The effects of corporate governance compliance on market valuation in Malaysia

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Abstract: This study investigates the effects of corporate governance compliance on market valuation in Malaysia using a sample of 164 companies listed on the Main Board in Bursa Malaysia from 5 different industries (consumer, trading & services, industrial, constructions and properties) within 2001 to 2005. Throughout, this study will use correlation and regression analysis in the SPSS software to determine the effects of corporate governance practices on Market Valuation. In analyzing firms' market valuation, we will use the Tobin's Q formula and for the corporate governance compliance, we will look at 4 criteria to compare with market valuation, which are (1) Board of Director's composition, (2) Board of Director's remuneration (salaries), (3) Board of Director's training and development, (4) Board of Director's meeting. In order to determine the effects between the corporate governance compliance and market valuation, we will use regression analysis. Based on the correlation analysis, the first null hypothesis must be rejected and the alternative hypothesis is accepted, in which dependent variable and independent variables are significantly correlated with BOD remuneration and BOD training availability. Overall, there is a significant relationship between Tobin's Q and independent variables (BOD remuneration and BOD training). This study also recommends that for the company who did not comply with the code, they should follow the best practice because it will be a pivotal weapon in facing with the fierce competition in era globalization.

Key words: corporate governance compliance; Board of Directors; market valuation; Tobin's Q

1. Introduction

The emerging market crisis in 1997 and 1998 rekindled worldwide interest in the issue of corporate governance. In recent years, advocating higher governance standard has become a regular campaign with the participation of an increasing number of parties, namely, academics, media, regulatory authorities, corporations, institutional investors, international organizations, and shareholder rights watchdogs. Numerous initiatives have been proposed and launched by Asian countries to enhance their corporate governance practice, for example, new listing and disclosure rules, mandatory training for board directors, and enforced codes of governance. International organizations are also very keen on governance issues. The International Monetary Fund has demanded that governance improvements be included in its debt relief program. In 1998, the Organization of Economic Cooperation and Development (OECD) issued an influential document (OECD, 1999), which is intended to assist member and non-member and non-member countries in evaluating and improving the legal,

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institutional and regulatory framework for better corporate governance.

In recent years, the issue of corporate governance has received more attention than it would ordinarily have in the light of series of corporate failure that gave rise to implications that affect not only those directly connected with the corporations concerned i.e. the directors, shareholders and auditors of the corporations, but also those affected by its existence such as employees, customers, suppliers and the environment. This interest is further aggravated by occurrences of major corporate failures such as the collapse of the BCCI Bank, Barings Empire, the Daiwa Bank debacle, the Maxwell affair and nearer to home the Perwaja episode which all have pointed to the lack of a proper corporate governance system as a major course studies have shown that the majority of those corporate failure were predominantly dominated by one individual, occupying a position of trust, who apart from losing large amounts of money also committed illegal acts.

To a large extent, Malaysia’s economy depends on the drive and efficiency of its companies. Therefore the effectiveness with which their board of directors discharge their duties and responsibilities determines Malaysia’s competitive position. Company directors must be free to drive their companies forward, but they have to exercise that freedom within a framework of effective accountability and this is the essence of any system of good corporate governance. Corporate governance is the system by which companies are directed and controlled. Company directors are primarily responsible for the governance of their companies. The shareholders’ role in governance is to appoint the directors and external auditors and to satisfy themselves that an appropriate governance structure is in place. The external auditors are responsible to provide shareholders with an external and objective check on the directors’ financial statements.

For that reason, after detailed study and recommendation by the high level finance committee which was formed in 1998, Malaysian Code of Corporate Governance was introduced in the 2000 with the objectives of improving the corporate governance practice by the corporate sectors. Although many evidence demonstrates the interest in corporate governance, the important question of whether good corporate governance leads to higher profitability and consequently to higher firm valuations has received limited attention in the academic literature.

1.1 Objective of the study

The objectives of this paper are as follows:

To determine the relationship between the 4 selected corporate governance compliances among Board of Director’s practices and market valuation whether it is a positive or negative relationship.

To evaluate the compliance of selected companies with the Malaysian Code of Corporate Governance requirements.

1.2 Significance of the study

Most empirical studies of the relationship between corporate governance and firm performance in the literature focus on a particular aspect of governance, e.g., board characteristics (Millstein & MacAvoy, 1998; Bhagat & Black, 1999), Shareholders activism (Karpoff Malatesta & Walking Ralph, 1996; Carleton, Nelson & Weisbach, 1998), compensation to outside directors (Bhagat, Carey & Elson, 1999), and a study done by Abdul Rahman (2002) only looked at the effect of board characteristics on post acquisition operating cash flow performance during the period of 1988-1992. Meanwhile, another study by Abdul Rahman and Haniffa (2003), tested on the relationship between board composition, concentrated outside ownership and corporate performance of Malaysian listed companies. Specifically, there are a few papers that use market valuation as the variable to compare with corporate governance. Thus, this study will contribute and strengthen the concepts of the effects of corporate governance compliance to the market valuation. This study concentrates on corporate governance compliance in Malaysia. It will deter whether the corporate governance compliance have any relationship with market valuation of firm.

2. Literature review

Abdul Hadi Bin Zulkifli, M. Fazilah bte. Abdul Samad and Md. Ishak Ismail (2005) provides a descriptive analysis on the corporate governance mechanisms in Malaysia. The scope of discussion relates to the economic crisis in 1997 that necessitate for the corporate governance efforts on the private sector in the country. The explanation is based on the reforms agenda contained in the Malaysian Code on Corporate Governance, Capital Market Master Plan and Financial Sector Master Plan. According to Vafeas (1999), there is a negative correlation between the number of board meeting and performance. It means that boards that meet more frequently are valued less by the market. This is due to the notion that higher board meetings follow poor performance. Findings on board independence performance studies indicated that there is no significant relationship between the proportion of outsiders on the board and Tobin’s Q, although they found some evidence of positive correlation between Tobin’s Q and majority-outside boards (Adams & Mehran, 2002). It was further argued that higher proportions of outside directors are not associated with superior firm performance but are associated with better decisions concerning such as acquisitions, executive compensation and CEO turnover.

In another study Shamsul Nahar Abdullah (2004) investigated the roles of board independence and CEO duality on a firm’s performance relying on financial ratios, namely ROA, ROE, EPS, and profit margin. His paper argued that if board and leadership structure are well in place and conform to the practices in other developed countries, the long term shareholder value is expected to increase and shareholder interests are also well protected. The study suggests that neither board independence, leadership structure nor the joint effects of these two showed any relations with firm performance, namely ROE, ROA, EPS, and net profit margin. Nonetheless, it showed that Malaysian companies in the study practiced non-dual leadership structures.

Over three hundred years ago, Adam Smith raised the issue of the separation of ownership and stewardship in joint-stock corporations. Hence a set of effective mechanisms to resolve the conflict of interests between the firm’s owners and its managers is necessary. The seminal work by Berle and Means (1932) argued that, in practice, managers of a firm pursue their own interests rather than the interests of shareholders. The contractual nature of the firm and the principal-agent problem highlighted by Berle and Means led to the development of the agency approach to corporate finance. Allen and Gale (2001) addressed the issue of shareholders ensuring that non-owner managers pursue the shareholders’ interests. However, another conflict of interests arises as controlling shareholders take actions to benefit themselves at the expense of minority shareholders.

Broadly speaking, there are two classes of mechanisms to resolve the conflict between owners and managers and between controlling shareholders and minority shareholders. The first type consists of internal mechanisms, e.g., the ownership structure, executive compensation, the board of directors, and financial disclosure. The second is external mechanisms, e.g., the external takeover market, the legal infrastructure, and product market competition. Of the four internal governance mechanisms, ownership structure is crucial to the firm’s value maximization. Concentrated equity ownership gives the largest shareholders substantial discretionary power to use the firm’s resources for personal gain at the expense of other shareholders. Sung Wook Joh (2001) examined how ownership structure and conflicts of interest among shareholders under a poor corporate governance system affected firm performance before the crisis. These results suggest that Korea’s weak corporate governance system offered few obstacles against controlling shareholder's expropriation of minority shareholders. Firm performance had been deteriorating over time even before the crisis occurred. Weak corporate governance systems allowed poorly managed firms to stay in the market and resulted in inefficiency of resource allocation despite low firm profitability for many years.

In addition to that, Bernard S. Black, Hasung Jang and Woochan Kim (2003) studied the effects of corporate governance on firm's value in the case of Korea. This is almost similar to what we are doing right now because the paper use Tobin's Q formula to calculate firm's value. They have concluded that corporate governance is an important factor in explaining the market value of Korean public companies. They find a strong positive correlation between the overall corporate governance index and firm value, which is robust across OLS, 2SLS and 3SLS regressions, in subsamples, in alternate specifications of the corporate governance index, and with alternate measures of firm value.

On the other hand, Maria Maher and Thomas Andersson (1999) addressed corporate governance and its effect on corporate performance and economic performance using some of the underlying factors that promote efficient corporate governance, and examined some of the strengths, weaknesses, and economic implications associated with various corporate governance systems. They have concluded that corporate governance affects the development and functioning of capital markets and exerts a strong influence on resource allocation. Hollis Ashbaugh, Daniel W. Collins & Ryan LaFond (2004) in their journal analyzed the firms that have strong governance can gain a benefit from higher credit ratings compared to the firms with low governance. Based from their findings, it shows that the weak corporate governance was the main cause lead to the corporate fraud and the increase in the return restatements.

Studies by Lawrence D. Brown and Marcus L. Caylor (2004) determine the effects of corporate governance with firm performance using broad measure of corporate governance such as audit, board of directors, charter/bylaws, director education, executive and director compensation, ownership, progressive practices, and state of incorporation, namely Gove-Score. They concluded that, with the exception of sales growth, all of their firm performance measures have their expected positive relation with Gov-Score and are significant in our correlation analysis suggesting that firms with relatively poor governance are relatively less profitable (lower return on equity and profit margin), less valuable (smaller Tobin's Q), and pay out less cash to their shareholders (lower dividend yield and smaller stock repurchases). In summary, good corporate governance protects shareholders and ensures that investors get a fair return on their investment as well as increase the market valuation.

3. Data methodology

3.1 Data sampling

This study examines a sample of 164 companies from 5 different industries in the Main Board of Bursa Malaysia from 2001 until 2005. The 5 industries are (1) consumer product, (2) trading and services, (3) industrial products, (4) construction, and (5) property. These 164 companies will be selected randomly according to the availability of information. For more precise result, the number of companies will represent at least 30% of each industry as shown in the Table 1.

Table 1 Number of companies within industry

Industry	No. of companies selected	No. of companies in the industry	Percentage
Consumer products	27	89	30.34%
Trading/Services	45	149	30.20%
Industrial products	49	163	30.06%
Construction	13	44	29.54%
Properties	30	100	30%
Total	164	545	30.28%

3.2 Sources of data

The secondary data is used, where the data on market value and total assets for each company were obtained from datastream software and information on Board of Directors facets were extracted from Companies' annual report.

3.3 Determinants of variables

In this study, there are two main variables, dependent and independent, and the proxies that represent the both variables as shown in Table 2.

Table 2 Dependent and independent variables

Variables	Proxies
Dependent variables	Market valuation (Tobin's Q)
Independent variables	Board of director's composition (K)
	Board of director's remuneration (R)
	Board of directors training and development (T)
	Board of director's meetings (M)

Formula for Tobin's Q: $V=\frac{MVCS}{TA}$

Where: MVCS = market value of common stock,

TA= total asset.

To test the relationship between the independent variables and market valuation, the following model was utilized.

$$\text{Tobin's Q} = \alpha + \beta 1Ki + \beta 2Ri + \beta 3Ri + \beta 4Ti + \beta 5Mi + \varepsilon$$

Where:

α=constant term,

β=beta coefficient,

K=Board of Directors' Composition,

R=Board of Directors' Remuneration,

T=Board of Directors' Training Development,

M=Board of Directors' Meeting,

ε=standard error.

3.4 Hypotheses

The null hypothesis of the study is developed to cater for the pooling regression model. The null hypotheses are:

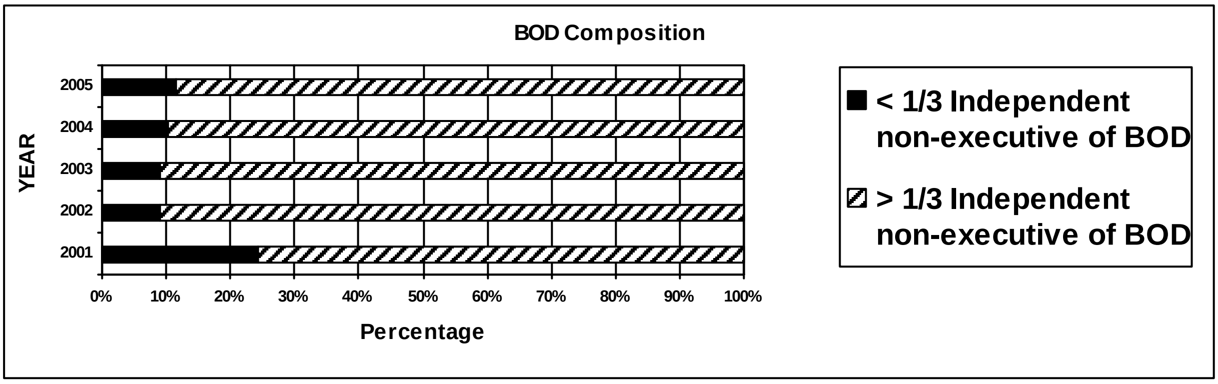
Ho_1: Dependent variable and independent variables are not correlated with each other.

Ho_2: There is no relationship between the dependent variable (market valuation) and the independent variables (Board of Director's composition, remuneration, training, and meeting).

4. Findings of the study

4.1 Analysis of the practice of corporate governance in Malaysia

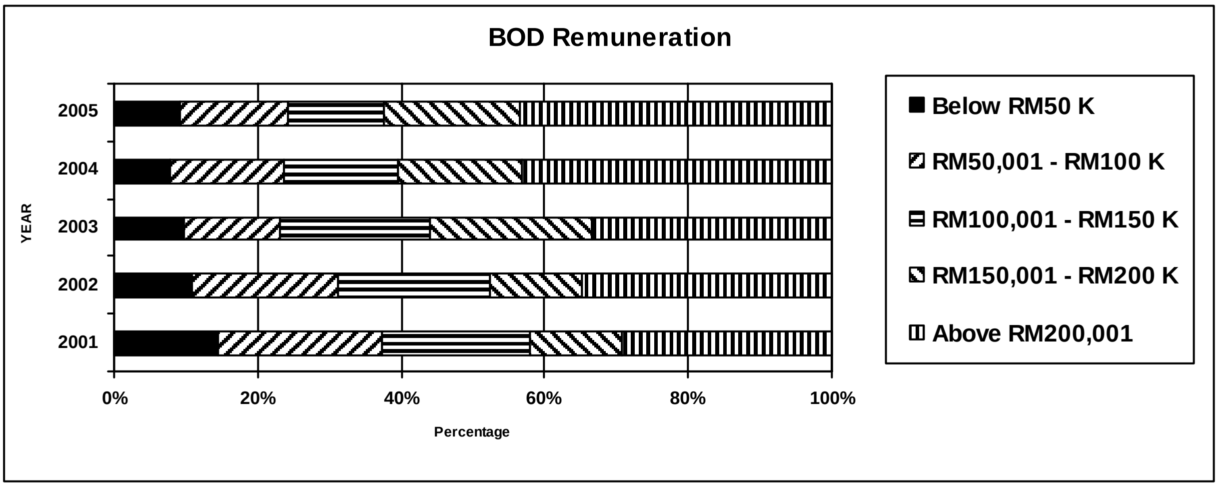
4.1.1 Board of Directors' composition



	2001	2002	2003	2004	2005
< 1/3 Independent non-executive of BOD	24.4%	9.1%	9.1%	10.4%	11.6%
> 1/3 Independent non-executive of BOD	75.6%	90.9%	90.9%	89.6%	88.4%

Fig. 1 Percentage of companies comply with the proportion of 1/3 independent non-executive in the BOD

4.1.2 Board of Directors' remuneration



	2001	2002	2003	2004	2005
Below RM50 K	14.6%	11%	9.8%	7.9%	9.1%
RM50,001 - RM100 K	22.6%	20.1%	13.4%	15.9%	15.2%
RM100,001 - RM150 K	20.7%	21.3%	20.7%	15.9%	13.4%
RM150,001 - RM200 K	12.8%	12.8%	22.6%	17.1%	18.9%
Above RM200,001	29.3%	34.8%	33.5%	43.3%	43.3%

Fig. 2 Average level of directors' remuneration

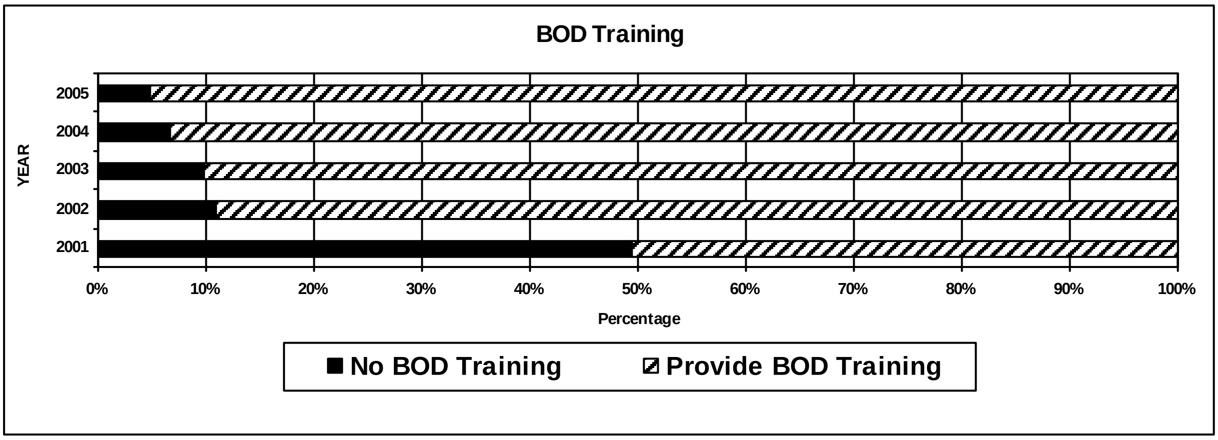
The objective of the policy on directors' remuneration is to attract and retain the directors of caliber needed to run the company successfully. In the case of executive directors, the components of the remuneration are structured so as to link rewards to corporate and individual performance. In the case of non-executive directors, the level of remuneration reflects experience and level of responsibilities undertaken by a particular non-executive director concerned. Apart from that, the Malaysian Code of Corporate Governance also requires companies to disclose the details of the directors' remuneration in the annual reports for stakeholders to review.

Referring to Fig. 2, it shows that the highest percentage of companies that have an average level of remuneration below RM50,000, which is 14.6% was in 2001. However, the percentage slowly decreases by years until 2004 and steady onwards, with the lowest percentage is at 7.9%. This might be due to the company's action to increase the level of remuneration in order to ensure the Board of Directors satisfy with the remuneration package so that they will be highly motivated to perform their stewardship function. Overall, most of the companies selected have an average level of remuneration above RM200,001. This is shown by the percentage within the range of 29.3% to 43.3%, with the latter is the percentage for year 2005.

4.1.3 Board of Directors' training

Companies have to ensure that the recruitment of directors is only for individuals of sufficient caliber, knowledge and experience to fulfill the duties of a director appropriately. In order to comply with this requirement, all directors of companies are required to attend the Mandatory Accreditation Program (MAP) conducted by the Research Institute of Investment Analysts Malaysia (RIIAM). In addition, all directors will endeavor to fulfill the requirement of Continuing Education Program (CEP) within the stipulated time frame as set by the Bursa Malaysia Securities Berhad in order to enhance the effectiveness of the directors in discharging their duties.

Based on Fig. 3, almost half of the companies selected do not provide training to their directors with the percentage of 49.4%. This large percentage mainly because of the companies do not aware that the RIIAM had conducted the MAP for that year. However from the year 2002 to 2005, the percentage slowly decreases from 11% in 2002 to 4.9% in 2005. In 2005 onwards, most of the companies were aware that there are training programs provided and they have sent their directors to the programs.



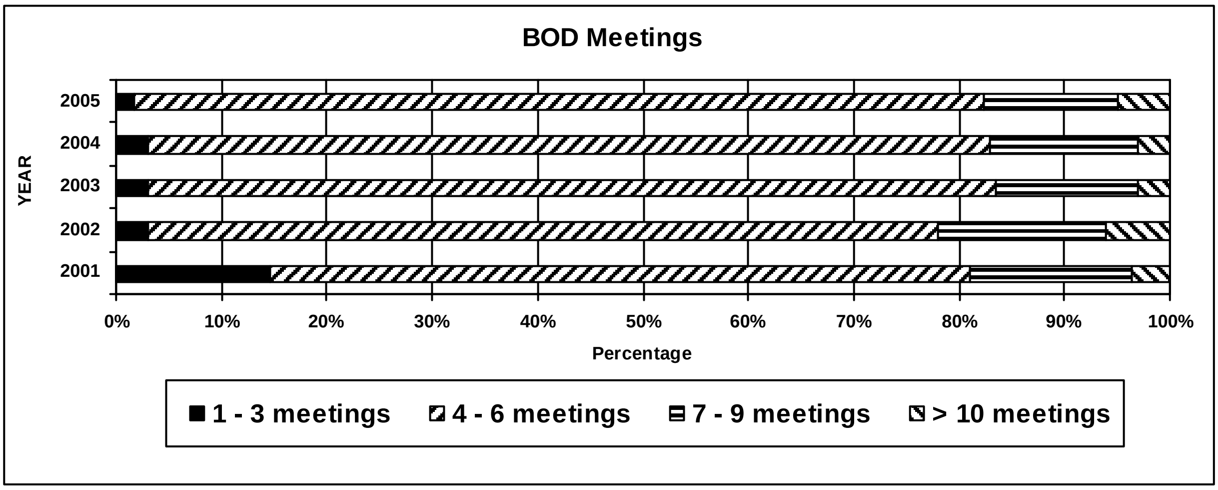
	2001	2002	2003	2004	2005
No BOD training	49.4%	11%	9.8%	6.7%	4.9%
Provide BOD training	50.6%	89%	90.2%	93.3%	95.1%

Fig. 3 Training of directors

4.1.4 Board of Directors' meetings

The Malaysian Code of Corporate Governance suggests that the board of director should meet regularly, with due notice of issues to be discussed and should record its conclusion in discharging its duties and responsibilities. The Code also suggests that the details of attendance of the directors are revealed in annual report during the financial year to make sure the directors are committed to be part of the company. In order to comply and have effective board structures and procedures, the board should meet at least 4 times a year. In this analysis, it was found that most of the companies complied very well with the requirement of the Code.

According to Fig. 4, there are still a number of companies which failed to comply with the Code for board meetings with the percentage of 14.6% in 2001. This percentage slowly declines in the subsequent years until 2005 where it only 1.8%. Most of the companies selected have 4 to 6 board of directors meetings in a year where it contributed more than 60% each year. Overall, the study found that since the introduction the corporate governance practice in 2001, majority of the companies have complied very well with the practice in order to enhance board effectiveness and efficiency accomplishing their organizations' goal.



	2001	2002	2003	2004	2005
1 - 3 meetings	14.6%	3%	3%	3%	1.8%
4 - 6 meetings	66.5%	75%	80.5%	79.9%	80.5%
7 - 9 meetings	15.2%	15.9%	13.4%	14%	12.8%
> 10 meetings	3.7%	6.1%	3%	3%	4.9%

Fig. 4 Number of board meetings

4.2 Correlation analysis between Tobin's Q and all independent variables

Table 3 shows the correlation between the dependent variable (Tobin's Q) and all independent variables. Based on the results shown in the table, the dependent variable is only significantly correlated with BOD remuneration (0.001) and BOD training availability (0.014) at 1% and 5% respectively. The number for Sig. (1-tailed) are below the significant level of 0.01 (1%) and 0.05 (5%), where it shows that the association between the dependent variables and independent variables is strong or significant.

BOD composition is significantly correlated with BOD remuneration (0.026), BOD training availability (0.000), and BOD meetings (0.012) at 5%, 1%, and 5% respectively. BOD remuneration is significantly correlated with BOD composition (0.026), BOD training availability (0.002), and Market valuation (0.001) at 5%, 1%, and

1% respectively. BOD training availability is significantly correlated with all variables, namely BOD composition (0.000), BOD remuneration (0.002), BOD meetings (0.014), and market valuation (0.014) at 1%, 1%, 5%, and 5% respectively. Lastly, BOD meetings is significantly correlated with BOD composition (0.012) and BOD training availability (0.014) at 5% and 5% respectively.

Table 3 Correlation analysis overall

Correlations

		BOD Composition	BOD Remuneration	BOD Training Availability	No. of BOD Meeting	Market Valuation
BOD Composition	Pearson Correlation	1	.068*	.115**	.079*	.003
	Sig. (1-tailed)		.026	.000	.012	.468
	N	820	820	820	820	820
BOD Remuneration	Pearson Correlation	.068*	1	.098**	-.016	.114**
	Sig. (1-tailed)	.026		.002	.325	.001
	N	820	820	820	820	820
BOD Training Availability	Pearson Correlation	.115**	.098**	1	.077*	-.077*
	Sig. (1-tailed)	.000	.002		.014	.014
	N	820	820	820	820	820
No. of BOD Meeting	Pearson Correlation	.079*	-.016	.077*	1	-.027
	Sig. (1-tailed)	.012	.325	.014		.217
	N	820	820	820	820	820
Market Valuation	Pearson Correlation	.003	.114**	-.077*	-.027	1
	Sig. (1-tailed)	.468	.001	.014	.217	
	N	820	820	820	820	820

Notes: * Correlation is significant at the 0.05 level (1-tailed); ** Correlation is significant at the 0.01 level (1-tailed).

4.3 Analysis of regression between Tobin's Q and all independent variables

4.3.1 Regression between Tobin's Q and all independent variables in year 2001

Table 4 Regression between Tobin's Q and all independent variables in year 2001

Proxies	Correlation coefficient (R)	R-squared	P-value
BOD composition	0.160	0.026	0.761
BOD remuneration			0.109
BOD training			0.187
BOD meetings			0.596

Referring to Table 4, only 16% of the changes in the independent variables affect Tobin's Q, which means the correlation is not strong enough. As for the R-squared, only 2.6% of the variation in Tobin's Q is explained by the variation in the corporate governance. All the P-values exceed the significant level of 5% and 1%, means that there is no significant relationship between each independent variables and Tobin's Q. Therefore, the null hypothesis is accepted as there is no significant relationship between Tobin's Q and the corporate governance's proxies.

4.3.2 Regression between Tobin's Q and all independent variables in year 2002

Referring to Table 5, only 19.8% of the changes in the independent variables affect Tobin's Q, which means the correlation is still not strong enough. As for the R-squared, only 3.9% of the variation in Tobin's Q is explained by the variation in the corporate governance. The P-value for BOD remuneration (0.049) is below the significant level of 5%, means that there is a significant relationship between BOD remuneration and Tobin's Q. Therefore, the null hypothesis is accepted as there is no significant relationship between Tobin's Q and BOD composition, training, and meeting. But for BOD remuneration, the null hypothesis is rejected and the study accepts the alternative hypothesis as there is a significant relationship between BOD remuneration and Tobin's Q.

Table 5 Regression between Tobin's Q and all independent variables in year 2002

Proxies	Correlation coefficient (R)	R-squared	P-value
BOD composition	0.198	0.039	0.684
BOD remuneration			0.049
BOD training			0.124
BOD meetings			0.920

4.3.3 Regression between Tobin's Q and all independent variables in year 2003

Table 6 Regression between Tobin's Q and all independent variables in year 2003

Proxies	Correlation coefficient (R)	R-squared	P-value
BOD composition	0.204	0.042	0.670
BOD remuneration			0.067
BOD training			0.167
BOD meetings			0.361

As shown in Table 6, only 20.4% of the changes in the independent variables affect Tobin's Q, which means there is no strong correlation. As for the R-squared, only 4.2% of the variation in Tobin's Q is explained by the variation in the corporate governance. All the P-values exceed the significant level of 5% and 1%, which means that there is no significant relationship between each independent variable and Tobin's Q. Therefore, the null hypothesis is accepted as there no significant relationship between Tobin's Q and the corporate governance's proxies.

4.3.4 Regression between Tobin's Q and all independent variables in year 2004

Table 7 Regression between Tobin's Q and all independent variables in year 2004

Proxies	Correlation coefficient (R)	R-squared	P-value
BOD composition	0.166	0.027	0.661
BOD remuneration			0.230
BOD training			0.117
BOD meetings			0.523

According to Table 7, only 16.6% of the changes in the independent variables affect Tobin's Q, which means there is no strong correlation as well. As for the R-squared, only 2.7% of the variation in Tobin's Q is explained by the variation in the corporate governance. All the P-values exceed the significant level of 5% and 1%, which means there is no significant relationship between each independent variable and Tobin's Q. Therefore, the null hypothesis is accepted as there is no significant relationship between Tobin's Q and the corporate governance's proxies.

4.3.5 Regression between Tobin's Q and all independent variables in year 2005

Referring to Table 8, only 8.9% of the changes in the independent variables affect Tobin's Q, which means the correlation is not strong enough. As for the R-squared, only 0.8% of the variation in Tobin's Q is explained by the variation in the corporate governance. All the P-values exceed the significant level of 5% and 1%, which means there is no significant relationship between each independent variable and Tobin's Q. Therefore, the null hypothesis is accepted as there is no significant relationship between Tobin's Q and the corporate governance's proxies.

Table 8 Regression between Tobin's Q and all independent variables in year 2005

Proxies	Correlation coefficient (R)	R-squared	P-value
BOD composition	0.089	0.008	0.771
BOD remuneration			0.443
BOD training			0.998
BOD meetings			0.445

4.3.6 Regression between Tobin's Q and all independent variables overall

Table 9 Regression between Tobin's Q and all independent variables overall

Proxies	Correlation coefficient (R)	R-squared	P-value
BOD composition	0.146	0.021	0.862
BOD remuneration			0.000
BOD training			0.012
BOD meetings			0.584

Referring to Table 9, only 14.6% of the changes in the independent variables affect Tobin's Q, which means the correlation is not strong enough. As for the R-squared, only 2.1% of the variation in Tobin's Q is explained by the variation in the corporate governance. The P-Value for BOD remuneration (0.000) and BOD training (0.012) are below the significant level of 5%, which means there is a significant relationship between both BOD remuneration and BOD training and Tobin's Q. Therefore, the null hypothesis is accepted as there is no significant relationship between Tobin's Q and BOD composition and BOD meeting. But for BOD remuneration and BOD training, the null hypothesis is rejected and to accept the alternative hypothesis as there is a significant relationship between both BOD remuneration and BOD training and Tobin's Q.

5. Conclusion

In this study, it can be concluded that majority of the companies listed in Bursa Malaysia have complied very well with the code in corporate governance practices. As we can see in the statistics in section five, it proved that majority of the companies have held at least 4 times board meeting. It was found that majority of the companies have conducted their meeting between 4 to 6 times a year and that this was consistently followed each year. In addition, it was also found that majority of the companies more than 1/3 of independent directors in their board composition. During the year 2001 when the government introduced the Malaysian Code on Corporate Governance, most of the companies did not send their directors to the MAP but in the year 2002 onwards, the study had found majority of the company complied with the code. The analysis also was found that there was a slight increase in what the companies had paid in remuneration and this increase was within the range of RM50,000 to RM100,000 and above to their directors (refer Fig. 2). On the other hand there was a slight decrease in payment for the range of remuneration below RM50,000. This trend is expected to continue in the comings years because companies want to make sure that their board directors are committed and fully focused to review and adopt very good strategic plans for their companies. The companies would also want to attract and retain the directors needed to run the company successfully. This study also found evidence indicating that there is a relationship between corporate governance and the firm value and at the same time there is evidence to show that there are no relationships between the variables. In five years study, there is a relationship between the variables (BR and BT) despite the fact that the relationship was not a strong relationship as the value of R is below 60%, consistent with suggestion made by Gompers, et al (2003). The study also found that there is no relationship between the variables (BC and BM) which is consistent with the research done by Bauer, et al (2004). They suggest that there is no relationship between the variables. They also suggest that one possible explanation could be that accounting numbers are biased measures of firm performance. Both proxies are based on reported accounting earnings. A negative correlation between earnings and corporate governance possibly implies that badly governed companies report less conservative earnings estimates. As recent corporate scandals showed, managers tend to use their latitude to overstate earnings.

Based on the correlation analysis, it shows that the dependent variable (Tobin's Q) is significantly correlated with BR (0.001) and BT (0.014) at 1% and 5% respectively. Therefore, first null hypotheses must be rejected and the alternative hypothesis should be accepted, in which dependent variable and independent variables are significantly correlated with BR and BT. This is consistent with the research done by Abdul Hadi bin Zulkifli, et al (2005), where board independence-performance studies indicated that there is no significant relationship between the proportion of outsiders on the board and Tobin's Q, although they found some evidence of a positive correlation between Tobin's Q and majority-outside boards. Based on the regression analysis, there is a significant relationship between Tobin's Q and independent variables (BR and BT) in 2002 and also overall.

These findings have implications for both the security regulators and the listed companies in Malaysia. Security regulators recognize the importance of corporate governance in enhancing firms' investment values. Various best practice codes are imposed to improve a firm's overall governance standard. Our study sheds light on the elative importance of various corporate governance practices; hence, it provides useful information to the regulatory authorities to design best practice codes tailored to both the Malaysian institutional background and the current level of capital market development in Malaysia. In addition, these results are useful guide for firms that are designing their corporate governance mechanisms to enhance their market valuation and, thus, provide additional value to their shareholders and reduce their future investment cost.

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