Master of Science (Banking)

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Financial Crisis and the Effect of Corporate Governance Practices on Banks' Financial Performance

By

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Abstract

This paper aims to identify whether the selected corporate governance practices of Malaysian Banks, affect either positively or negatively, its rate of return on equity (ROE). Descriptive research design has been used for this research to describe the characteristic of the banks' compliance to corporate governance and the impact on its ROE. Data from all ten listed local banks in Malaysia were obtained to measure against four independent variables, ie. the proportion of non-executive directors, the proportion of institutional investors, the level of gearing and the concentration of ownership. It was found that the higher the level of gearing of the bank, the higher is the monitoring role of the lenders and the better would be the bank's ROE. Future research can also compare pre and post-financial crisis corporate governance practices and its impact on Banks' financial performances.

JEL classification: G2, G3
Keywords: Corporate governance, Financial crisis, Bank performance

CONTENTS

1.0 INTRODUCTION

The East Asian country financial crisis of 1997-98, has brought many organizations to focus on corporate governance. Financial crisis demonstrates the importance of effective corporate governance in developing countries as founded by Krugman (1994)[1], Radelet and Sachs (1998)[2] and Rasiah (1999)[3]. Indeed, weak corporate governance was one of the reasons which led East Asian businesses to poor investment decision, excessive diversification of a large business group and excessive exposure to debt. Many commentators, such as Noordin (1999)[4], argued that the erosion of investor confidence in Malaysia was brought about by the country's poor corporate governance standards and a lack of transparency in the financial system.

Poor governance standards in both private and government-owned firms were blamed in part for the East Asian financial crisis. This resulted in considerable retrenchment and downsizing of operations, and the closure of many firms. In Malaysia, reforms in corporate governance were a focus of government responses to the crisis. The contraction of the Malaysia economy, along with instability in the commodity prices and a marked decline in share price, adversely affected the corporate sector.

Attention was understandably been drawn to addressing and researching the underlying issues and factors that led to the crisis, with the view to learning how to prevent a recurrence of another crisis. However, it is still not clear whether poor corporate governance was a cause to the current global financial crisis and the economic meltdown.

Nevertheless, restoration of confidence in the economy by the investors will rely on improvements in the corporate governance standard, including the adoption of transparency as an important strategy in corporate management.

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[1] Krugman, P. (1994), "The Myth of Asia Miracle", *Foreign Affairs* 73, No. 6, pp. 62-78.
[2] Radelet, S. and Sachs, J. (1998), "The East Asian Financial Crisis: Diagnosis, Remedies, Prospects", Research Paper, Brookings Panel, Washington D. C., 26-27 March, 1998.
[3] Rasiah, R. (1999), "Assessing the Recovery Plans of Asian Economies Destabilized by Financial Crisis", Conference Paper, Faculty of Economics and Business, UNIMAS.
[4] Noordin, H. (1999), "Strengthening the Audit Mechanism", *Akauntan Nasional*, April 1999, p. 24.

The majority of public listed companies in Malaysia has understood and accepted the concepts and codes of corporate governance since they were introduced in 2000. Government Linked Companies (GLCs) were among the first group of companies in Malaysia to comply with the corporate governance. The Government move by promoting good corporate governance in GLCs expected to set the example for the rest of the corporate sector due to their prominence and substantial component of the Malaysia economy.

Many believe that good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. However, the majority of public listed companies in Malaysia have understood and accepted the concepts and codes of corporate governance.

If better corporate governance is related to better company's performance, better-governed companies should perform better than less-governed companies.

For a weak corporation in these countries owe much to their very concentrated ownership structure, excessive government interventions, lack of transparency, disclosure and accountability, existence of a complex system of family-controlled companies and weak legal and regulatory framework for investor protection.

In the Ninth Malaysia Plan, the government has intensified its effort to enhance the integrity, transparency and accountability of the public and private sectors and further improve the level of good governance in order to facilitate development. In order to make Malaysia a more competitive and developed nation, good principles of corporate governance must be properly implemented. The improvement of each economic sector performance in the country will partly enhance the importance of corporate governance in management.

2.0 PURPOSE OF STUDY

There have been numerous studies on corporate governance practices and firms' financial performance but none was found specifically focusing on the banking industry in Malaysia. Hence, the purpose of this research is to fill this research gap and to study the following:

1. To explore and contribute to current knowledge on some of the corporate governance practices that affect bank financial performance.
2. To identify factors relating to corporate governance practices that affect the financial performance of banks.
3. To discuss the results and highlight their implications on banks.

3.0 LITERATURE REVIEW

Many studies have been done to establish the link between strong corporate governance practices and financial performance. Indeed, there are studies that have found positive linkage between the two, as per a recent research conducted by Ponnu and Ramthandin (2008)[5], conversely there is equally a growing number which have found no linkage between corporate governance practices and firms' performance, as was found by Gompers et. al (2003)[6].

Whereas, the study by Stanwick P. A. and Stanwick S. D. (2002)[7], implies that, using the rankings of the Best and Worst Board of Directors published in Business Week, the results showed that overall board performance does impact firm performance.

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[5] Ponnu C. H. and Ramthandin S. (2008), "Governance and Performance: Publicly Listed Companies in Malaysia", *Journal of Business Systems, Governance and Ethics*, Vol. 3 No. 1, pp 35-53.

[6] Gompers P. A. and Lerner L. (2003), "The really long-run performance of initial public offerings: The pre-Nasdaq evidence", *Journal of Finance*, Vol. 58, No. 4.

[7] Stanwick, P. A. and Stanwick, S. D. (2002), "CEO and ethical reputation: visionary or mercenary?", *Management Decision*", 41/10, pp. 1050-57.

In a study conducted by Bhagat and Black (1999)[8], it was found that there is no evidence to support that, firms should have a majority of independent directors because some majority-independent directors firms are less profitable than others.

In earlier research of corporate governance, researchers have investigated few factors that may influence the performance of a firm. Among others are the governance role of independent directors, the governance role of institutional investors, the role of lenders and the concentration of ownership structure.

3.1 The Governance Role of Independent Director

You et al. (1986)[9] reported a significant negative correlation between the proportion of 'insider directors' and bidder stock price return. This result suggested that companies with relatively more independent directors tend to be more profitable then those with fewer independent directors. They suggested that the independent directors lead more profits as they act to restrain the tendency of CEO to build his own financial empires. Denis and Sarin (1997)[10] found that firms that substantially increased the proportion of independent directors have above-average stock price returns. Conversely, several studies suggested that firms with more independent directors perform worse, e.g. Agrawal and Knoeber (1996)[11] found negative correlation between the proportions of outside directors with companies' growth prospect of asset, while Bhagat and Black (1997)[12] established from their study that high proportion of independent directors correlates with lower profitability.

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[8] Bhagat, S. and Black, B. (1999), "The Uncertain Relationship Between Board Composition and Firm Performance", Columbia Law School, Working Paper No. 137.

[9] You, Victor, R., Caves, M. Smith, and Henry, J. (1986), "Mergers and Bidders, Wealth; Managerial and Strategic Factors", In *The Economics of Strategic Planning: Essays in Honor of Joel Dean*, edited by L. Glenn Thomas, III, Lexington, pp. 201-21.

[10] Denis, D. J. and Sarin, A. (1997), "Ownership and Board Structures in Publicly Traded Corporations", Working Paper.

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[12] Bhagat S. and Black B. (1997), "Do Independent Directors Matter?", Working Paper.

Allan 2004)[13], in Malaysian's context, found no significant impact between role of independent director with earnings of corporations.

3.2 The Governance Role of Institutional Investors

The large outside (institutional) shareholders are regarded as an effective monitoring mechanism. As was found by Pound (1988)[14], investments made by institutional shareholders are so large that they have less ability than individual shareholders to move quickly in and out of funds without affecting the share price. As a result, institutional investors have a strong interest not only in the financial performance of the firms in which they invest, but also in strategies, activities, and other stakeholders of those firms as was reported in Fortune (1993)[15].

In addition to the monitoring role, Schleifer and Vishny (1986)[16] argue that large outside shareholders assist the market for corporate control simply by being willing to sell their shares, should an appropriate bid be made. Institutional investors therefore have an incentive to monitor the behavior of managers, which would solve the free-rider problem identified by Grossman and Hart (1980)[17]. In a study of 201 firms facing control contests, Brickley et. al., (1997)[18] found that the average institutional investor was more likely to vote and get involved in firm's decisions than the average non-institutional shareholder, because of the former's higher equity stake in the firm. Allan (2004)[19], suggested that an increased proportion of institutional investors leads to increased return on equity.

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[13] Allan C. A. L. (2004), "The Impact of Corporate Governance Practices on Firms' Financial Performance: Evidence from Malaysian Companies", *ASEAN Economic Bulletin,* 21, 3, December 2004, p. 308-18.

[14] Pound, J. (1988), "Proxy Contests and the Efficiency of Shareholders Oversight", *Journal of Financial Economics,* 20, pp. 237-65.

[15] Fortune (1993), "What Activist Investors Want", 8th March, 1993, pp. 59-63.

[16] Schleifer, A. and Vishny, R. W. (1986), "Large Shareholders and Corporate Control", *Journal of Political Economy*, 95, pp. 461-88.

[17] Grossman, S. and Hart, O. D. (1980), "Takeover Bids, the Free-rider Problem and the Theory of the Corporation", *Bell Journal of Economics* (Spring 1980), pp. 42-64.

[18] Brickley, J., Coles, J. and Jarrell G. (1997), "Leadership Structure: Separating the CEO and Chairman of the Board", *Journal of Corporate Finance*", 4, pp 189-220.

[19] Allan C. A. L. (2004), "The Impact of Corporate Governance Practices on Firms' Financial Performance: Evidence from Malaysian Companies", *ASEAN Economic Bulletin,* 21, 3, December 2004, p. 308-18.

3.3 The Role of Lenders in Corporate Governance

It was suggested that the lender function as a force in corporate governance. Lenders are interested in repayment of credit, i.e. lenders are to ensure that the repayment of credit from a borrowing company is in accordance to the credit contract. Since the management's actions of a company are one of the factors determining repayment, lenders may be motivated to carry out monitoring.

Cable (1985)[20] and Nibler (1995)[21] discovered a positive relationship between apparent bank (lender) influence on companies and the profitability and growth of companies. However Chirinko and Elston (1996)[22] did not find any significant relationship between bank influence and a company's earnings.

Allan (2004)[23], who conducted a research on Malaysian companies, have concluded that more highly geared firms, or firms with relatively higher level of borrowings, have lower rate of returns on equity. He suggested that the higher debt limits the ability of the firm to take on risky and potentially profitable projects. This factor appears to carry more weight then the beneficial impact stemming from monitoring by lending banks.

3.4 The Concentrated Ownership Structure

Xu and Wang (1999)[24], from a study on 127 Chinese companies listed in the Shanghai Stock Exchange and the Shenzen Stock Exchange for the period 1993 to 1995, found a positive correlation between ownership concentration and firm performance. They suggest that large legal person shareholders have the incentive and power to effect the

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[20] Cable, J. (1985), "Capital Market Information and Industrial Performance: The Role of West German Banks", *Economic Journal*", 95, pp. 118-32.
[21] Nibler, Marcus (1995), "Bank Control and Corporate Performance in Germany: The Evidence", Working Paper No. 48, St. John's College, Cambridge, June 1995.
[22] Chirinko, Robert S. and Elston, J. A. (1996), "Banking Relationships in Germany: Empirical Results and Policy Implications", Working Paper, Emory University, May 1996.
[23] Ibid no. 19.
[24] Xu, Xiaonian and Wang, Y. (1999), "Ownership Structure and Corporate Governance in Chinese Stock Companies", *China Economic Review*, 10, Issue I.

company management. However Demsetz and Lehn (1985)[25] found no significant correlation between ownership concentration and profit rates for 511 large corporations. This is similar to findings by Allan (2004)[26] when he conducted study in Malaysian companies. Some empirical research on the impact of large owners on managerial compensation has provided evidence to support the notion that managerial opportunism persists in the absence of owners large enough to enforce their own interest.

4.0 THEORETICAL FRAMEWORK

This study will indicate the different types of variables; the dependent variable and independent variable. The dependent variable used for the regression analysis is return on equity. There are four independent corporate governance variables hypothesized to influence firm's performance. These are: number of non-executive directors (NED), proportion of large investors (INST), total amount of debt owed by the company (GEAR), and the proportion of concentrated ownership of the firm (CONCEN). These variables are adapted from past studies by Allan (2004)[27] and Ponnu and Ramthandin (2008)[28].

The dependent variable is the financial performance of banks, where this will be measured through the return on equity (ROE). This variable is selected based on the research by Gugler, K. et.al (2003)[29], where a strong corporate governance system is a system, which aligns managerial and shareholder interests and thus leads managers to maximize shareholder wealth. In this respect, the measure of returns of the banks is taken to be its ROE as it is one of the indicators of a company's profitability and potential growth.

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[25] Demsetz, H and Lehn, K. (1985), "The Structure of Corporate Ownership: Causes and Consequences", *Journal of Political Economy*", 93 No. 6. pp. 1155-77.

[26] Allan C. A. L. (2004), "The Impact of Corporate Governance Practices on Firms' Financial Performance: Evidence from Malaysian Companies", *ASEAN Economic Bulletin,* 21, 3, December 2004, p. 308-18.

[27] ibid.

[28] Ponnu C. H. and Ramthandin S. (2008), "Governance and Performance: Publicly Listed Companies in Malaysia", *Journal of Business Systems, Governance and Ethics*, Vol. 3 No. 1, pp 35-53.

[29] Gugler, K., Mueller, C. D. and Yurtoglu, B.B. (2003), "Corporate Governance and the Returns on Investments", European Corporate Governance Institute, France, Working Paper No. 06/2003, January 2003.

Reference is to be made to the conceptual framework of the study that is shown in Figure 1 below:

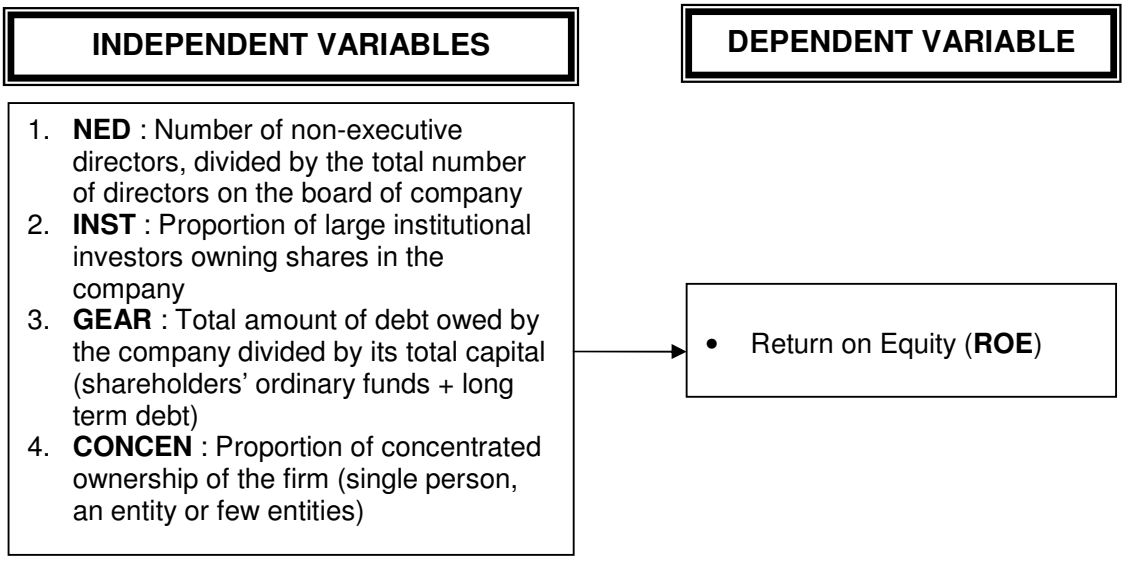

Figure 1: Independent and Dependent Variables

4.1 Statements of Hypotheses

Based on the above theoretical framework, this study intends to examine the link between each corporate governance practice and banks' return on equity. Thus, the following hypotheses have been developed to be tested:

H_1 : There is a positive relationship between the proportion of non-executive directors over the total number of directors on the board of the bank, and the ROE.

H_2 : There is a positive relationship between the proportion of large institutional investors, and the ROE.

H_3 : There is a positive relationship between the level of gearing and the ROE.

H_4 : There is a positive relationship between the proportion of concentrated ownership of the bank, and the ROE.

5.0 RESEARCH METHODOLOGY

5.1 Research Design

In this research, all the local banks listed in the Bursa Malaysia were taken as the sample, since there are only ten listed local banks in Malaysia.

Descriptive research design has been used for this research to describe the characteristic of the bank's compliance to corporate governance and the impact on its ROE in order to help clearly understand the level of its practice by Malaysian banks in general.

The descriptive design method is chosen since it would be the most systematic and straightforward method in understanding the trend of corporate governance practices and compliance among banks. This is done through correlation and regression analysis.

5.2 Data Gathering and Sampling Method

The five variables in this research were obtained through secondary data extracted from the latest Annual Reports (i.e. either 2007 or 2008) of all the listed local banks in Malaysia, downloaded from the respective banks' official website.

The ROE is calculated using the following formula:

$$\textbf{ROE} = \frac{\text{Net Income}}{\text{Shareholder's Fund}}$$

5.3 Definition of Variables

The SPSS (version 14.0) statistical software was used to analyze the data through the use of statistical method i.e. bivariate correlation and linear regression. The result of

regression is an equation that represents the best prediction of a dependent variable from several independent variables.

The items in the scorecard will be rated using the following measurement:-

Table 1: Definition of Variables

Variables	**Measurement Characteristic**
NED	Number of non-executive directors, divided by the total number of directors on the board of bank.
INST	Proportion of the largest institutional investors owning shares in the bank.
GEAR	Total amount of debt owed by the bank divided by its total capital. (shareholders' ordinary funds + long term debt)
CONCEN	Proportion of the highest concentrated ownership of the bank (single person, an entity or few entities)
ROE	Net Income / Shareholder's Equity

All the variables are in the ratio form.

6.0 FINDINGS AND DISCUSSION

The findings of this study, which attempts to establish the significant factors pertaining to corporate governance that affects Banks' financial performance are as follows.

6.1 Descriptive Statistics

Table 2: Summary of Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	10	4.58	18.73	11.7950	5.03669
NED	10	.42	.90	.7500	.17857
INST	10	7.32	100.00	68.5630	36.57009
GEAR	10	8.89	19.85	14.9650	3.58340
CONCEN	10	19.17	100.00	70.2420	33.72028
Valid N (listwise)	10				

From Table 2 above, it is observed that the data is very widely spread for INST and CONCEN, indicating that the Malaysian banking entities' ownership structure varies a great deal. For example, the proportion of institutional ownership of banks range from as low as 7.32% to 68.56%, while the single highest shareholder also ranges from a low of 19.17% to 70.24%.

6.2 Correlation Analysis

Table 3: Summary Results of Pearson Correlation

ROE	NED	INST	**GEAR**	CONCEN
Pearson Correlation	-.301	-.228	**.735**	-.171
Sig (2-tailed)	.398	.527	**.015**	.637

Based on the results in Table 3 above, it can be seen that the GEAR variable is highly correlated to the ROE with a positive .735 with a significant level of .015 (ie. $p < 0.05$).

This implies that higher gearing contributes to higher ROE, which is in line with corporate finance theory on leverage, where additional funding/borrowing (probably obtained from cheaper source of funds) can contribute to potential higher income from lending activities, leading to a higher ROE.

Conversely, NED, INST and CONCEN are negatively correlated to ROE, indicating that higher proportion of NED, INST or CONCEN do not result in higher ROE. The results in the analysis was also not significant. This appear somewhat to be contrary to the common understanding that higher INST or CONCEN would generally lead to more close monitoring by the shareholders, which will lead to higher ROE.

6.3 Regression Analysis

Table 4: Summary of the Regressions Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.868[(a)]	**.754**	.556	3.35478

[(a)] Predictors (Constant): NED, INST, GEAR, CONCEN

The results as measured by R^2 which indicates a strong impact of the independent variables on the dependent variable, by which, the independent variables explain 75.4% of the variance in the ROE, as shown in the Table 4 above.

Based on the adjusted R^2 of 55.6%, it can be confirmed that more than half of relationship with ROE can be explained by the four independent variables used in this research. The remaining 44.4% of the impact to ROE is explained by other factors.

Table 5: Result of Regression Analysis using Enter Method

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.932	7.904		.371	.726
	NED	-19.028	13.812	-.675	-1.378	.227
	INST	-.170	.286	-1.236	-.595	.578
	GEAR	1.090	.340	.775	**3.209**	**.024**
	CONCEN	.263	.281	1.763	.938	.391

[a] Dependent Variable: ROE

From Table 5 above, the only variable that was found to be statistically significant in influencing the ROE was the GEAR. This is concluded through an examination of the t-values and beta i.e. t = 3.209 and sig ($p = 0.024$, $p < 0.05$), by which, the predictor is making significant contribution to the model. The smaller the *p* value of significance and the larger the value of *t*, the greater the contribution of the predictor.

Table 6: Result of Regression Analysis using Step-wise Method

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.666	5.171		-.709	.498
	GEAR	1.033	.337	.735	3.066	.015

a. Dependent Variable: ROE

Excluded Variables[b]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	NED	-.267[a]	-1.132	.295	-.393	.998
	INST	-.083[a]	-.319	.759	-.120	.959
	CONCEN	-.038[a]	-.146	.888	-.055	.967

a. Predictors in the Model: (Constant), GEAR

b. Dependent Variable: ROE

The 'Step-wise Method' as per Table 6 above, also confirms the significant result of GEAR, while excluding the three other non-significant independent variables of NED, INST and CONCEN.

From the results, it could also be interpreted that in order to increase the ROE, there need to be a reduction of NED. This may be true based on the argument that the lesser the number of non-executive directors in the bank (ie. the higher the number of executive directors), the decision making will be better since more of the directors will be directly involved in the running of the bank.

The INST had also impacted this research, such that, the lower the INST, the better would be the ROE. This may be explained by the fact that one exceptional bank shareholding in Malaysia, which is, Public Bank Bhd, is still very much a family controlled entity and its financial performance is very commendable. It could also be seen that higher INST may deprive the banks to make swift decisions in terms of strategic direction, which may ultimately lead to lower ROE.

The inverse relationship found in NED and INST is also found in CONCEN, where, higher concentration of shareholding by a single person, leads to lower ROE, similar to the impact of INST above. A lower concentration by any single person leads to a diverse range of shareholders, who might be more interested in the banks' performance individually, than a few large shareholders.

Based on the regression analysis, the equation of ROE as the dependent variable can be derived as below:

$$\textbf{ROE} = 2.932 - 19.028NED - 0.170INST + 1.090GEAR + 0.263CONCEN$$

The above equation can be interpreted as such that, a 1.09% change in GEAR will result in a 1.00% change in ROE.

Based on the analysis and results it can be concluded that the higher the gearing ratio, the higher the monitoring would be by the lenders, which then leads to higher performance of the bank. In actual sense, a higher gearing ratio leads to higher level of debt burden, which forces management of the banks to choose potentially higher return on investment or high yielding assets to earn high ROE.

7.0 CONCLUSION

From the research conducted and the strength of the models, almost all the independent variables were found to be statistically insignificant in influencing the ROE, except for GEAR, which had some level of significant influence on the ROE.

As such, we can only accept H_3 and conclude that there is a positive relationship between the level of gearing of a bank and its ROE. In other words, the higher the level of gearing of the bank, the higher is the monitoring role of the lenders and the better would be the bank's financial performance, in terms of its ROE. In the context of this research where the entities being researched are banks, lenders, in a broad

sense would mean depositors or investors and it is the productive use of this funds combined with sound corporate governance practices which would lead to a better ROE.

Nevertheless, while having good corporate governance practice is a requirement in Malaysian's Companies Act; as laid out in Malaysian Code of Corporate Governance, it is difficult to conclusively say that it is corporate governance that drives a bank's profitability because of the weak link of the remaining three independent variables in this research. However, the 55% result of the R^2 does suggest that to a larger extent, corporate governance practices do impact the ROE of banks.

Due to restriction in time for more data gathering, it is hoped that further research would be carried out in this area. It would be particularly interesting to find out whether the results would be the same, post-financial crisis or with a broader range of independent variables relating to Corporate Governance. Finally, it is hoped that this research has contributed in terms of understanding of the effect of corporate governance practices in Malaysia especially in the banking sector.

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Key Statistics*

Bank	ROE	NED	INST	GEAR	CONCEN
		No of Non-exec D'tor/tot no of directors	Prop of large inst. Investor	Total debt/ total capital (S/h fund + LT Debt	Prop of concentrated ownership
AmBank	9.32	0.42	19.17	11.72	19.17
Affin Bank	5.94	0.88	100.00	8.89	100.00
Alliance	14.67	0.90	100.00	16.59	100.00
Bank Islam	4.58	0.82	51.00	16.58	51.00
CIMB	17.75	0.80	99.99	19.85	99.99
EON Bank	7.10	0.83	100.00	10.11	100.00
Hong Leong	14.58	0.73	63.48	16.95	63.48
Maybank	15.17	0.80	44.67	17.32	44.67
Public Bank	18.73	0.43	7.32	17.32	24.11
RHB Bank	10.11	0.89	100.00	14.32	100.00

* Raw data obtained from the respective banks' 2007/2008 Annual Reports posted on its official website.

Descriptives

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	10	4.58	18.73	11.7950	5.03669
NED	10	.42	.90	.7500	.17857
INST	10	7.32	100.00	68.5630	36.57009
GEAR	10	8.89	19.85	14.9650	3.58340
CONCEN	10	19.17	100.00	70.2420	33.72028
Valid N (listwise)	10				

Correlations

Correlations

		ROE	NED
ROE	Pearson Correlation	1	-.301
	Sig. (2-tailed)		.398
	N	10	10
NED	Pearson Correlation	-.301	1
	Sig. (2-tailed)	.398	
	N	10	10

Correlations

Correlations

		ROE	INST
ROE	Pearson Correlation	1	-.228
	Sig. (2-tailed)		.527
	N	10	10
INST	Pearson Correlation	-.228	1
	Sig. (2-tailed)	.527	
	N	10	10

Correlations

Correlations

		ROE	GEAR
ROE	Pearson Correlation	1	.735*
	Sig. (2-tailed)		.015
	N	10	10
GEAR	Pearson Correlation	.735*	1
	Sig. (2-tailed)	.015	
	N	10	10

*. Correlation is significant at the 0.05 level (2-tailed).

Correlations

Correlations

		ROE	CONCEN
ROE	Pearson Correlation	1	-.171
	Sig. (2-tailed)		.637
	N	10	10
CONCEN	Pearson Correlation	-.171	1
	Sig. (2-tailed)	.637	
	N	10	10

Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	CONCEN, GEAR, NED, INST[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: ROE

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.868[a]	.754	.556	3.35478	.754	3.822	4	5	.087

a. Predictors: (Constant), CONCEN, GEAR, NED, INST

b. Dependent Variable: ROE

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	172.041	4	43.010	3.822	.087[a]
	Residual	56.273	5	11.255		
	Total	228.314	9			

a. Predictors: (Constant), CONCEN, GEAR, NED, INST

b. Dependent Variable: ROE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.932	7.904		.371	.726
	NED	-19.028	13.812	-.675	-1.378	.227
	INST	-.170	.286	-1.236	-.595	.578
	GEAR	1.090	.340	.775	3.209	.024
	CONCEN	.263	.281	1.763	.938	.391

a. Dependent Variable: ROE

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	5.1842	18.7300	11.7950	4.37215	10
Residual	-5.56616	4.42596	.00000	2.50050	10
Std. Predicted Value	-1.512	1.586	.000	1.000	10
Std. Residual	-1.659	1.319	.000	.745	10

a. Dependent Variable: ROE

Regression

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	GEAR	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).

a. Dependent Variable: ROE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.735[a]	.540	.483	3.62206

a. Predictors: (Constant), GEAR

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	123.359	1	123.359	9.403	.015[a]
	Residual	104.954	8	13.119		
	Total	228.314	9			

a. Predictors: (Constant), GEAR

b. Dependent Variable: ROE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.666	5.171		-.709	.498
	GEAR	1.033	.337	.735	3.066	.015

a. Dependent Variable: ROE

Excluded Variables[b]

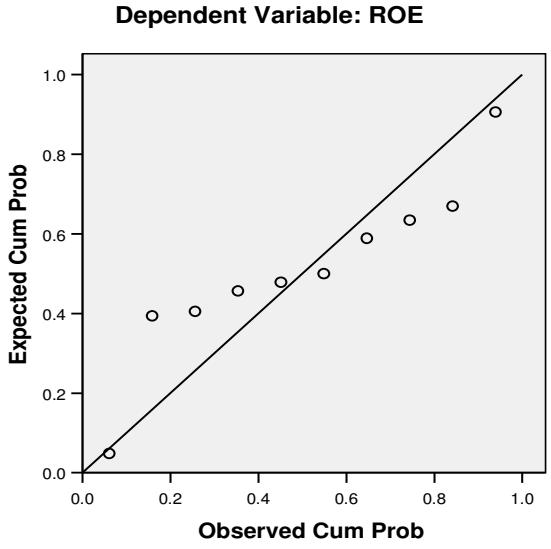
Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics Tolerance
1	NED	-.267[a]	-1.132	.295	-.393	.998
	INST	-.083[a]	-.319	.759	-.120	.959
	CONCEN	-.038[a]	-.146	.888	-.055	.967

a. Predictors in the Model: (Constant), GEAR

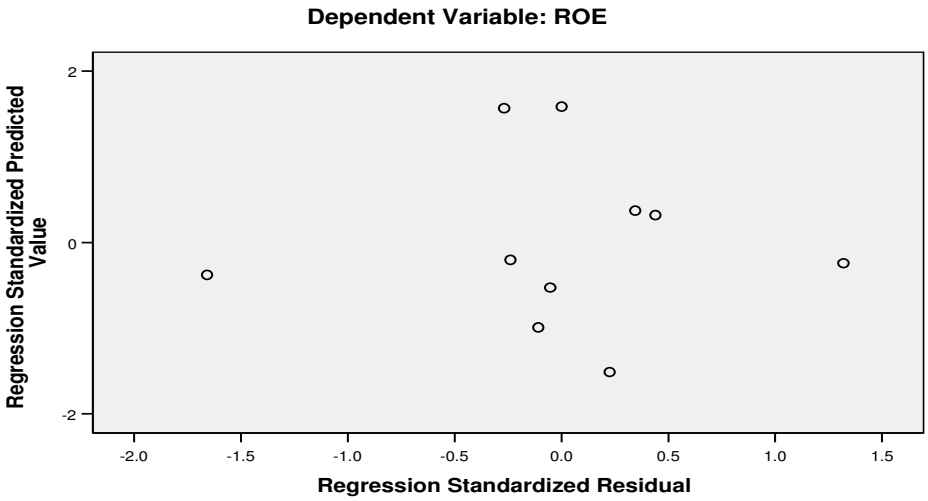
b. Dependent Variable: ROE

Charts

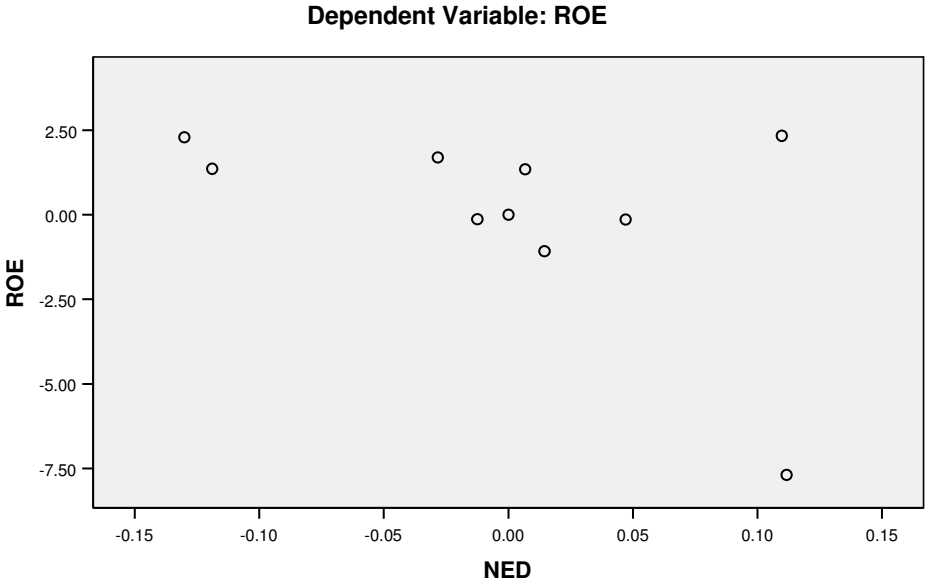
Normal P-P Plot of Regression Standardized Residual



Scatterplot

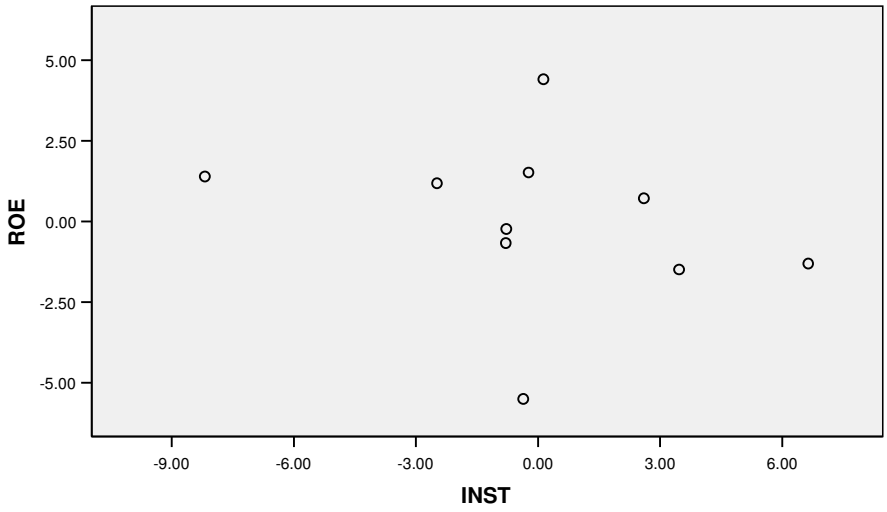


Partial Regression Plot



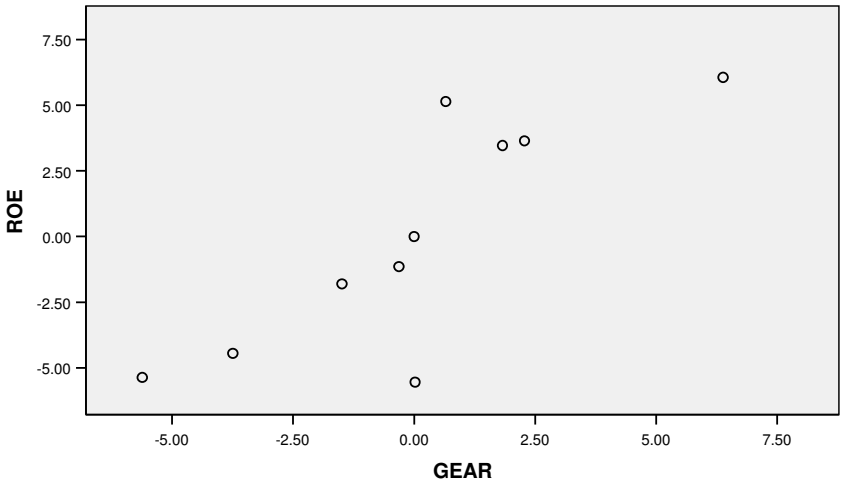
Partial Regression Plot

Dependent Variable: ROE



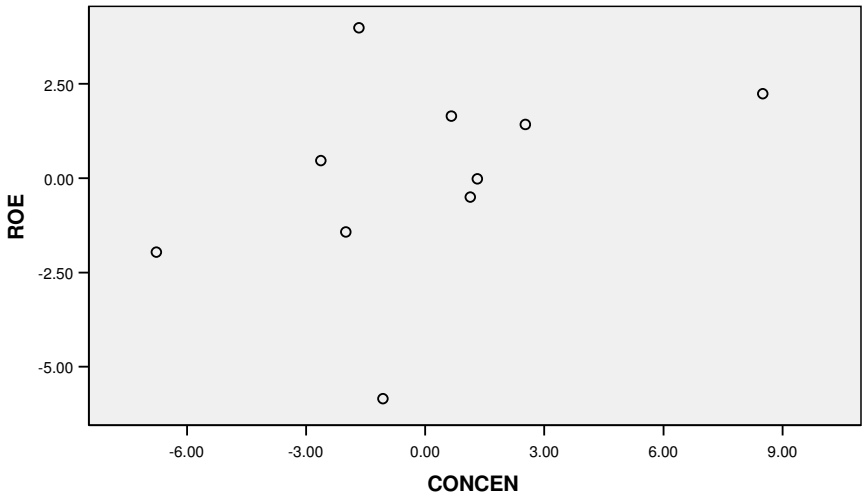
Partial Regression Plot

Dependent Variable: ROE



Partial Regression Plot

Dependent Variable: ROE



Regression

Variables Entered/Removed [a]

Model	Variables Entered	Variables Removed	Method
1	GEAR	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).

a. Dependent Variable: ROE

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.735[a]	.540	.483	3.62206	.540	9.403	1	8	.015

a. Predictors: (Constant), GEAR

b. Dependent Variable: ROE

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	123.359	1	123.359	9.403	.015[a]
	Residual	104.954	8	13.119		
	Total	228.314	9			

a. Predictors: (Constant), GEAR

b. Dependent Variable: ROE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.666	5.171		-.709	.498
	GEAR	1.033	.337	.735	3.066	.015

a. Dependent Variable: ROE

Excluded Variables[b]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	NED	-.267[a]	-1.132	.295	-.393	.998
	INST	-.083[a]	-.319	.759	-.120	.959
	CONCEN	-.038[a]	-.146	.888	-.055	.967

a. Predictors in the Model: (Constant), GEAR

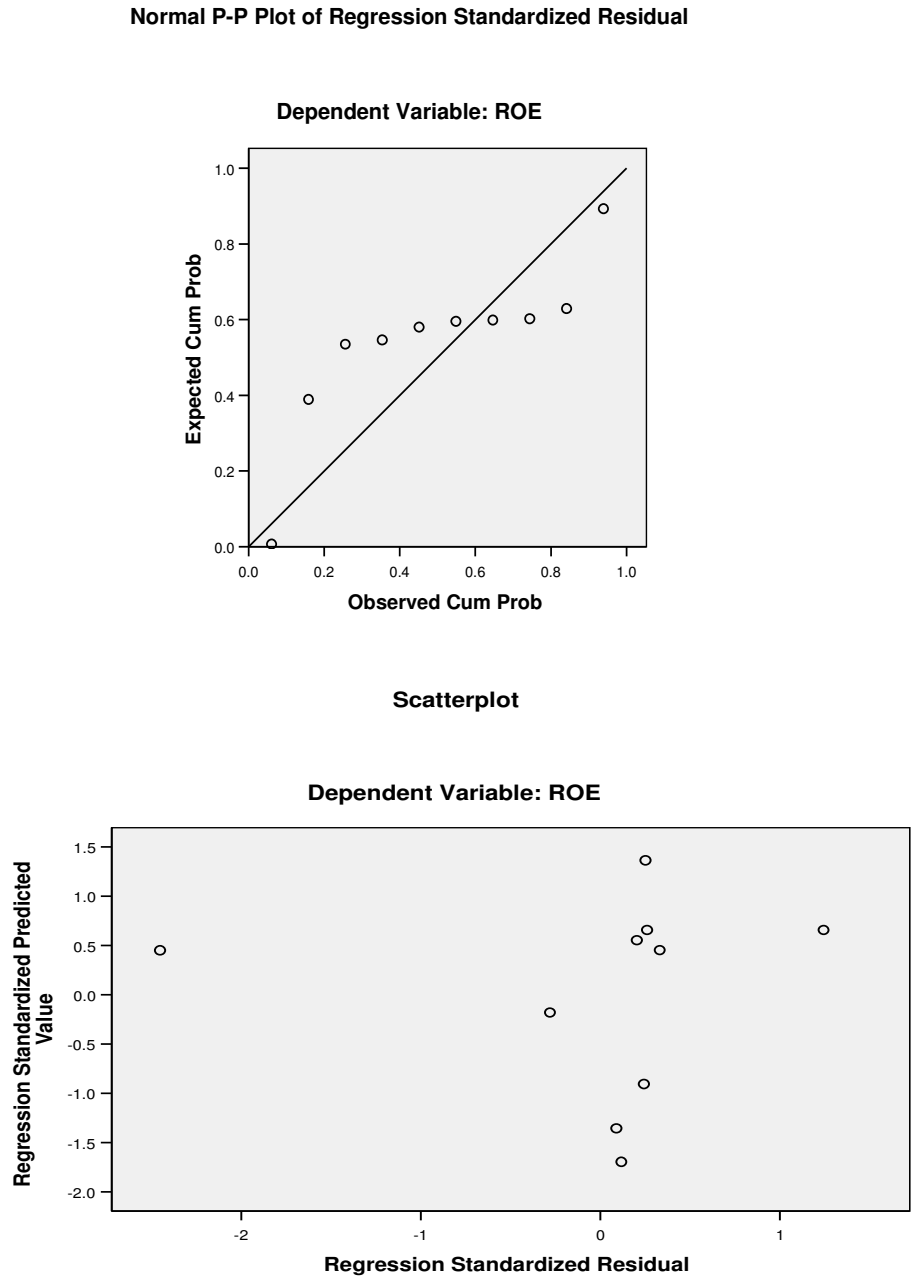
b. Dependent Variable: ROE

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	5.5185	16.8420	11.7950	3.70224	10
Residual	-8.88356	4.50190	.00000	3.41491	10
Std. Predicted Value	-1.695	1.363	.000	1.000	10
Std. Residual	-2.453	1.243	.000	.943	10

a. Dependent Variable: ROE

Charts


Normal P-P Plot of Regression Standardized Residual
Dependent Variable: ROE
Expected Cum Prob
Observed Cum Prob
0.0
0.2
0.4
0.6
0.8
1.0
Scatterplot
Dependent Variable: ROE
Regression Standardized Predicted Value
Regression Standardized Residual
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
-2
-1
0
1

Summary of Literature Review
Seminar Topic: Financial Crisis and the Effect of Corporate Governance Practices on Banks' Financial Performance

No	Author (Year)	Topic	Findings	Contribution
1	Gugler, K., Mueller, C. D. and Yurtoglu, B.B. (2003)	Corporate Governance and the Returns on Investments	1. Company returns on investment is an impact of corporate governance institutions and ownership structures. 2. The origin of a country's legal system proves to be the most important factor. 3. Companies in countries with English-origin legal systems earn returns on investment that are at least as large as their costs of capital. 4. Managerial entrenchment worsens a company's investment performance.	The areas of corporate governance, external capital markets, ownership structure and returns on investment.
2	Allan Chang, A. L., (2004)	The Impact of Corporate Governance Practices on Firms Financial Performance: Evidence from Malaysian Companies	1. Size of firm, gearing ratio and the proportion of shares held by institutional investors significantly influenced firm performance. 2. Borrowing had a negative effect on earnings. 3. The increased strength of institutional investors in a firm appeared to exert a positive influence on a company earnings.	The areas of corporate governance, relationship between firms financial performance and its size, gearing level and the proportion of independent evaluation.
3	Bhagat, S. and Black, B. (1999)	The Uncertain Relationship Between Board Composition and Firm Performance	1. There is no convincing evidence that greater board independence correlates with greater firm profitability or faster growth. 2. There is some evidence that firms with supermajority-independent boards are less profitable than other firms.	Corporate governance and the relationship between board composition and firm performance. It suggests that it may be useful for firms to have a moderate number of inside directors
4	Stanwick, A. P. and Stanwick, D. S. (2003)	CEO and ethical reputation: visionary or mercenary?	1. There is no direct relationship between CEO compensation and firm performance. 2. A high level of CEO compensation combined with a high ethical reputation does not impact the financial performance of firm.	In the areas of business ethics, performance and the relationship between ethical reputation, CEO compensation and firm performance.

No	Author (Year)	Topic	Findings	Contribution
5	Damijan, P. J., et.al. (2004)	Ownership Concentration and Firm Performance in Slovenia	1. Managers will act optimally, that is in the benefit of the firm, when product, labor and capital markets are fully competitive.	Corporate governance, financial performance, liquidity of firms.
6	Radelet, S. & Sachs, J. (1998)	The East Asian Financial Crisis: Diagnosis, Remedies, Prospects	1. Liberalisation of short-term capital movements should be undertaken only gradually. 2. The IMF bailout lending has been ineffective. 3. International financial markets are inherently unstable, at least for countries borrowing heavily from abroad, at short maturities, and in foreign currency.	Analysis of the East Asian Financial Crisis.
7	Agrawal, A. & Knoeber, R. C. (1996)	Firm Performance and Mechanisms to Control Agency Problems between Managers and Shareholders	1. There is relationship between firm performance and insider shareholdings, outside directors, debt and corporate control activity.	Evidence of the interdependence among these mechanisms in a large sample of firms.
8	Gillan, L. S. & Starks, T. L. (2003)	Corporate Governance, Corporate Ownership and the Role of Institutional Investors: A Global Perspective	1. There is evidence that corporate performance improves after an activist share block purchase.	Corporate Governance, ownership structure and the role of institutional investors in financial markets.
9	Cyril H. Ponnu and Sarimah Ramthandin (2008)	Governance and Performance: Publicly Listed Companies in Malaysia	1. There is a positive relationship between corporate governance practices and company performance.	The relationship between corporate governance and company performance
10	Grossman, S. J. and Hart, O. D. (1980)	Takeover bids, the free-rider problem and the theory of the corporation	1. That it is a false thought that a widely held corporation that is not being run in the interest of its shareholders can free ride on the raider's improvement of the corporation.	The study of optimal corporate charters under the alternative assumptions of competition and monopoly in the market for corporate control.

No	Author (Year)	Topic	Findings	Contribution
11	Denis, D. J. and Sarin A (1999)	Ownership and board structures in publicly traded corporations	1. A substantial fraction of firms exhibit large changes in ownership and board structure in any given year. 2. Ownership and board changes are strongly related to top executive turnover, prior stock price performance, and corporate control threats, but only weakly related to changes in firm-specific determinants of ownership and board structure.	The study of equity ownership structure and board composition over a ten-year period (1983 to 1992).
12	Shleifer A. and Vishny R. W. (1986)	Large Shareholders and Corporate Control	1. That large outside shareholders assist the market for corporate control simply by being willing to sell their shares, should an appropriate bid be made.	A model in which the presence of a lerge minority shareholder provides a partial solution to the free-rider problem.
13	Krugman, P. (1994)	The Myth of Asia's Miracle	1. Rapid Soviet growth was based on the willingness to save.	The importance of corporate governance in developing countries.
14	Li Jiatao (1994)	Board Composition: A Multi-country Test of Agency Theory Predictions	1. Consistent with predictions of agency theory, ownership structure has significant effects on board composition.	The study of relationship between ownership structure and the composition of the board of directors.
15	Clarke T. (1998)	The contribution of non-executive directors to the effectiveness of corporate governance	1. There is a need for outsiders to be involved in company direction because shareholders are not able to provide the necessary checks and balances. 2. That non-executive directors will have increasing influence on company direction.	The examination of the role of non-executive directors.
16	Baliga B. R, Moyer R. C. And Rao R. S (1996)	CEO Duality and Firm Performance: What's the Fuss?	1. That the market is indifferent to changes in a firm's duality status. 2. There is little evidence of operating performance changes around changes in duality status. 3. There is only weak evidence that duality status affects long-term performance, after controlling for other factors that might impact that performance.	The examination of the relationship between duality and firm performance.

No	Author (Year)	Topic	Findings	Contribution
17	Lum C. S. and Koh P. T. N. (2004)	Corporate governance of banks in Malaysia	1. BOD are now more conscious that disclosures, transparency and board independence are prerequisites for propagating governance in banking institutions.	Provides first-hand evidence on the domestic banking system's corporate governance structure.
18	Gedajlovic R. E. and Shapiro D. M. (1998)	Management and Ownership Effects: Evidence from Five Countries	1. That the correlation (if any) between ownership concentration and firm profitability differs across countries in a systematic way determined by the national system of corporate governance. 2. Results indicate that important and statistically significant differences do in fact exist across the countries studied.	The examination of the ownership concentration-performance relationship across five nations.
19	Clyde P. (1997)	Do Institutional Shareholders Police Management?	1. Institutional ownership concentration varies across firms according to the benefits of policing firms in 1988. 2. Firms characterized by concentrated institutional ownership are more likely to use takeovers as the disciplinary mechanism.	The examination of whether institutional shareholders actively participate in corporate governance due to the lower cost of using takeovers to discipline shirking management teams.
20	Johnson S., Boone P., Warburg B., Breach A. and Friedman E. (1999)	Corporate Governance in the Asian Financial Crisis	1. Managerial agency problems can make countries with weak legal systems vulnerable to the effects of a sudden loss of investor confidence. 2. Corporate governance in general, and the de facto protection of minority shareholder rights in particular, mattered a great deal for the extent of exchange rate depreciation and stock market decline in 1997-98. 3. Corporate governance can be of first order importance for determining the extent of macroeconomic problems in crisis situations.	Measures of corporate governance, particularly the effectiveness of protection for minority shareholders, that explain the extent of depreciation and stock market decline better than do standard macroeconomic measures. Explanation that in countries with weak corporate governance, worse economic prospects result in more expropriation by managers and a larger fall in asset prices.