.317	0.081	3.916	0.000
NND	0.293	0.121	2.416	0.016
GD	-0.348	0.117	-2.966	0.003
Observation	275			
F(5,269)	6.986			
prob>F	0.000			

Notes: 1. TAR = Total Annual Return, BS= Board Size, NID= No. of Independent Director, NND= No. of Non-executive Director, GD= Gender Diversification, FA= Board

The regression analysis is used to investigate the relationship between corporate governance and performance of unit trust. The F-ratio shows that the independent variables statistically significantly predict the dependent variable, $F(5, 269) = 6.986$ and the p-value is less than 0.05 ($p < 0.05$). Overall, one equation was used to run the cross-secrional regression model to measure the performance. The F-test is highly significant; therefore, we can assume that the model explains a significant amount of the variance in murder rate and the regression model is a good fit of the data.

4.3.1 Board Size and Performance of Unit Trust

There is a negative and insignificant relationship between Board Size with Total Annual Return (Performance of Unit trusts) which the p-value shows a insignificant level of more than 0.05 ($p>0.05$). The board of directors is responsible for the management of the firm and its operations. Since the Board Size is statistically insignificant, the unit trust fund and unit trust's board are irrelevent in Malaysia. This is consistent with the views of Fama & Jensen (1983), who believe that unit truts's boards are irrelevant because of investor monitoring. This finding is inconsistent with the findings of (Jensen & Meckling 1976; Jensen, 1993 and Ding & Wermers 2005). These previous empirical studies have found that there is a positive correlation between the board size and the value of the . Thus, Hypothesis1 is not supported.

4.3.2 Number of Non-executive Directors and Performance of Unit Trust

According to the analysis, Number of Non-executive Directors is found positive and significant relationship between Total Annual Return which the p-value shows a significant level of less than 0.05 ($p<0.05$). It means Number of Non-Executive Directors are relevant and where increase in proportion of the outside directors rather than the inside demonstrates incresae on unit truts's performance. This means that the involment of non-executive directors will enhance the firm's ability to protect itself from environmental threats and adjust company resources to gain greater advantages. The non-executive directors of the board also does help alleviate the principal-agent problem. This is consistent with the findings of Rosenstein and Wyatt (1990) that stock prices have a positive response to the Numbber of Non-Executive Directors, even if the non-executive directors directors have already accounted for the majority. This indicates that Non-Executive Directors provide expertise in addition to supervisory services. Thus, Hypothesis2 is supported.

4.3.3 Number of Independent Directors and Performance of Unit Trust

Number of Independent Directors was found it has an negative and insignificant relationship with Total Annual Return which the p-value shows a insignificant level of more than 0.05 ($p>0.05$). Therefore, the findings do not support the hypothesis indicating there is no significant relationship between Number of Independent Directors and unit trust's performance. Independent directors can actively participate in the board discussion by contributing their independent views and ideologies. The independent directors must practice independence in the presence, performance and decision they make by steer clear of the influence by the insiders and management. According to Shukeri, Shin, & Shaari (2012), the composition of the independent directors as per the MCCG is insufficient to monitor the directors and management. Moreover, they indicate most of the firms in Malaysia comprise of 30 percent independent directors on the board, yet it did not have a major impact on the earning management or firm performance. Thus, Hypothesis3 is not supported.

4.3.4 Gender Diversification and Performance Of Unit Trust

The result show Total Annual Return is positive and significant relationship towards Gender Diversification which indicates the p-value is less than the significant level at 0.05 (p<value). Henceforth, the findings supported the hypothesis which indicates there is significant relationship between number of women directors and unit truts's performance. The result supported by Conyon and He (2017) which proven that the better performance of having female directors on board. The study report stated that female directors can have a better quantitative impact on a firm's profitability, especially for firms with good performance. Further, Catalyst (2004) argued that presence of female directors enhance the performance of organization. Catalyst (2004) mentioned that female are lesser to have attendance problem in board meeting. Thus, Hypothesis4 is supported.

4.4 Control Variables

4.4.1 Fund Age

Fund age has a negative effect on unit trust's performance, which means that the longer the unit trust has been in existence, the lower the performance. This is consistent with (Yong & Jusoh, 2012; and Otten & Bamsin, 2001).

4.5 Summary of Hypothesis Result

Table 4.5: Summary of Hypothesis

Hypothesis	**Description**	**Decision**
Hypothesis 1	There is no significant relationship between board size and performance of unit trust.	H_1 not supported.
Hypothesis 2	There is a significant relationship between number of non-executive director and performance of unit trust.	H_2 supported.
Hypothesis 3	There is no significant relationship between number of independent director and performance of unit trust.	H_3 not supported.
Hypothesis 4	There is a significant relationship between gender diversification and performance of unit trust.	H_4 supported.

4.6 Conclusion

This chapter presents a diverse array of diagnostic research methods as well as hypotheses that have been explored to analyze the relationship of the explanatory and response variables in the regression model. All empirical findings were defined and presented in the form of tables and figures.

CHAPTER 5

DISCUSSION AND CONCLUSION

This chapter includes a summary of the statistical analysis, discussion of major findings, implication of the study, limitations of the study, recommendation for future research, and conclusion.

5.1 Summary of Statistical Analysis

The objective of this research was to assess the relationship between CG mechanisms and performance of unit trusts in Malaysia in 2020. The analysis of various CG mechanisms refers to the vital of the board as an integral part of internal governance that controls management to achieve improvement of the performance of unit trust. This research was conducted on 23 fund management firms and 275 unit trusts in Malaysia for 2020 years period. The CG mechanisms used for this study include Board Size, Number of Non-executive Directors, Number of Independent Directors, and Gender Diversification.

According to Table 4.1, the mean of the Total Annual Return is 8.63% with a standard deviation of 17.17% meaning that the volatility of the unit trusts under this study is 17.17%. The mean of Board Size for fund management firms is 6.58 with a standard deviation of 1.79. With regards to the Number of Independent Directors measured as the proportion of independent director to total number of board of directors, the mean value is 47.77% with a standard deviation of 11.86%. Besides, the mean of Number of Non-executive directors is 76.04% with a standard deviation of 13.68%. While the Gender Diversification of fund management firms had an average high as 17.40% with a standard deviation of 10.20% and with a maximum of 40% and minimum of 0%. The result of control variable which is Fund Age had the mean value of 13.36 years with minimum of 1 year and maximum of 54 years.

In Table 4.2, the analysis indicates the Total Annual Return have a highest positive correlated with Number of Non-Executive Directors at 0.251. There is also positive correlation between Total Annual Return and Board Size, Number of Independent Director and Gender Diversification with significant at 0.067, 0.092 and 0.137. But there is negative correlation between Total Annual Return and Fund Age with significant at -0.183.

5.2 Discussion on Findings

Referring to Table 4.3, the empirical results showed statistically significant and positive associations between board composition and unit trust's performance. This study results indicated that Malaysia's fund management firm perform better unit trust's performance with higher Number of Non-Executive Directors. Furthermore, the empirical results also showed statistically significant and positive associations between Gender Diversification and unit trust's performance. This showed that fund management firm in Malaysia tend to perform better unit trust's performance with higher percentage of Gender Diversification.

The CG mechanisms have an important impact on the performance of unit trusts of fund management firms in Malaysia. Board Size recorded not significant relationship with unit trust's performance. Basically, a well-established corporate governance system can ensure effective corporate governance on issues such as effective control and accounting systems, strict monitoring, effective supervision mechanisms, and effective use of firm resources, thereby improving performance. The areas of CG mechanisms and unit trust's performance still need further research to improve the problems faced by the industry.

5.3 Implication of the Study

The objective of the research to study this research is to examine the CG mechanisms towards the performance of unit trusts in Malaysia. The results of this study are vital due to it could lead to a better understanding of the importance of the CG variables on the unit trust's performance by fund management fund in Malaysia. Hence, the fund management firm can enhance the performance of unit trusts using the information by this research. The result of correlation analysis indicates that Total Annual Return have a highest positive correlated with Number of Non-executive Directors. It means that the higher percentage of non-executive directors increases unit trust's performance thus directly improve the firm performance.

Besides, Gender Diversification is found significant towards performance of unit trust. According to MCCG 2017 (Practice 4.5) indicate that female directors must comprehend at least more than thirty percent of the board. This study is vital for policymakers as it lays out requirements for implementing improvements to the MCCG 2017 to regulate the Gender Diversification of the company's board. Therefore, fund management firms must make sure the company to comply MCCG 2017 and prevent the company from getting punishment.

On the other hand, Board Size and Number of Independent Directors found to be insignificant. But the resulting review board of fund management firm also need to ensures that their board comprises of a majority of fifty percent independent directors in compliance with MCCG 2017 (Practice 4.1). Throughout this research, the finding provides policymakers with the advantage of evaluating the success of the MCCG 2017. For policymakers to improve the regulation of the internal control function of fund management firm, future improvement policies have to set as an obligation for fund management firm to publish in terms of compliment of the MCCG execution and result of the firm in the annual report by the fund management firm's management team to enhance transparency. As a consequence, investors can use the findings as a benchmark or guideline to make their investment decisions.

5.4 Limitation of the Study

Researcher encounters a limited range of drawbacks when conducting the quantitative study. Firstly, there was a time limitation by the researcher to restrict the sample size to only 275 equity funds provide by 23 fund management firms in Malaysia, which would theoretically decrease the reliability and accuracy of the results. There are only twelve weeks given by the researcher to complete the study. A researcher may need more time and information to analyse the literature by reading more articles to have more in-depth knowledge about the topic.

Moreover, the structure and approach used for this study are restricted and the time frame used was only for year 2020. This is due to the researcher enable discover the information of board of directors for each fund management firms for previous years. In addition, the measurement of the independent and dependent variables in this analysis are limited. This study also does not acknowledge any external variables, such as risk, inflation, exchange rate and economic variability that may influence the performance of unit trusts.

5.5 Recommendations for Future Research

This research study was conducted only in Malaysia as well as on a specific type of fund which is equity fund. The data composed cannot be utilized to determine in other types of fund and fund management firms located in local or foreign countries. There is a wide variety of different practices for fund management firms conducting CG in numerous nations as a future researcher can make comparisons using CG mechanisms towards performances of unit trust in from Malaysia compare with other commonwealth countries such as Singapore, United Kingdom, or India. In addition, researchers are recommended to conduct study for all types of fund which is Money Market Funds, Exchange Traded Funds (ETF), Fixed Income Funds, Index Funds, Feeder Fund, Real Estate Investment Trusts (REITS) and etc.

This research collected data with a sample period from 2020. Therefore, future research is recommended to study this topic with a longer sample period to better analyse the relationship between the CG mechanism and performance of unit trusts. Furthermore, annual reports of different fund management firm might have different financial periods, and this may lead to bias results. Thus, future research can conduct data collection more consistently by selecting the unit trusts with same financial periods.

Lastly, more independent or dependent variables are recommended to future researchers to better capture the relationship between CG mechanisms and performance unit trust. For example, future researcher can use CG mechanisms such as frequency of board meeting, board quality, investment committee, audit committee, and/or director salary can be added to examine the impact of CG mechanism on performance of unit trust in different regimentation.

5.6 Conclusion

This chapter had concluded the results of the research were summarized in this chapter. The chapter addressed the main conclusions from data collection, the importance of good corporate governance compliance practice by fund management firms. This chapter also has provided suggestions to prospective researchers to achieve better results. Moreover, this research has accomplished the key quantitative objective of researching and evaluating how CG mechanisms can impact the performance of unit trust which is Total Annual return in Malaysia. In this study, one dependent variables, four independent variables, and one control variables are used in the regression model to determine the performance of unit trust of 23 fund management firms. Hence, the thesis has been reflected in the statistical analysis, major findings, the implication, the limitation of the study, and recommendations for future research have been addressed in this chapter.

Besides, the researcher analysis answers the research objectives where CG mechanisms such as Number of Non-executive Directors and Gender Diversification are found significant in this study, whereas Board Size, Number of Independent Directors are found insignificant. The implication is that the existence of non-executive directors does help alleviate the principal agency problems associated with unit trust. Gender Diversification and performance of unit trusts show a positive and significant relationship indicating that including women on the board of unit trust will improve the performance. Control variables such as Fund Age which will affect the performance has been considered.

In summary, this research has reported some mixed results of corporate governance mechanisms related to performance of unit trusts. This may due to level of corporate governance awareness and time differences and practice between fund management firm. Performance of unit trust is affected by factors other than corporate governance mechanisms. Changes or improvements in laws and regulations may also bring differences in various research reports.

Last but not least, fund management firms in Malaysia are found to be complying corporate governance practices but policymakers can still improve MCCG to a more stringent route such as implementing at least a foreign director in the board as fund management firms can enhance better performance of unit trusts by attracting foreign investors to invest in Malaysia.

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