

**EXPROPRIATION OF MINORITY SHAREHOLDERS'
RIGHTS: EVIDENCE FROM MALAYSIA**

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**MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)
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BY

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ABSTRACT

This paper examines the extent level of expropriation of minority shareholders' rights in Malaysia. The study aims to investigate whether the following variables influence the expropriation of minority shareholders' rights in Malaysia. Analysis of 60 companies listed from two industries in Bursa Malaysia was selected. Descriptive analysis and ordinary least squares (OLS) regression model are performed in this study. From six variables that are tested only three variables can be concluded as factors influencing the expropriation of minority shareholders' rights in Malaysia. The number of independent outside directors increases the potential for expropriation of minority shareholders' rights. However, this relationship became opposite when the directors have a different characteristic among boards that affect their independence level. Profitability and growth are highly correlated. When the model is estimated using either one of them, the result is significantly negative, which means that profitable or growing firms have less incentives to engage in related party transactions (RPT). Ownership concentration, level of leverage and size are not significant in explaining the level of expropriation of minority shareholders in RPT.

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LIST OF ABBREVIATIONS

EBITDA	earning before interest, tax, depreciation and amortization expenses
et.al	(et alia); and others
FRS	Financial Reporting Statement
i.e.	(id est); that is
MASB	Malaysian Accounting Standard Board
MCCG	Malaysia Code of Corporate Governance
MSWG	Minority Shareholders Watchdog Group
MTBV	Market to Book Value
OLS	Ordinary Least Squares
SPSS	Statistical Package for the Social Science
Stata	Statistics Analysis Data
RPT	Related Party Transaction
VIF	Variance Inflating Factor

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Companies might engage in related party transaction because it offers many returns to their company. One of the returns is acquiring and disposing of substantial assets among the related parties. Related party relationship exists when parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making decision. Related party transaction can also be a business deal or arrangement between two parties who are joined by a special relationship prior to the deal. According to Bursa Malaysia, related party transaction is defined as a transaction entered into by the listed issuer or its subsidiaries which involves the interest, direct or indirect, of a related party.

Nevertheless, related party transactions are often viewed as being detrimental to outside shareholders. Officers, directors and large shareholders are well positioned to use their influence to enter into transactions that expropriate wealth from outside shareholders (Ryngaert, 2007). Even, the misalignment of goals and objectives frequently occurs between the majority and minority shareholders and not from the diverse interests of management and owners (Santiago and Brown, 2007). Furthermore, the minority shareholders would be viewed as an unnecessary burden, an uninteresting weight by majority shareholders.

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