

THE IMPACT OF SPIRITUAL CAPITAL ON CORPORATE GOVERNANCE PRACTICES OF THE LISTED GOVERNMENT LINKED COMPANIES (GLCs) IN MALAYSIA

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ABSTRACT

The objective of this study is to examine the impacts of spiritual capital (SpC) in improving the corporate governance (CG) practices in Malaysian businesses. SpC is classified as the important fourth component of intellectual capital. SpC governs how the other three capitals (human capital, structural capital and customer capital) should be used. Top 11 high performances Government-linked Companies (GLCs), as disclosed by Putrajaya Committee, were used as sample companies for this study. Data were collected by using survey questionnaires that were distributed to the employees of these GLCs. A total of 275 questionnaires were collected. Except for teamwork, results from this study show that all other selected attributes of SpC (culture, ethics, integrity, values) have positive significant impacts on the GLCs' CG Index. Besides, the levels of SpC among the GLC employees are also high, based on the mean scores of the SpC attributes. The findings from this study could be used by authorities such as SC, BM or MICG in coming up with new guidelines or Codes or complementing the existing ones. Moreover, businesses may use the findings by incorporating SpC attributes in improving their CG practices.

Keywords: Intellectual capital, Spiritual capital, Government-linked Companies, Malaysia

1.0 Introduction

Corporate governance (CG) has attracted a good deal of public interest due to its importance and impacts on the financial health of companies and society in general. Past researches revealed that good CG helps to maintain overall market confidence, attract long-term investment capital, sustain economic growth and ultimately enhanced nations overall wealth and welfare (Abdul Rahman, 2006). Investors are willing to pay a significant premium for shares of well-governed companies, especially those that ensure protection of minority shareholders (Middlebrooks & Noghiu, 2010). As far as Malaysian public is concerned, there are certain weaknesses in the CG mechanisms in the Malaysian business environment especially in protecting the investors, particularly the minority groups. The 1997 financial crisis exposed certain glaring cases of CG breakdown arising from related party transactions which had worked against the interest of minority shareholders. It was argued that the problem occurred not only because of certain weaknesses in the law but also because of the weak enforcement of minority shareholders rights, as well as the failure of the regulators to take strong actions against the violators. The financial crisis in 1997 provided the catalyst for a concerted effort and holistic approach to improve the governance practices in terms of legislations as well as the capital market infrastructure.

2.0 Research Background

Spiritual Capital (SpC) has significant effect towards Board of Directors (BODs) style and the way they manage the organization. BODs act a linkage between the people who are providing capital (shareholders) and the people who use that

capital to create value (managers) for a company. In addition, most of the companies are governed and directed by the BODs and they have to execute their roles in a commendable manner. The role of the Boards can be summarized as providing entrepreneurial leadership, setting strategy, ensuring the human and financial resources are available to objectives, reviewing management performance, setting the company's values and standards, and ensuring that obligations to shareholders and other stakeholders are understood and met. In this way, the achievement of the companies is largely attributed to a successful board as a significant component of the Corporate Governance (CG) mechanism.

Meanwhile, prior researches such as Ismail (2005), Gracia (2012) and Hashim (2015) indicated that SpC is one of the important components of intellectual capital (IC). IC is an aggregate supply of collective knowledge, facts, technologies, expertise, intellectual property, customer trustworthiness and team management that can be used to generate appraisal of the product and services in an associations. IC consists of six components, which is Human Capital (HC), Customer Capital (CC), Structural Capital (SC), Social Capital (SC), Technological Capital (TC), and Spiritual Capital (SpC) (Khalique et al 2011). This research is focusing on the SpC because previous researches have shown that the spiritual capital has positive impact on the performance in the companies (Ismail, 2005; Palmer, 2013; Iannaccone, 2007). SpC is a connection of capability, influence, morale and judgment that can obtained through religion (Khalique et al 2011). SpC takes a stakeholder accession to deal with business proceeding. It is also publicize business feasibility for all stakeholders concerns and intimidate self-interest favouritism (Dsouli et al 2012).

Prior studies on organizational performance found that SpC is one of the most significant factors in organizational performance (Judge, Locke, Durham & Kluger 1998). Moreover, study by Barrett (1998) found that nearly 60% of respondents' belief in the positive benefit of SpC at the work place. These studies further show that business ethics (sometimes called corporate morals), integrity, values and personal commitment give contribution to employee's performance (Omar et al 2012). These characteristics apply to all part of business directly and are important to the behaviour of the people and whole companies. Therefore, it is not surprising that many companies had widely adopted SpC in the work place in their effort to resolve the issue of productivity, performance and job satisfaction (Omar, et al 2012).

3.0 Literature Review

This section presents a brief analysis of related literature reviews. These reviews provide a clear and concise explanation in order to deliver a better understanding on the purpose of undertaking this study.

3.1 Issues Pertaining to Corporate Governance Practices in Malaysia

Prevalent public protest over some earlier local scandals such as Perwaja Steel, Renong Berhad and Technology Resources Berhad (TRI) were pointing towards lack of CG as the main contributory factors towards the collapsed of these companies (Abdul Rahman, 2006). The crisis and failure of those listed companies had caused the government to realize that enhancing CG should be an essential agenda to bring back the economy on the right track. The issue is worsening when the scandals involve the companies that are linked to the Government (Government-linked Companies, GLCs). To illustrate, in mid-2010, Malaysian public was shock to discover that Sime Darby Berhad had announced its earnings may be cut by up to RM964 million due to losses in its Energy & Utilities Division, from cost overruns in four projects (Mak, 2012).

Consequently, the Malaysian regulators such as the Securities Commission (SC) reviewed the MCCG 2007 and come up with the Corporate Governance Blueprint in 2011 (Blueprint) and recently released the Malaysian Code of Corporate Governance 2012 (MCCG 2012). The Codes and other rules were mainly focus on the structural and physical setting of the companies but less on the human or soft aspects.

The Board of Directors (BODs) are supposedly applying the SpC in the companies. SpC can serve as a framework to the BODs as part of the good ethical practices in running the companies. Nowadays, most of the companies in Malaysia are contributed to the fraudulent cases in order to earn higher profits and higher return. The fraud cases that occurred in Malaysia are such as Megan Media Holding Berhad, Transmile Bhd, Welli Multi Corp Bhd and PERWAJA significantly affected the business society. From the fraud survey that was conducted by Klynveld Peat Marwick Goerdele (KPMG) in Malaysia, the results indicated that the widest circumstances of unethical behaviour experienced in the work environment are management conflict of interest (71%), unauthorized conflict interest of an individual (38%) and unapproved exposure of private or keen information (KPMG, 2013). Hence, the findings from the survey indicate that the main culprit to these conflicts in the companies is due to human behaviour.

Prior researches discovered that even with the present of the Directors Code of Ethics, the crisis and scandals in companies were still apparent. The main players in an organization such as the Board of Directors, Board Audit Committee and the internal auditors must realize the understanding that good business is not just about achieving the desired financial bottom line by being competitive, but by also being ethical and sustainable (MCCG 2012). Such realization must come within a person's conscious mind, which is spiritually driven. Spiritual attributes such as integrity, honesty, loyalty must be embedded within the main players of the organization. This is viewed as absent from the present practice. Hence, the study is envisaged to close the gap.

In Malaysia, Government-Linked Companies (GLC's) constitute a significant part of the economic structure of the nation. Many critics contend that GLCs could perform better than other private firm because of their close relationship with the government, which give them special advantages in term of accessing funds and engaging in growth opportunities (Ting and Lean, 2011). However, GLCs may also perform worse than private firms because their managers are mainly civil servants who lack business acumen, and their investment decisions may be politically rather than economically motivated. The issue of unethical culture

practice among GLCs has become the public concern. The annual survey conducted by Transparency International (TI) to measure the degree to which corruption is perceived among public sector official in 168 countries around the world revealed that Malaysia ranked at number 54th in year 2015. The lower the number in overall result indicates that the countries has high corruption tendency (Transparency International Report, 2015).

As the result above, the main players in GLC's such as stakeholders are not only focusing on the profits return but the stakeholder and management also responsible to implement the moral manner in making a decision by taking into account the SpC. This is to avoid the unethical behaviour in the companies. This indicates that SpC would have significant impacts on the way the companies are managed. Hence, this study envisages finding out how SpC would influence the CG practices in GLCs in Malaysia.

3.2 Overview of Spiritual Capital

Malloch (2010) defines spiritual capital (SpC) as an individual ethical and spiritual being. From another perspective, SpC is regarded as a mechanism of the IC that consists of the power, inspiration, spirit and knowledge (Malloch, 2010). Based on the SpC Research Program (2003), they state spirituality as "the effects of spiritual and religious practices, belief, networks and institutions that have a measurable impact on individual, communities and societies". SpC is about the ethical base and the practice of business and it involve the capitalism which it is due to additional of moral and social dimensions. SpC is not concern about monetary wealth but it concerned on the making of profits by running the business (Licht, Goldshmidt & Schwartz, 2005).

SpC are closely related with the subject of religion, health and well-being. Spirituality and religion are synonyms that may lead the question whether the spirituality and religion are simply one word or not. If not, the researcher should separate the key terms between spirituality and religion. From the previous study, spirituality is hard to define because it consists of reality that transcends words or measure. Today, spirituality can directly measure and observe based on its terms (Hashi, 2011). To differentiate the spirituality and religion, the recommendation has been made between extrinsic which is the religion is meant to an end and intrinsic is religion as a way of life (Lun & Bond, 2013). However, this recommendation has been argued that it is difficult and fails to capture the characteristic of spirituality and religion (Licht et al. 2005). The conceptual distinction between religion and spirituality has been ignored and it is not helpful to understand the differences between religion and spirituality (Malloch, 2010).

Today, in order to reach company objective, value and the responsibilities that are carried out by the employees through their duties are improbable to reach. The reason is because the goals between employees and companies are not congruence. As a result, their performance in the company is low and probably they may take the action to leave from the company. The action that company have to take is they should develop the integrity within the employees and the company itself. Referring to Emmons, Cheung & Tehrani (1998) findings, the results of the attention of spirituality at the workplace is higher among the individual and the company. Spirituality may motivate individual differences in their own and others life's through what they do at work (Dsouli et al 2012). Licht et al (2005) stated "work is not just meant to be interesting or challenging, but that is about things such as searching for deeper meaning and purpose, living one's dream, expressing one's inner life needs by seeking meaningful work and contributing to others".

Early spirituality study in Malaysia was conducted by Ismail (2005) at Telekom Malaysia Berhad. The survey conducted by Ismail (2005) on the company's employees shows that there are 53.8% from the employees have a negative perception and claimed that Telekom Malaysia does not promote fairly and their promotion does not meet the objectivity of the company. A further 10-19% of the employees expressed their disagreement relating to the clear vision, mission, the inconsistency values of the company which shows that the company have lack of empowerment (Ismail, 2005). Based on the result, it was concluded that SpC is important in the company because it would add the value of an employee and might automatically increase the spirituality of the employees and company itself.

Based on the review of the literature and the study conducted by Ismail (2005) stated that the SpC are represented by the accountability, supportiveness, self-focus, integrity, motivation, loyalty, ethics, values, culture, team works and others. For this study, we are focusing only at the internal and external behaviour of employees such as the integrity, values, ethics, team works and culture which committed with their performance duties.

3.3 Theoretical Framework

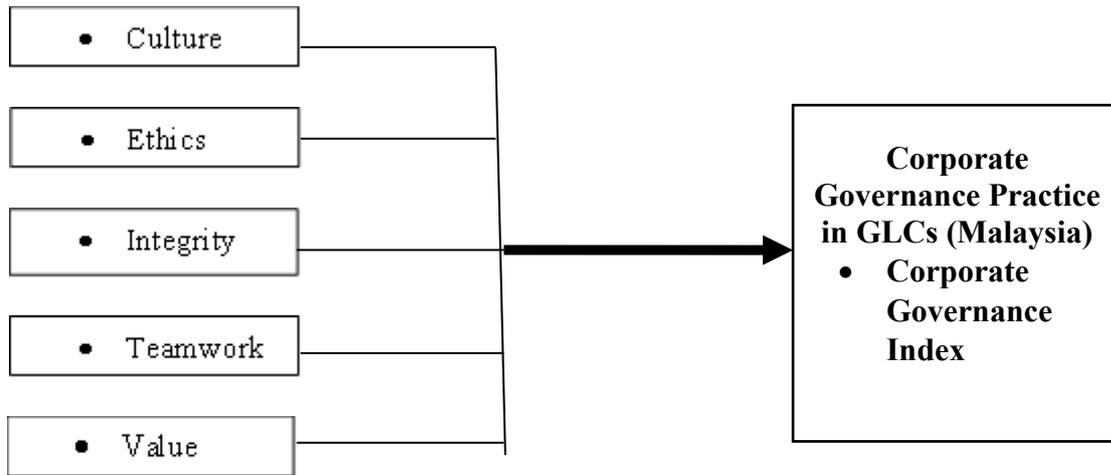
Based on the literature review and theoretical discussed above, this study comes up with the following theoretical framework. The selection of the SpC's attributes was derived by on the prior studies and research. The discussion on the attributes are discusses below.

Figure 1: Theoretical Framework

Independent Variable

Dependent Variable

Spiritual Capital (SpC)



3.1 Culture

Culture involves with basic human activities which comprise of what human beings assume, what human do, and what human beings make. Similarly, several properties arise; culture is share, symbolic, adaptive integrated and transmitted across generally through formal and informal interaction. Culture in the field of organisation behaviour can linked to the discipline of the employee or stakeholders in the company. Corporate culture is offered as an asset that would be managed to enhance company performance.

Schein (1992) stated that culture is the value that dominant to the individual style, language and symbols, the procedure and routine that characterised in the company. Meanwhile, Cameron and Quinn (1999) argued that culture is developed from the internal and external focus and it is strived for the flexibility and the individuality or stability of control. Earlier scholar such as Scholz (1987) said that culture is the inherent, invisible, and fundamental which guide the behaviour of the individuals. Nevertheless, Institute for the Study of Economic Culture (ISEC) proposed that SpC is across the culture based on their research with regards to the forms, meanings and political investigation.

As for the culture at the workplace, Cole, Oliver & Blaviesciunaite (2014) exerted that it is influenced by the organisational framework and physical environment. It also may directly or indirectly affect the practices; for example dress code, personalisation of the workplace and environmental ethic and behaviour. Furthermore, organisational culture is complicated. Alvesson & Berg (1992) stated that the nature of organisation culture is too complex to understand when it relates with the human behaviour and their working style. In addition, they asserted that belief as well as workplace humour and working life behaviour have a positive relationship and it may enhance the organisational culture to achieve organisational objectives. Meanwhile, Bruce (1996) includes religious as part of the cultures which consists of the beliefs, actions that assume the existence supernatural entities of the moral purpose. In order to achieve the organisational goals, culture enables the inner life or the spiritual practice that are basically motivated by the employees (Giacalone, Jurkiewicz & Fry, 2005). Culture of the religion such as Muslim, Christian and Hindu may consist of sets of customs, beliefs and values.

3.2 Ethics

Nowadays, directors are forced to assume responsibilities not only to shareholders but they are also responsible to stakeholders in running their operations. Vanishree (2015) said that individuals and organisational characteristics may affect ethical behaviour. Moreover, ethical behaviour prospect are closely related with employee code of conduct, policy, training and also the top management roles and behaviour. In addition, the directors have to recognise the basic of definition of corporate ethics. The justice and fairness play an important role in organisation in order to assign good organisation ethics.

Accordingly, Gracia (2012) stated SpC should be linked to ethics which is more suitable to assign good moral and be given the collective character. Meanwhile, Hashi (2011) viewed ethics as attempts to put value of right and wrong of human action, which is mainly about “what human ought to do”. It indicates human attempt of studying code of ethics to ensure that individual has the correct understanding of ethical behaviour. From the Islamic perspective, Islamic ethics is defined as a guideline of right and wrong which set down what human ought to do as stated by Quran and shown in the excellent life through actions and words. Ethics can be improved or protected through the power of faith (Yaken, 2006).

3.3 Integrity

Integrity discussed the character of the individual, trust, and faith in doing right and wrong act. Torralba, Palazzi & Seguro, (2011) asserts that integrity can be linked to the values, trust and unity of individual. Integrity refers to the principle which consists of trust that played as a key of individual relationships and without unity, the trust may not be endured. Integrity can be measured through an inner compass of the individual which may be controlled by the sense of directions. In order to practice integrity in the company, the employees or individual should have the self-awareness towards their beliefs, values, and motivation that may influence them. By maintaining the economic activities, confidence and protecting the interest of stakeholders, integrity is vital to be existed in the company. Without integrity into protecting the stakeholder's interest, there may be many influences occur towards the corporate scandals and failure of many institutions.

Today, most of the Malaysian companies admitted of having unethical behaviour that occurs in their companies which indirectly influences the acts of fraudulent practices. Results from the survey conducted by Omar, Bakar & Katerina (2012) revealed that 50% of the company is facing a serious problem on fraudulent practices. Previously, survey by KPMG in 2002 stated there are 33% from the company surveyed involved with the fraudulent conducts which resulted in having losses of RM one million and above (KPMG, 2002). Such companies in Malaysia that had experienced in the fraudulent conduct are Transmile Group Berhad, Megan Media Holding Berhad and Tat Sang Berhad.

3.4 Teamwork

The teamwork is defined as a leadership commitment toward company through the monitoring their team management that are responsible to running their task in ensure that the company may achieve their goals. Presently, in order to ensure the competitive environment in the company, the employees are asked to show the skills and emotional intelligent that are linked to the individual interpersonal relationship. The companies are willing to invest in the training programs in order to make their employees develop more creativity skill, teamwork, control the individual emotional and enhance their skills in achieving business objectives.

Middlebrooks & Noghiu, (2010) state that conversation gap that persists in a company is the crucial part for the leadership to manage. In order to solve the crisis, the company must give the motivation and advice to their employees. In achieving successful teamwork, it depends on how that leader manages their teams in interpreting their ideas to ensure the teamwork will achieve the company objective through their decision making and discussion amongst of them. As far as SpC is concern, leader is the one who will connect with the employees to ensure that they achieve the company's objectives.

3.5 Values

Another important element of SpC is individual values. Values include the items that are representing the congruence between company values and individual life. The values include the involvement between leader and companies. In business perspective, the values can be defined as a major influence on a person behaviour and attitude that set as guidelines in all situations. In business, value is defined as a justice, innovation and community participation. In most companies, they focused more on the company's relationship and communication that evolved between employees and stakeholders. The Organisation for Economic Co-operation and Development principle (OECD, 2004) asserts that in order to ensure the stakeholder's communication is effective and efficient within the company, the stakeholder should play their responsibility by interacting with the employees in company (OECD, 2004). This communication is important in order to ensure that the stakeholder, understand the business framework, company risk, condition of financial and performance of the company. Besides, communication is important to disclose the significant information. The information should be honest, meaningful, and timely and it must spread wide amongst stakeholder's knowledge.

Study carried out by Kirkman & Shapiro (2001) stressed that values play a practical role that are related with the work processes and act as an organisational commitment (job satisfaction and work performance). Values are also assigned as a central role in defining the right of individual and the organisations' employment (Hansen & Kay Willcox, 1997). The employee will be satisfied and motivated when their values are aligned with the organisational activities. Kluckhohn (1951) opines that values are crucial toward social system in order to reap positive common desire of the company. Values can be adapted from each of external and internal prospect but it is provided as one-of-a-kind meaning to the company (Meglino & Ravlin, 1998). Schwartz (1996) brings up that values are essential to create the congruence among individual and company objectives. However, many values will be added amongst the employees in company whereby each of them will convey a different value and perception in the company. Consequently, the values that derived among the employees may additionally increase the spirituality of the individual and company itself.

4.0 Research Methodology

The study used hypothesis testing in determining the relationship between SpC and CG. The target population for this research comprises of all employees from the GLCs in Malaysia. There are a total of 15 listed GLCs in Bursa Malaysia as at 2015. There were 25 set of questionnaire distributed to each GLCs. According to Hair et al (2003), with six variables used for the study, sample size of 200 respondents is adequate to provide the acceptable of the research. It was to be noted that only 11 GLCs (out of 15) were willing to participate and become respondents to this research. A total of 275 sets of questionnaires have been collected.

This study utilised primary data and secondary data in the data collection procedure. This study employed survey questionnaire in data collection. The questionnaires were adapted from several authors and institutions such as Iannaccone & Klick (2007), Middlebrooks & Noghiu (2010) and Shleifer & Vishny (1997). In order to calculate the CG Index, this study used annual reports from each GLC in Malaysia in year 2015. The specific-indicators of spread sheet CG balance-scorecard is adapted from Brazilian Institute of Corporate Governance (IBGC) and the ranking for the CG Balanced Scorecard of GLCs in Malaysia is adapted from IFC CG Group “Corporate Governance Scorecard” (CG Index) for the purpose of this research.

Reliability test was carried out to measure the internal consistency of the survey tool. The Cronbach Alpha for culture, integrity and ethics are 0.913, 0.904 and 0.911 respectively which are considered good. For the values and teamwork, the reliability coefficients are 0.881 and 0.889 respectively. The results for five variables selected for this study indicated that they are good because the Alpha values are above 0.80 (Sekaran & Bougie, 2010). In other words, this shows that the items in the scale are internally consistent with each other. Therefore, the items in the questionnaire are reliable.

Normality test was carried out in order to determine whether the data is generally distributed or not. Results from normality test indicate that all variables used for this study (culture, ethic, integrity, teamwork and values) recorded p-values less than 0.05 (p-value < 0.05) for both Kolmogorov-Smirnov and Shapiro-Wilk tests. This means that the data for the entire variables are not normally distributed. Hence, the non-parametric tests would be more appropriate to be used for further analyses.

Correlation was used to measure the relationship between two or more variables and it indicated on how one variable is correlated to another. Moreover, this analysis used to measure the strength of the relationship between two variables and the direction of the relationship. Thus, this study used Spearman Rho Correlation to find the correlation of the related variables since the data was not normally distributed.

5.0 Findings And Discussion

Correlation analysis was used to determine the relationship between the independent and dependent variables. The relationship is indicated by the significant 2-tailed value which is also known as p-value. Meanwhile, the correlation coefficient value indicates the degree of the relationship between the two variables. In order to determine the significant correlation between the variables, this research used Spearman correlation analysis since the data for this study is not normally distributed. Table 1 shows the results of the correlation analysis for this study. The study used 0.05 significant levels in order to determine the relationship between variables.

Table 1: Main Attributes of Spiritual Capital that affect CG index

Variable	CG Index	Culture	Ethics	Integrity	Teamwork	Value
Correlation Coefficient	1.000	.185**	.174**	.212**	0.117	.161**
Sig. (2- tailed)		0.002	0.004	0	0.053	0.007
N	275	275	275	275	275	275

** Correlation is significant at the 0.01 level (2-tailed)

As for the culture, there is a significant relationship between culture and CG Index since the p-value is less than 0.05. Based on the correlation coefficient values of 0.185, the relationship is rather small (weak). The result is consistent with the findings by Matoussi & Jardak (2012), which state that culture gives impact to the CG. Based on the result, it can be concluded that the first hypothesis for this study is accepted, that is there is a significant relationship between culture and CG Index in GLCs.

In addition, ethics and CG Index has a significant positive relationship as p-value is less than 0.05. Based on the correlation coefficient value of 0.174, the relationship is rather low/small. Dimitriadis (2007), the ethical behaviour of employees can also meet quality standard in their work which can enhance a company’s reputation affect the effectiveness of company’s CG. Based on the result, the second hypothesis for this studies is also accepted, that is there is a significant relationship between ethics and CG Index in GLCs.

For the third variable (integrity), result for Table 1 show that it also has a positive significant relationship with CG Index. Since the p-value is less than 0.05. According to Cohen & Bailey (1997), the relationship is rather small size the correlation coefficient value is only 0.212. Klapper & Love (2004) stated that the good CG is classified into seven categories; discipline, transparency, independence, accountability, responsibility, fairness and social awareness and these are the characteristics closely associates with integrity. Thus, the finding from this study is consistent with the finding by Klapper & Love (2004). The result indicates that hypothesis is accepted, that is there is a significant relationship between integrity and CG Index in GLCs.

Next, the relationship between teamwork and CG Index has no significant correlation since the p-value is more than 0.05. Research carried out by Craigs (2008) revealed the importance of performing in a team it is a necessary receipt for long-term success for employees and organisation. Based on the finding of this study, that is there is no significant relationship between teamwork and CG Index in GLCs.

Lastly, results from Spearman Correlation test show that the relationship between value and CG Index has positive significant correlation since p-value is less than 0.05. The previous study such as Schwartz (1992) stated that the human values influence behaviour as values guide decisions and actions to some extent. Based on the finding, hypothesis for this study is accepted, that is there is a significant relationship between values and CG Index in GLCs.

Table 2: Relationship between Spiritual Capital and Corporate Governance

Spearman's rho	CG Index	Total Spiritual Capital
Correlation Coefficient	1.000	.181**
Sig. (2-tailed)		.003
N	275	275

** Correlation is significant at the 0.01 level (2-tailed)

Based on the Table 2 above, the relationship between SpC and CG Index has significant level at 0.003 as the $p < 0.05$. The Spearman correlation shows positive relationship between CG and SpC. The research by Marques (2008) stated that spiritual behaviour in an organisation will lead to enhanced corporate performance and benefits to the various stakeholders. This is proven there are strong relationship between independent and dependent variables. Therefore, it can be conclude that the hypothesis six is accepted as the p-value is less than 0.05.

6.0 Significance Of The Study

Many studies were conducted on the corporate governance but majority of them focus on the 'hard parts' of the issue such as the composition of the Board, the financial and industry knowledge, the remuneration, the disclosures and others, but few research was done on the 'soft parts' of the CG. Thus, this study focuses on the SpC capital attributes that is vital in shaping the attitudes and behaviour of the people involved in managing the business. The outcomes of the study are expected to contribute to the betterment of CG practices in GLCs in particular and Malaysian companies in general.

The new model of the CG 'best practices', based on the SpC, shall be applied by the GLCs as well as other companies in Malaysia. The Security Commission of Malaysia or the Malaysian Institute of Corporate Governance (MICG) may adopt the model to provide guidelines to Malaysian companies. These companies may disclose their SpC practices in annual reports or other forms of announcement. Potential investors and other stakeholders will be able to evaluate the company's governance practices in due course.

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