

The Impact of Management Ethics on Stock Performance in Malaysia

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Abstract

This paper was designed to understand the implications and significance of management ethics over stock performance in Malaysia. The stock performance was measured using Return on Equity (ROE), Return on Asset (ROA), Earnings Per Share (EPS) and Price Earnings ratio (PE). A scorecard method used in ASEAN Corporate Governance report 2014 has been used to rank the firms based on their ethical performances. The published rankings for top 20 firms with good corporate governance are used as measure of management ethics. The theoretical relationship between shareholder's wealth, management ethics and efficient market hypothesis explains how management ethics impact the stock performance. The findings could be used to understand how shareholders could be affected by the managers' ethical or unethical behavior.

Keywords: Management ethics; Stock performance; Malaysian listed companies; Corporate Social Responsibility (CSR); Shareholder wealth

Introduction

Businesses in capitalism world follow the shareholders' wealth maximization model. However, the business practices differ among the various firms and they follow different ethical and unethical approaches to maximize shareholder's wealth. The definition of business ethics is highly abstract and several academicians refer to it in a different manner, typical definition refers to the rightness and the wrongness of the behavior. It's one's virtuous duty to follow the ethics but are there any merits in following ethical approach? As stated by the famous economist Milton Friedman "There is only one social responsibility of business, to use its resources and engage in activities designed to increase its profits" [1]. In past 30 years' business ethics has been a separate discipline in its own right [2].

Firms like Enron, WorldCom and Barings Bank were subject to suspicious, unethical and scandalous activities [3]. The ultimate impact of unethical activities conducted by these companies was eventually born by the society and the investors [4].

Business ethics are being thoroughly discussed by academicians and in literature, which is an evidence of its importance [5]. Business ethics are popular because of its effects on the company's performance. Many companies are now focusing more on their code of ethics to bolster the performance of their company measured by profitability [6].

Corporate codes of conduct represent practical Corporate Social Responsibility (CSR) instruments which are commonly used to govern employee behavior and create a socially responsible organizational culture. According to Erwin [7], these are basically the explicit version of the business ethics. They are often referred as "code of ethics". Which create a sustainable environment for the business to operate, properly documented code of ethics could help business to reduce their costs such as insurance premiums and negative customer actions. Lower costs often increase profitability of the business. From Kaptein and Schwartz [8], further stressed on some factors that are effected by the code of conduct. The financial performance is one the factors that is effected by the code of conduct.

Relationship between business ethics and stock prices

Business ethics reduce several costs which affects the profitability of the business. There are however mixed views on the relation between

company performance and business ethics [7]. Svensson and Wood [9] model shows under the evaluation that profitability is highly affected by the business ethics, and share prices due reflect the company's performance. The profits allow corporations to reinvest them for the future growth which is strictly monitored by the market and the shareholders. According to McMurrian and Matulich [10], concludes in of their study that unethical business approaches could financially harm a company due to several costs that company has to adhere i.e., legal costs. Another study by Bonini and Boraschi-Diaz [11] shows a strong relationship between publicizing of unethical reports on stock price, as companies published unethical reports the stock price showed unfavorable turns.

This research aims to find out whether the shareholder wealth is positively affected by the good ethical behavior of the firms in Malaysia. Shareholder wealth in this context refers to the stock price as a capital gain or loss over a certain period of time. Keeping this in mind, several firms have implicit and explicit code of conduct. This research will justify whether the firms with ethical behavior affect the stock performance positively or the firms with weak ethical behavior affect stock performance negatively. Whether stockholders will benefit from investing in companies with good ethical background or will they be punished due to the unethical behavior of the management.

Companies often do not recognize the merits of ethical behavior and sometimes they are only concerned with just compliance of rules and regulations. As stated by the famous economist Milton Friedman "A corporation's only social responsibility is to make profit" [6]. This shows companies often do not fully understand the financial outcomes of ethical practices and the impact of their code of conduct on their financial performance. Out of top 100 companies in Malaysia only 68% had disclosed their code of ethics, whereas out of 873 companies 38%

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had disclosed their code of ethics [12]. Conventionally it is thought there is tension between ethical behavior and profit and it is thought that ethics are imposed upon the business from the outside [1]. Adhering to this tradition many companies does not fully recognize the impact of ethical practices on financial performance of the companies. As discussed by Liew [13], Malaysia needs further developments to strengthen their code of ethics. In a traditional business mindset as long as management thinks that ethics are only forced by regulations and that they are not moral duties, the business will focus on fulfilling the regulatory objectives only, without showing the real need for effective code of ethics. Certain literature has shown the importance of ethics in corporate world. Verschoor [6], Svensson and Wood [9] and Cosans [1] have emphasized on the importance of the code of ethics for companies. Others focused on general stakeholders. Author Verschoor [6] precisely studied the relationship between financial performance and commitment to ethics. The major area to be focused is the realization of the significance of ethics for better corporate performance. Without firm understanding of the basic grounds of ethical behavior that impact profitability companies will not be able to emphasize more on ethics. Instead inappropriate code of ethics will diminish stockholder's wealth. The merits of appropriate ethical behavior affect all the key stakeholders to the company and the society as whole; There are certain merits highlighted in a study which includes economical outcomes, lawful behavior, being good corporate citizen and retention of employees [9]. Whereas the company could also bear the costs of unethical practices which negatively impact its profitability and its corporate image, several studies highlighted the demerits of unethical practices which includes pressure for greater accountability, fear of punishment and loss of customer value and imposition of fines [10]. This study will precisely focus on the relationship between ethical behavior and stock performance, where stock performance will be the key indicator for shareholder's wealth.

Hypotheses

Hypothesis 1, Ha1: There is a significant relationship between good management ethics and the stock performance.

Hypothesis 2, Ha2: There is a significant relationship between good management ethics and shareholder wealth maximization.

Research Design

Data collection

Following are the variables with their measurements:

- Stock performance is measured by ROE, EPS, ROA, PE and MVA
- Shareholder wealth maximization is measured by stock price.

Stock performance is measured by using common financial ratios such as Return on Equity, Earnings Per Share, Return on Assets, Price to Earnings ratio, Market Value Added (MVA) and economic value added [14].

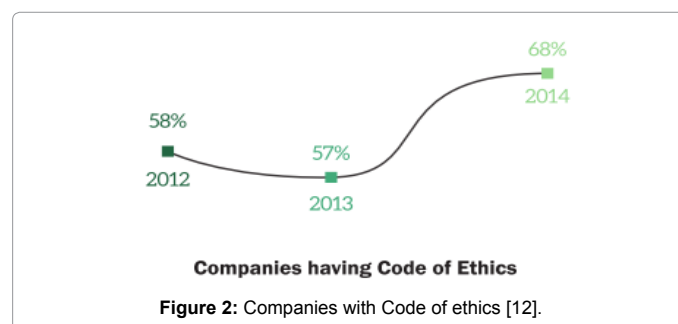
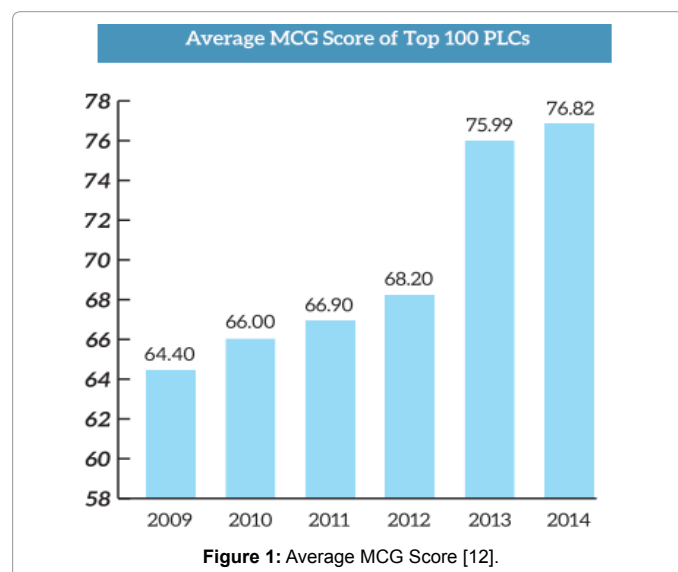
To conduct this study, secondary data will be used as the input to various tests and models in order to analyze the relationship between variables.

The data is to be retrieved from Bursa Malaysia formerly known as Kuala Lumpur stock exchange. It is the current stock exchange of Malaysia. It has over 900 listed companies. The data to be analyzed will be in time frame of five years, particularly from 2011 to 2015. That following period is perceived as the "post recovery period" after the

financial crisis of 2008, economies started to recover from drenched period of recession. Particularly in Malaysia during this period several policies were revised and new initiatives were introduced, especially focusing on corporate governance of the corporations. Mandatory reporting laws were also implemented regarding the Corporate Social Responsibility [15]. In 2011, Capital Market Masterplan 2 themed as "Growth with governance" was launched, whereas in 2012 a revised version of Malaysian code on Corporate Governance was released. In 2014 The Malaysian code for institutional investors was launched [12]. During this period an increase in corporate governance average score was observed which showed that companies are continually improving the corporate governance disclosures and practices in compliance with higher and stricter standards (Figure 1).

Malaysia-ASEAN Corporate Governance 2014 [12] report shows the number of companies with explicit code of ethics increased from 58% in 2012 to 68% in 2014 (Figure 2). Companies now realize this fact as they not only concerned about regulatory compliance but also understand the merits of it [6,14].

To effectively support this study, the targeted population will be the public limited companies listed on the main market of Bursa Malaysia. The sampling criteria are based on ASEAN Corporate Governance Scorecard. This scorecard was introduced in 2011 under the supervision of Association of Southeast Asian Nations (ASEAN). The scorecard uses ranking methodology to rank companies based on their corporate governance policies which are benchmarked against Organization of Economic Co-operation and Development's (OECD) corporate governance principles. From the components and



methodologies gathered, assessment criteria and corporate governance template in form of scorecard was developed by the initiative.

The score card uses two levels of scoring to better capture the implementation of the substance of good corporate governance. Level one consists of items that are indicative of the laws, regulations and requirements of each ASEAN member country and basic expectations of the OECD principles. Level two consists of bonus items reflecting other emerging good practices and penalty items reflecting actions and events that are indicative of poor governance. The scorecard covers the following five areas of the OECD principles:

1. Rights of shareholders (10%)
2. Equitable treatment of shareholders (15%)
3. Role of stakeholders (10%)
4. Disclosure and transparency (25%)
5. Responsibilities of the board (40%).

Maximum attainable score is 142 (100 from level 1 and 42 from level 2) [16].

Using this scorecard methodology ASEAN Capital Market Forums constructed two lists named as:

- Top 100 companies with good disclosure
- Top 100 Overall CG Companies- Disclosure with ROE performance.

This study uses the second list “Top 100 Overall CG Companies-disclosure with ROE performance”. The sample will include top 20 companies from that list excluding the banking and finance corporations due to the complexity involved in computing the given variables.

The rationale for choosing this method for this research is based on tenets of ethical behavior. The scorecard is considered to be well functioning method that includes all possible horizons of the management ethics. Considering code of ethics alone will be insufficient to analyze the relationship between stock performance and ethical behavior. Because code of ethics alone cannot explain the wide philosophical ideology of business ethics. Whereas scorecard methodology includes several other qualitative areas which are beyond the scope of code of ethics and it appoints numbers and figures to those areas. Making it easier to quantify them as input variables.

Level one item such as disclosure and transparency are considered to be vital parts of ethical behavior [6]. Such importance is reflected in the scorecard in form of percentage weight assigned to disclosure and transparency area (25%). Level two items however replicate the basic priori presented in financial literature. As McMurrian and Matulich [10] have stated in their studies that unethical behavior could penalize the firm by imposing legal costs, loss of customer relationship and negative reactions from investors. Same principle is followed in level 2 of scorecard as unethical behavior is penalized with negative score and extraordinary practices are rewarded with positive score.

Also the ranked list chosen for this research includes ROE performance indicator for ranking criteria, thus it supports the research objective of this study as ROE is also considered as stock performance indicator.

Based on these presumptions scorecard methodology is used to reflect business ethics.

A sample of 20 companies has been chosen (Table 1). The total sample size will be 100 for this study; the data to be analyze is in the form of structured data.

The chosen companies are not restricted to any single specifications, for instance, the sector, industry, nature of size business or the size of business. This will provide this research with less biasness and more varied result. Several companies have different market capitalization and differing stock prices, which also makes each sample unique to other. The researchers have not selected the companies based on their presumptions instead the companies chosen are forming the list provided by Malaysia-ASEAN Corporate Governance 2014 report [12].

As stated above the scorecard method is assumed to be an efficient indicator of business ethics and so the researchers have decided to use the top twenty companies from that list as a sample for this research. As they are considered to have higher score as compared to others in the list.

The numerical financial data obtained from financial statements will be used to calculate the financial ratios for given dependent variables. To measure stock performance, ROE, EPS, ROE, PE and MVA ratios will be calculated respectively using the data obtained from financial statements. For shareholder’s wealth maximization the stock price will be obtained using several credible sources such as Bursa Malaysia, Yahoo finance and Morningstar. These platforms provide day end stock prices with buy and sell quotes, trading volume and highest to lowest prices of the day. In addition, they provide the historical price data which is also important for this study. However, to add the smoothing effect in the stock prices, they will be adjusted for the declared dividends, in order to avoid the distortion caused by the announcement of dividends.

The formulas for each ratio are as follows:

- Return on Equity (ROE):

$$ROE = \frac{\text{Net Income}}{\text{Total Equity}} \quad (1)$$

No.	Company name	Stock code	Market capitalization (MYR)
1	Bursa Malaysia Bhd	1818	4610000000
2	Telekom Malaysia Bhd	4863	25670000000
3	Sunway Bhd	5211	5890000000
4	IJM Corporation Bhd	3336	12200000000
5	Nestle (Malaysia) Bhd	4707	18530000000
6	Astro Malaysia Holdings Bhd	6399	15200000000
7	Axiata Group Bhd	6888	50210000000
8	Top Glove Corporation Bhd	7113	5370000000
9	UMW Oil and Gas Corporation Bhd	5243	1930000000
10	Tenaga Nasional Bhd	5347	81160000000
11	British American Tobacco (Malaysia) Bhd	4162	14090000000
12	Maxis Bhd	6012	45210000000
13	Sime Darby Bhd	4197	46950000000
14	Digi.com Bhd	6947	38560000000
15	IJM Plantations Bhd	2216	2910000000
16	UMW Holdings Bhd	4588	6660000000
17	Malaysia Airports Holdings Bhd	5014	9870000000
18	Msm Malaysia Holdings Bhd	5202	3430000000
19	Prestariang Bhd	5204	941550000
20	Felda Global Ventures Holdings Bhd	5222	6750000000

Table 1: List of companies for sampling. This table includes the sample of 20 companies chosen from “Top 100 Overall CG Companies-disclosure with ROE performance.

Or

$$\frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Average Shareholders' equity}} \quad (2)$$

- Earnings Per Share:

$$\text{E.P.S} = \frac{\text{Net Income-Preferred Dividends}}{\text{Weighted Average Outstanding Share}} \quad (3)$$

For diluted EPS:

$$\text{Diluted EPS} = \frac{\left[\frac{\text{Net Income-Preferred Dividends}}{\text{Weighted Average Shares}} + \frac{\text{Convertible Preferred Dividends}}{\text{Share from conversion of preferred stock}} + \frac{\text{Convertible Debt Interest}}{\text{Shares from conversion of debt}} + \frac{\text{Convertible Debt Interest}}{\text{Shares issuable from stock options}} \right] (1-t)}{\quad} \quad (4)$$

- Return on Assets

$$\text{ROA} = \frac{\text{Net Income}}{\text{Average Total Assets}} \quad (5)$$

Or

$$\text{ROA} = \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Assets}} = \frac{\text{Net Income}}{\text{Total Assets}} \quad (6)$$

- Price/Earnings Ratio

$$\text{P/E} = \frac{\text{Market Value Per Share}}{\text{Annual Earnings Per Share}} \quad (7)$$

- Market Value Added (MVA)

Market value per share – Book Value per share

Data analysis

The collected data will be used as input in statistical platforms such as E-view 9 to perform the data analysis. Several suggested tests to be used for this study include: Independent T-test, multiple regression model, multicollinearity, autocorrelation and heteroscedasticity.

Multiple regression model: *F-test:* Using the past researchers information [6,14]. The formulation of regression model for management ethics and two independent variables is as follows:

The basic model is

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \mu \quad (8)$$

Where, Y: Stock performance; X_1 : Management ethics; X_2 : Shareholder wealth maximization; β_0 : Intercept; $\beta_1 \beta_2$: Estimated slope coefficients; μ : Disturbance term.

The F-test is used to find the overall probability of relationship between the dependent variable and all the independent variables occurring by chance [17]. To test the above regression compute F-test with regards of its hypotheses statement and rule of thumb [18].

The tests conducted in this study can be categorized in two broad categories namely, diagnostic tests and panel data tests.

The final equation for this research is formed which includes all the related dependent and independent variables:

$$\text{Stock Performance} = \beta_0 + \beta_1 \text{Ranking} + \beta_2 \text{Stock Price} + \mu \quad (9)$$

To achieve more accurate results for all the tests that were to be

done, eqn. (9) has been modified by using the log(ln) function for variables such as “Ranking” and “Stock Price” along with that a lagged dependent variable is also added. The equation after modifications looks as follows:

$$\ln \text{Stock Performance} = \beta_0 + \beta_1 \ln \text{Ranking} + \beta_2 \ln \text{Stock Price} + \beta_3 \text{Stock Performance}(-1) + \mu \quad (10)$$

Multicollinearity: Table 2 shows the correlation matrix which contains the value of correlation coefficient between the variables used in this study.

The overall correlation coefficients for all the variables are considered not too high, meaning there is no strong correlation between variables. Thus, this could be presumed there is no such multicollinearity between the variables and therefore, there is no such need to run auxiliary regression.

Durbin-Watson statistic of 1.920784.

The statistics results obtained is positive and is closer to 2, which means that there is no positive autocorrelation in the model.

To support the Durbin Watson d test, Breusch-Godfrey Serial Correlation LM test is also conducted.

The Prob. Chi-Square (2) value obtained from the above model is 0.0717.

By comparing the significance level of 0.05, the decision rule is to not reject null hypothesis because the p-value of F-test is greater than 5% significance level, in other words, there is no autocorrelation in the model.

White's general heteroscedasticity test, p-value of 0.5497 is greater than the significance level of 0.05, so null hypotheses is not rejected and it is assumed that there is no heteroscedasticity in the model.

Ramsey's RESET test result shows the p-value of F statistic is 0.5723.

Based on the hypothesis statement, since the p-value is greater than 5% significance level, the decision is to not reject null hypothesis, which means the model is correctly specified.

E-views results shown in Table 3 will be used for the analysis and

	STOCK_PERF	STOCK_PRICE	RANK
STOCK_PERF	1	0.107401	0.037178
STOCK_PRICE	0.107401	1	-0.22011
RANK	0.037178	-0.220109	1

Table 2: Correlation matrix.

Dependent variable: STOCK_PREF				
Method: Panel Least Squares				
Total panel (unbalanced) observations: 75				
Variable	Coefficient	Std. error	T-statistic	Probability
C	0.0081	0.1129	0.0719	0.9428
LOG (RANK)	0.0435	0.0379	1.1487	0.2545
LOG (STOCK_PRICE)	0.2441	0.0441	5.5337	0.0000
STOCK_PERF(-1)	0.1426	0.0956	1.4920	0.1401
R-squared	0.4659	F-statistic		20.6526
Adjusted R-squared	0.4434	Prob (F-statistic)		0.0000
S.E. of regression	0.2608	Akaike info criterion		0.2018
Sum squared resid	4.8298	Schwarz criterion		0.3254
Log likelihood	-3.5703	Hannan-Quinn criterion		0.2512
		Durbin-Watson stat		1.9207

Table 3: Eviews result.

interpretation for all the criteria stated in this section: T-test, F-statistic test, R-Squared, coefficient interpretation and expected sign.

From the eqn. (11), where the equation is formulated as:

$$\ln \text{Stock Performance} = \beta_0 + \beta_1 \ln \text{Ranking} + \beta_2 \ln \text{Stock Price} + \beta_3 \text{Stock Performance}(-1) + \mu \quad (11)$$

Using eqn. (11) as the basis, the equation can be broken down into individual equation where each independent variable's relationship with dependent variable can be explained.

R-squared value identifies the degree of variation that is jointly explained by independent variables over the dependent variable. Result shows that 46.6% of variation in stock performance is explained by all the independent variables (Ranking and Stock Price). Since the R-squared is lower than 60%, it is concluded that the data is not as fitted.

After the regression model eqn. (11) have been confirmed and is significantly supported by diagnostic tests and inferential statistics, panel data analysis is conducted.

Pooled OLS regression: By looking at this model, only one variable is deemed as significant which is stock price, the other variables such as rank and lagged dependent variables are not significant as their respective p-values is small (<0.05 significance level) and the F-statistic is almost 0. An R-squared value is quite low as it is below moderate level of 60%. However, Durbin-Watson is close to 2, indicating a positive sign that variables are not correlated (Table 4).

Fixed Effects Model (FEM): From the Table 5, most of the variables

Dependent variable: STOCK_PREF Method: Panel Least Squares Total panel (unbalanced) observations: 75				
Variable	Coefficient	Std. error	T-statistic	Probability
C	0.0081	0.1129	0.0719	0.9428
LOG (RANK)	0.0435	0.0379	1.1487	0.2545
LOG (STOCK_PRICE)	0.2441	0.0441	5.5337	0.0000
STOCK_PERF(-1)	0.1426	0.0956	1.4920	0.1401
R-squared	0.4659	Prob (F-statistic)		0.0000
Adjusted R-squared	0.4334	Akaike info criterion		0.2018
S.E. of regression	0.2608	Schwarz criterion		0.3254
Sum squared resid	4.8298	Hannan-Quinn criterion		0.2512
Log likelihood	-3.5703	Durbin-Watson stat		1.9207
F-statistic	20.6526			

Table 4: Eviews result (Pooled OLS regression).

Dependent variable: STOCK_PREF Method: Panel Least Squares Total panel (unbalanced) observations: 75				
Variable	Coefficient	Std. error	T-statistic	Probability
C	0.0068	0.1154	0.0597	0.9526
LOG (RANK)	0.0437	0.0387	1.1281	0.2632
LOG (STOCK_PRICE)	0.2446	0.0435	5.3926	0.0000
STOCK_PERF(-1)	0.1429	0.0985	1.4504	0.1515
R-squared	0.4670	Mean dependent var		0.5987
Adjusted R-squared	0.4200	S.D.dependent var		0.3496
S.E. of regression	0.2662	Akaike info criterion		0.2798
Sum squared resid	4.8200	Schwarz criterion		0.4961
Log likelihood	-3.4939	Hannan-Quinn criterion		0.3662
F-statistic	9.9332	Durbin-Watson stat		1.9208
Prob (F-statistic)	0.0000			

Table 5: Eviews result (Fixed Effects Model).

are not significant at a significance level of 0.05. Except stock price which is significant enough to explain the dependent variable. The F-Statistic is almost 0, meaning that there is no relationship between dependent and independent variables. R-Squared value is lower than moderate level of 60%. Durbin Watson statistic is closer to 0 signifying that there is no autocorrelation in the variables.

Random Effects Model (REM): Even under the Random Effects Model, only stock price is significant at significance level of 0.05, whereas ranking and lagged dependent variable are not significant enough to explain the stock performance. The F-statistic is also 0 that means there is no relationship between dependent and independent variables. The R-Squared value is around 46.6% which is still lower than 60% and the Durbin Watson statistic is closer to 2 which means there is no autocorrelation as well (Table 6).

Hausman test: The decision of using Fixed Effects Model or Random Effects Model lies on the result of Hausman test. Fixed Effects Model is accepted. After running the regression model with tests mentioned above using E-views platform, most of the assumptions have been fulfilled and model is deemed as desirable. The test outcomes were favorable for the structure of regression model. Keeping the above results under consideration, researchers moved forward to the next section which is inferential analysis.

Inferential statistics did not show any positive outcome since T-test and F-Statistic were insignificant; also the R-Squared value obtained was not ideal as it was below 60%. However, it does not pose any undesirable effect on the overall research and regression model; therefore the research can proceed to its final part.

From the results obtained (Table 7), it is decided that Fixed Effects Model should be chosen to run the tests for panel data, the hypothesis is driven by performing the Hausman test.

Summary of diagnostic tests

The summary Table 8 shows the tests that are done using E-views platform; the regression model used for these tests provides a positive desirable result. For the validity of the model multicollinearity, autocorrelation, heteroscedasticity, normality test and model specification tests were performed, where except normality test all the

Dependent Variable Method: Panel EGLS (Cross-section random effects) Total panel (unbalanced) observations: 75 Sway and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.0081	0.0909	0.08904	0.9290
LOG (RANK)	0.0435	0.0305	1.4271	0.1579
LOG (STOCK_PRICE)	0.2441	0.0355	6.8746	0.0000
STOCK_PREF(-1)	0.1426	0.0769	1.8535	0.0680
Effects specification			S.D.	Rho
Cross-section random			0.0000	0.0000
Idiosyncratic random			0.2099	1.0000
Weighted statistics				
R-squared	0.4659	Mean dependent var		0.5987
Adjusted R-squared	0.4434	S.D dependent var		0.3496
S.E. of regression	0.2608	Sum squared resid		4.8298
F-statistic	20.6526	Durbin Watson stat		1.9207
Prob (F-statistic)	0.0000			
Unweighted statistics				
R-squared	0.4659	Mean dependent var		0.5987
Sum squared resid	4.8298	Durbin-Watson stat		1.9207

Table 6: E-views result (Random Effects Model).

Panel data test	Hypothesis statement	Results
Pooled OLS regression Fixed Effects Model Random Effects Model	H ₀ : Random Effects Model (REM) is appropriate.	Variables are insignificant, low R-Squared, unfavorable F-statistic, no positive correlation
Hausman test	H ₁ : Fixed Effects Model (FEM) is appropriate.	Fixed Effects Model is accepted

Table 7: Summary in the results.

Diagnostic Tests		Results
Multicollinearity	Correlation Matrix	No strong correlation between variables
Autocorrelation	Durbin-Watson d test	No positive autocorrelation
	Breusch-Godfrey Serial Correlation LM test	No autocorrelation
Heteroscedasticity	White's General Heteroscedasticity test	No heteroscedasticity
Normality test	Jarque-Bera (JB) test	Not normally distributed
Model specification error	Ramsey's RESET test	Model is correctly specified

Table 8: Summary of diagnostic tests.

Inferential statistics	Results
R-Squared	Data is not as fitted

Table 9: Summary of inferential statistics.

Panel data test	Results
Pooled OLS regression	Variables are insignificant, low R-Squared, unfavorable F-statistic, no positive correlation
Fixed Effects Model	
Random Effects Model	
Hausman test	Fixed Effects Model is accepted

Table 10: Summary of panel data test.

tests show significant results. For the normality test the researchers present a priori based on the assumptions of central limit theorem, that even without normality the model fall under the BLUE (Best Linear Unbiased Estimator) assumption [18]. The Jarque Bera test is also conservative at different alpha α level and varies with sample sizes [19].

Summary of inferential statistics

Based on the Table 9, the T-test and F-statistics show that there is no significant relationship between the variables, as only the variable "Stock Price" was significant at a 0.05 level of significance. The R-squared value was considerably low 46.6% as compared to the desirable level of 60%.

Summary of panel data test

Based on Table 10, Pooled OLS Regression and Random Effects Model and Fixed Effects Model indicate that the stock price is significant enough to explain the stock performance whereas ranking was insignificant in all three models. Since the results from Hausman test support the hypotheses statement, fixed model is accepted.

Discussion of Major Findings

Table 11 is the acceptability of the hypotheses developed based on the results generated from the previous chapter.

The level of significance to determine the basis of significant independent variables is at 5%. In other words, any variables with significance level below 5% is ideal, while significance level above 5% is not ideal.

Several empirical researches support this phenomena including Abbott and Monsen [20]; Aupperle et al. [21], Chun et al. [22], Griffin and Mahon [23], Pava and Krausz [24]. These academic works have shown insignificant positive relationship between Management Ethics and Stock Performance.

Hypotheses	Significant P	Result
H ₁ 1: There is a significant relationship between good management ethics and the stock performance.	0.2545	Not Significant
H ₁ 2: There is a significant relationship between good management ethics and shareholder wealth maximization.	0.0000	Significant

Table 11: Results of testing hypotheses.

Raza et al. [25] reported in their research that more improvement in overall management ethics drives a positive firm reputation over its stakeholders which in return improves its corporate financial performance. Including the CSR activities in management ethics; CSR practice and its influence on companies' financial performance promote accountability and transparency which improves company's image and its profitability further [26].

The result shows that the variable shareholder wealth maximization measured by the stock price significantly affects stock performance as $p < 0.05$. Thus, the null hypothesis is rejected. As discussed earlier, stock price is the reflection of shareholders wealth [27].

The researchers priori is based on Poitras [28], which explains that ethical or unethical activities are embedded in stock prices if efficient market hypotheses holds, that means stock prices efficiently reflect the information regarding management's ethical or unethical practices. The positive relationship infers that if firm is involved in ethical practices, they will be reflected in its stock price [22]

Whereas unethical practices (management's self-interest) will negatively impact the stock prices by creating potential agency costs related to monitoring of management's activity, which will have dampening effect on shareholder's returns [29,30].

This research also provides insights on the extent to which management ethics affect the overall performance of the firm. The results obtained in the preceding chapter shows a mixed relationship between management ethics and stock performance. However, it could be considered by the listed companies to better understand the ethical framework and its merits and demerits. Therefore, some companies might consider disclosure of ethical activities and avoidance regarding unethical activities as a motivation to improve its financial performance.

Rashid and Ho [31] have also supported this statement by implying that ethical practices are not deemed important in corporate culture of Malaysian businesses due to ethnical diversity there are various perceptions towards understanding of management ethics, since there are different views it is often difficult to implement and understand firms ethical practices.

The relationship between management ethics and shareholder wealth was positive and significant. Theoretically management ethics consists of ethical practices in context of business activity, these are the principles and standard that is acceptable in business organization [32]. The more justified ethical approaches directly affect the business image towards its key stakeholders and a positive image created by the firm will also create value for its shareholders [30,33]. If efficient market hypothesis hold, every disclosed activity of the firm will be reflected in its stock price [28]. This infers that if the firm conducts its activities ethically adhering to all legal and social standards, it can create significant value for its shareholders via its stock price. The pessimist approach defines this phenomenon more dramatically, that is if the firm is involved in unethical activities which will have the opposite effect, which is the deterioration of the shareholders' value. Unethical activities will have negative impact on its image towards its key stakeholders and negative image will be reflected in the stock price, thus reducing the stock price and shareholders value [29,34].

The researchers only use 2 factors of independent variables, which are management ethics and shareholder wealth maximization. This might not be enough to get accurate results. Stock performance may be affected by some other factors such as Corporate Social Responsibility, company regulation etc. The variable that had been omitted will make the results imprecise and incomplete.

One of the limitations faced by researchers includes the information regarding the management ethics, the input data used in this research depends on the methodology formed by ASEAN Corporate Governance research. Researchers however cannot verify the accuracy and the reliability of the primary data although the reputability of the organization is unquestionable.

Since the researchers used the secondary data obtained from their results and methodology any alterations could not be observed.

Recommendations for the Future Studies

Several recommendations are suggested based on the experiences and the involvement by the researchers for any future researchers working on this topic or discipline.

Large sample size with longer time-period for the data studied

The sample size used for this research was moderately low as compared to the other researches in current discipline, researchers highly recommend broadening the sample size by both dimension; including the number of companies and the time-period. Since larger sample size will help alleviate several issues such as non-normal distribution of data and missing values. As for some companies that were incorporated in past few years there were several missing data points. Larger sample size is always optimum as the results will be more closer to real results if the number of observations are increased [18,35]. The large data set however should be monitored carefully and appropriate transformation should be applied to avoid distortion of the main objective.

Applying non-parametric and non-linear approach

Future researchers for this current topic are encouraged to apply non-parametric and non-linear approaches in order form a model for the given variables, since there are possibilities that the relationship between these variables is non-linear. Approaches like generalized methods of moments (GMM) and two stage regression should also be applied in order to determine which model suits the best. However,

these approaches are beyond the scope of current researchers and thus they were not applied to the current study.

Sources of primary and secondary data

The future research is encouraged increase the comparability since the results could be compared with other countries to understand whether Malaysia is gaining any importance towards ethical practices. The primary data sources should also be used such as survey and interviews with the companies to understand their ethical performances more vividly.

Research on particular sectors

It is also encouraged to focus on one particular sector at a time instead of choosing sample which varies in industries and sectors, the reason for this is that specific sector or industry research will lead to more accurate and specific outcomes. Since financial performance of firms vary over their sectors and industries as some companies are asset intensive whereas others have low asset based which makes it difficult to compare several ratios such as Return on Assets. Manufacturing firms should be clearly separated from financial institutions in order to understand the relationship more precisely.

Conclusion

This research has met its stated objectives and aims in providing a study that provides a better understanding towards management ethics in Malaysia. This study included two variables that could possibly affect the stock performance which was measured using Return on Assets, Return on Equity, Earnings Per Share and Price Earnings for the public listed companies in Malaysia. The management ethics factor was analyzed through scorecard method and using the shareholder wealth maximization model.

The result showed significant relationship of management ethics on shareholder wealth maximization, whereas insignificant relationship was obtained between stock performance and ranking of the firms. This however has answered the research question in determining whether the variables have any effects over stock performance of companies in Malaysia.

Still the debate regarding impact of management ethics over stock performance in Malaysia is under researched since many academicians have focused on the CSR part of the management ethics rather than including other variables and finding their aggregate impact on the financial performance of the firms. Several legal bodies and international organizations such as OECD have in fact encouraged the firms to promote ethical practices within their firms, however in emerging countries these ethical issues are still a seldom concern. As the economic expansions eventually will create importance for such issues in emerging economies such as Malaysia, these issues will be needed more focus in future. The long-term sustainability and profitability of any company relies on its management practices, good ethical considerations if does not impact positively does not imply that unethical consideration will also have no impact. Ethics still being debated in academicians and corporate cultures shows that this issue could not be simply ignored. The capitalism world has seen various blunders of unethical practices which include Enron and WorldCom, structured ethical considerations and their understanding could help avoid such blunders in future.

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