

OWNERSHIP STRUCTURE AND FIRM PERFORMANCE: A LONGITUDINAL STUDY IN MALAYSIA

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Abstract

Highly concentrated ownership structure is a common feature in most developing countries including Malaysia. Such feature contributed to a significant decline in many performance indicators during the Asian financial crisis 1997/98. The main purpose of this paper is to explore developments in ownership structure and firm performance of Malaysian listed companies and their impact on firm performance. A quantitative approach was adopted to collect secondary data from annual reports of 369 listed Malaysia companies that are exist over the period of 2003 to 2013. In this study ownership structure has been measured using three indicators; the government ownership, local nominee and foreign nominee. While return on asset (ROA) and earnings per share (EPS) were the two criteria used to measure firm performance. The results of the study revealed that there are not much changes in the ownership structure and firm performance in Malaysia over the period of 2002 to 2013. It can be concluded economic development of the country does not much influence the ownership structure of listed companies in Malaysia..

Keywords: Ownership Structure, Firm Performance, Malaysian Listed Companies

1. INTRODUCTION

The issue of ownership structure has been addressed by a number of researchers, particularly in developed countries such as the United Kingdom (UK), the United States (US) and Europe, for the last two decades. However, in emerging markets including Malaysia, ownership structure has attracted the public's attention, especially since the Asian financial crisis in 1997/1998. Most Malaysian listed companies are characterised by highly concentrated ownership, as one issue of ownership structure (Krishnamurti, Sevic & Sevic, 2005). Concentrated ownership refers to large shareholders, often known as block shareholders, who are able to dominate small shareholders due to their power (Mitton, 2002). A large shareholder is defined as a shareholder holding (directly or indirectly) at least 5 per cent of the total number of all the voting shares in the firm (Amran & Ahmad, 2013). The negative aspects of this issue, as claimed by agency theory, are majority shareholders may consider their interests at the expense of minorities (Cheung & Chan, 2004; Claessens & Fan, 2002), and possibly committing the firm in a negative relationship with other firms that are also under their control (Singam, 2003), either by appointing independent directors or sitting personally on the board to protect their interests (Tam & Tan, 2007).

Many studies have discovered that government and family ownership through nominees constitute the two most common largest shareholders in Malaysian listed companies. For example, Abdul Samad (2002) found that 522 companies out of 731 Malaysian listed companies were dominated by five shareholders, including government, nominees and foreigners. Nor, Shariff and Ibrahim (2010) revealed that the government and nominees are the two largest

shareholders in Malaysia. Htay, Salman and Shaugee (2013) stated that the problem of ownership in Malaysia was its high level of concentration by families via nominee companies in order to ensure anonymity. In total, the percentage of nominee and government ownership of public-listed shares in Malaysia amounted to 45.6% and 17.2% respectively in the year 1997 (Singam, 2003). Sulong and Nor (2008) found the mean average of government ownership decreased from 6.63% in 2002 to 5.86% in 2005. However, the average of foreign nominee ownership increased from 4.54% in 2002 to 6.12% in 2005. In addition, government ownership ranged from 0% to 66.07% in 2006 and from 0% to 65.48% in 2008 in the companies included in their sample (Arshad, Nor & Noruddin, 2011).

This paper therefore aims to investigate the relationship between ownership structure and firm performance in Malaysian public listed companies. The paper is organized as follows. In section 2, the literature review of ownership and firm performance relationship is summarized; details of research methodology are explained in section 3; results and discussion are set out in section 4 and the conclusion of the study is presented in section 5.

2. LITERATURE REVIEW

2.1 Ownership structure

Ownership structure refers to "the relative amount of ownership claims held by insiders (managers) and outsiders" (investors with no direct relationship with the management of the company) (Vroom & Mccann, 2009). Ownership structure is considered to be the key in determining the nature of agency theory; that is, whether the dominant conflict is between managers

and shareholders, or between majority and minority shareholders (Mang'anyi, 2011). It is suggested that better overlap between ownership and management should be guided to minimize conflicts of interest between them, and therefore result in higher firm performance (Holderness, 2009).

Ownership concentration is a common feature of Malaysian listed companies (Ghazali & Weetman, 2006). Highly concentrated ownership was a significant contributing factor that precipitated Malaysia into the Asian financial crisis of 1997/98. Following the crisis, concentrated ownership turned into more established through ownership structure (Tam & Tan, 2007). Nasrum (2013) found that large shareholders can be either positively or negatively influenced decisions made by management. Power of management is very much based on the ownership structure of the firm. The more shares held by the management, the greater the influence on the election of directors. This implies that managerial power becomes weaker if large numbers of shares in the firm are owned by outsiders (Bebchuk, Fried & Walker, 2002).

2.2 Measurement of ownership structure

Previous studies have measured ownership structure in different ways. Lee (2008), for example, proposed three constituent elements to describe ownership structure; namely, ownership concentration, foreign ownership, and institutional ownership. Alves (2012) used three measures to characterize ownership structure: managerial ownership, ownership concentration and institutional ownership. In another study, Namazi and Kerman (2013) measured ownership structure using the categories of institutional investors, corporate shareholding, managerial shareholding and foreign shareholders. Institutional investors were measured by the percentage of shares held by governments and financial institutions; corporate shareholding was measured by the percentage of the total shares held by corporate bodies; managerial shareholding was measured by the percentage of shares held by directors of the firms; and foreign shareholders were measured by the percentage of total shares held by foreigners. Tanmanee, Prasertsri and Boonyanet (2014) measured ownership structure using the categories of government, nominees, family and politicians, as measured by percentage of shares owned.

In Malaysia, a wide range of categories and measurements have been used to measure ownership structure. Abdullah (2006), for example, used the percentage of shares held by the management ownership (executive and non-executive directors) and foreign shareholders holding 5 percent or more of shares, to measure ownership structure. Haniffa and Hudaib (2006) used ownership concentrated in shares held by the largest five shareholders and managerial shareholdings to measure ownership structure. Meanwhile, Ali et al. (2008) measured ownership structure using three different measurements: managerial ownership, block ownership and foreign ownership (through foreign nominees). In their study, Ma and Tian (2009) used the 10 largest shareholders and government ownership. Dinga, Dixon and Stratling (2009) measured ownership structure using eight different categories: managerial ownership, institutional ownership, ownership by non-financials, family or individuals, banks, governments, foreign ownership, and all largest ownership. Nor et al. (2010)

used six categories to measure ownership structure: ownership concentration, corporate shareholders, government companies, individuals, nominees, and management shareholders, while Arshad et al. (2011) used two categories, government and family ownership, to measure ownership structure. Others, such as Yatim (2011), Shukeri, Shin and Shaari (2012), Fauzi and Locke (2012), Marn and Romuald (2012); Kassim, Ishak and Abdul Manaf (2012), used only managerial ownership to measure ownership structure. Finally, Kim, Rasiah and Tasnim (2012), Taufil-Mohd, Md-Rus and Musallam (2013) used government ownership, foreign ownership and institutional ownership as their measures of ownership structure.

Based on that this study ownership is measured using the three most significant shareholders in Malaysia which are government ownership, local nominee and foreign nominees. The government ownership refers to the ratio of shares in the firm owned by the government (Nazli Anum, 2010; Nurul Afzan & Rashidah, 2011); nominee ownership typically takes the form of a company created for the purpose of holding shares and other securities on behalf of investors (Vermeulen, 2012).

2.3 The relationship between ownership Structure and firm performance

The question of the effect of ownership structure on firm performance has been a major concern in countries throughout the world, including in Malaysia. Different studies have been conducted with mixed results. For example, King and Santor (2008) found the relationship between ownership concentration and Return on Assets (ROA) in Canada was not significant. However, Reyna, Vázquez and Valdés (2012) revealed that concentrated ownership had a significant and positive relationship with firm performance among Mexican listed companies, while Aymen's (2014) study in Tunisia found no significant relationship between ownership structure measured by ownership concentration, public ownership and foreign ownership and firm performance measured by ROA. Quang and Xin (2014) examined non-financial Vietnamese firms and their result was that the relationship between government ownership and ROA was positive and significant. Finally, Arouri, Hossain and Muttakin (2014) discovered that, while foreign ownership had a significant and positive relationship with bank performance among listed banks of Arabic Gulf countries, government ownership did not show any significant relationship with bank performance.

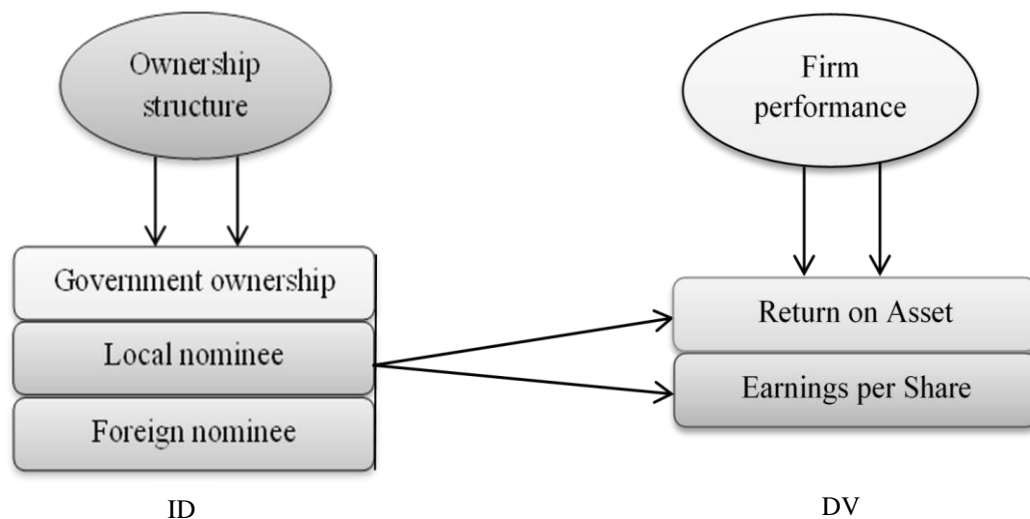
Many studies have been conducted in Malaysia to discover the relationship between ownership structure and firm performance, but their findings have been inconsistent and inconclusive. Nor et al. (2010) revealed that the relationship between ownership structure measured by government and nominee ownership and firm performance measured by ROA was positive, and Marn and Romuald (2012) found a significant positive relationship between ownership structure and EPS. The relationship between foreign ownership and firm performance was found to be significant and positive in the study carried out by Taufil-Mohd et al. (2013), although government ownership showed a significant negative relationship with firm performance. Meanwhile, in a study conducted by Rasli, Goh and Khan (2013), government ownership and ownership concentration was found to have a positive and

significant relationship with firm performance. On the other hand, in Rahman and Rejab's (2013) study, government ownership showed a significant negative relationship with bank performance. Finally, Zakaria, Purhanudin and Palanimally (2014) found that concentrated ownership had a significant and positive relationship with ROA, while the relationship between government ownership and ROA was found to be negative. In the same study, the relationship between

foreign ownership through foreign nominees on ROA showed dissimilar results for two different time periods: the relationship between the two variables was positive after the global economic crisis of 2007 to 2008, while no significant relationship was found in the period prior to the global crisis.

Based on the review the research model of the study has been developed as shown in Figure 1.

Figure 1. Research Model of the study



3. RESEARCH METHODOLOGY

This study purely a quantitative study which relied on secondary data captured from two different sources; companies' annual reports and electronic database sources. Data on government and nominee shareholdings were extracted from the companies' annual reports which are available online from the *Bursa Malaysia* website, while data on ROA and EPS ratios were extracted from the Bloomberg databases for the period from 2003 to 2013.

This study used measurements of ownership that have been identified as significant in Malaysia; namely, government ownership, local nominees and foreign nominees. The firm performance measurement relied on two financial measures; ROA and EPS.

The sample of the study was derived from the population of all listed companies on 31 December 2013 under the *Bursa Malaysia* main market. This study adopted the purposive sampling which involved 369 listed firms that have been listed under the main market throughout the period of the study; that is, from 2003 to 2013 and have consistently published their annual reports throughout that period. Firms belonging to the REITS and Hotel sectors were excluded because the two sectors had very few companies during the period of the study and were considered to be not significant. Data collected were analyzed using SPSS (version 22). Descriptive statistics and Pearson correlation coefficients were used to achieve the objectives of the study. To study examined the hypotheses in three different independent years: 2003, 2008 and 2013.

3.1 Empirical results and discussions

3.1.1 Ownership Structure in Malaysia

The descriptive statistics for ownership structure in this study are shown in Table 1. The mean percentage of government ownership decreased from 6.77% in 2003 to 4.18% in 2013, a decline of approximately 38%. In fact, the percentage began to decrease mainly after year 2006. The mean average for the whole period studied ranged from 7.48% and 3.90%. The highest percentage 7.48% was found in 2005 while the lowest percentage occurred in 2012, with only 3.90% government ownership.

The mean percentage of local nominee ownership also decreased over the period studied, by around 8%, falling from 22.91% in 2003 to 21.02% in 2013. However the percentages of local nominee ownership did not decline in a regular manner but instead fluctuated slightly throughout the period. The mean percentages for the intervening periods were between 23.03% and 20.30%. The highest percentage of 23.03% was found in the year 2004, while the lowest percentage of 20.30% was recorded in 2009.

On the other hand, the mean percentage of foreign nominee ownership increased from 5.15% in the year 2003 to 6.41% in the year 2013, registering a rise of about 24%. The mean average throughout the years ranged from a high of 7.40% in 2007 to a low of 5.15% in 2003.

Table 1. Ownership Structure in Malaysia

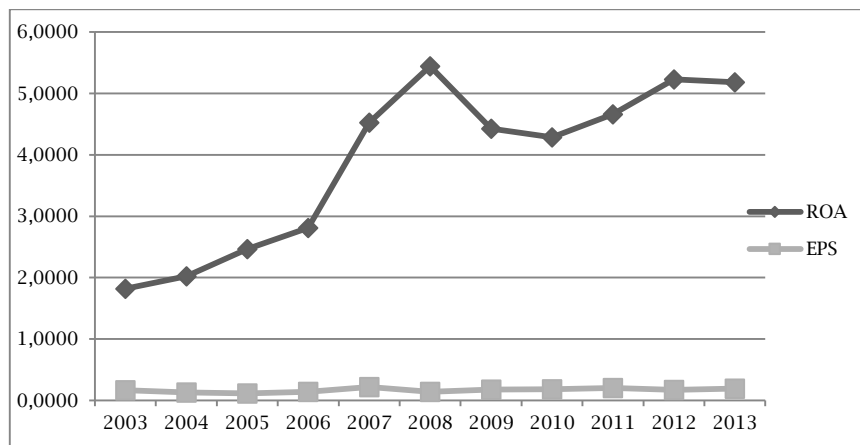
| Years | Gos | | Ln | | Fn | |
|-------|----------|---------|----------|---------|----------|---------|
| | Mean (%) | SD | Mean (%) | SD | Mean (%) | SD |
| 2003 | 6.7671 | 11.8442 | 22.9108 | 19.3077 | 5.1485 | 10.8757 |
| 2004 | 7.2122 | 12.6366 | 23.0301 | 19.2224 | 5.4509 | 10.9758 |
| 2005 | 7.4823 | 13.3761 | 22.8190 | 19.3464 | 6.0735 | 11.7726 |
| 2006 | 6.9151 | 12.5586 | 22.1275 | 19.0488 | 6.7193 | 11.9205 |
| 2007 | 5.7547 | 12.1008 | 21.5391 | 19.1303 | 7.3964 | 11.9226 |
| 2008 | 6.5894 | 13.4534 | 21.3604 | 18.9599 | 6.9183 | 11.6227 |
| 2009 | 6.5436 | 13.5674 | 20.3024 | 19.2889 | 5.9926 | 10.6415 |
| 2010 | 5.0629 | 11.2842 | 20.3380 | 19.0450 | 6.2157 | 10.7296 |
| 2011 | 4.1983 | 11.0061 | 21.4059 | 19.6475 | 6.0256 | 10.3444 |
| 2012 | 3.8972 | 11.0146 | 20.9812 | 19.3542 | 6.1946 | 10.2125 |
| 2013 | 4.1755 | 12.3456 | 21.0230 | 20.0215 | 6.4069 | 10.3455 |

Note: SD (standard deviation); Gos (Government ownership); Ln (Local nominee); Fn (Foreign nominee)

3.1.2 Firm Performance

The mean average of return on asset during the period ranged between 1.82 and 5.44. The lowest average, 1.82, was registered in 2003, while the highest average, 5.44, was registered in 2008. In general, the return on asset mean average demonstrated a dramatic increase within the period under study, from 1.82 in 2003 to 5.18 in 2013. There were, however, fluctuations; for example, the

averages in years 2009 and 2010 registered a decrease compared to year 2008. Finally, overall throughout the period under study, the mean average of earnings per share fluctuated between 0.11 and 0.22. The lowest average, 0.11, was registered in 2005, while the highest average, 0.22, was registered in 2007. In general, however, the mean value of earnings per share witnessed a slight increase from 0.16 in 2003 to 0.19 in 2013.

Figure 2. Average trends of firm performance (ROA and EPA)

3.2 Hypothesis testing: The relationship between Ownership and firm performance

Table 2 presents the Pearson correlation results of the relationships between ownership structure and firm performance variables. At a significance level of 0.05, the relationships between government ownership and ROA were not statistically significant for the years 2003, 2008 and 2013 ($r = .023, .080$ and $.023$) ($p > 0.05$). This confirms the result obtained by Aymen (2014) while contradicting the finding of Quang and Xin (2014), who found a negative relationship. It may be that government plays relatively inactive roles in issues related to ROA, including lack of communication between government and the board, or failure to participate effectively in the general meetings.

However, the correlations between government ownership and EPS found to be mixed results. Although no significant correlation was found in the years 2003 and 2013 ($r = 0.025$ and 0.029) ($p > 0.05$), the year 2008 showed a small positive correlation ($r =$

0.229) that was statistically significant ($p < 0.05$). This positive relationship supports the finding of Sulong and Nor (2008), although Abdullah (2006) found a negative relationship. The positive result implies that the government played a more effective role in increasing EPS in 2008. Nevertheless, as the result for year 2013 indicates, this situation did not continue. Local nominee ownership did not show a significant relationship with firm performance for any of the years 2003, 2008 and 2013 ($p > 0.05$). Very few studies have been conducted to investigate the relationship between local nominee ownership and firm performance. The absence of any significant relationship between these two variables may indicate that local nominee owners did not participate in management decisions, supporting the view expressed by Htay et al. (2013) that many family-controlled companies in Malaysia are owned through local nominees. Another possibility is that local nominees played relatively passive roles in matters related to firm performance, lack of participation in the general meetings.

Table 2. The relationship between ownership Structure and firm performance

| | | 2003 | | | 2008 | | | 2013 | | |
|-----|---------------------|------|------|------|------|-------|-------|------|-------|------|
| | | Gos | Ln | Fn | Gos | Ln | Fn | Gos | Ln | Fn |
| ROA | Pearson Correlation | .023 | .053 | .124 | .080 | -.048 | -.031 | .023 | -.059 | .001 |
| | Sig. (2-tailed) | .657 | .308 | .017 | .125 | .360 | .551 | .658 | .260 | .992 |
| | N | 369 | 369 | 369 | 369 | 369 | 369 | 369 | 369 | 369 |
| EPS | Pearson Correlation | .025 | .080 | .131 | .229 | -.042 | .024 | .029 | .033 | .069 |
| | Sig. (2-tailed) | .638 | .126 | .012 | .000 | .422 | .643 | .584 | .530 | .184 |
| | N | 369 | 369 | 369 | 369 | 369 | 369 | 369 | 369 | 369 |

Note - Gos - Government ownership, Ln - Local Nominee, Fn - Foreign Nominee, Significant level - .05

A positive and significant relationship was found ($p < 0.05$) in the year 2003 between foreign nominee ownership and firm performance as measured by ROA ($r = 0.124$) and EPS (0.131). However, the relationships were not statistically significant ($p > 0.05$) for the years 2008 and 2013. The significant and positive result found between foreign nominee ownership and ROA in 2003 contradicts the finding of Zakaria et al. (2014) who found no significant relationship, while the results for 2008 and 2013 are in agreement with that study. Finally, results of correlation analysis between foreign nominee ownership and EPS contradicts the finding of Sulong and Nor (2008) who found a negative relationship between the two variables. The mixed results may be attributed to failure of foreign nominees to play an active role in matters impinging on company performance. Therefore, greater participation is needed on the part of foreign nominees in the general meetings to increase company performance.

4. CONCLUSION

This study has added significantly to the literature related to ownership structure, since it has joined the existing debate about the relationship between ownership structure and firm performance. However, the mixed results obtained in the study mean that the issue remains unresolved. This paper reports the results of one of the most recent academic studies conducted to investigate the relationship between ownership structure and firm performance. In this study, ownership structure concentrated on the effects of the two significant categories of shareholders in Malaysia; that is, government ownership and nominee ownership. Contrary to assumptions held prior to the research, no significant relationships were found to exist between ownership structure and firm performance in Malaysia in most of the years studied. A weak significant relationship was found only in the year 2008 between government ownership and EPS. Furthermore, despite local nominees constituting the largest group of shareholders among the three categories of ownership structure, local nominee ownership did not show any significant relationship with firm performance in any of the three selected years 2003, 2008 and 2013. Foreign nominee ownership only contributed to enhanced firm performance in the year 2003. The limitations of this study should be examined thoroughly to inform future research. Future studies may incorporate other measurements of ownership structure to investigate their respective contributions to improvements in firm performance. Finally, this study will contribute more generally by

increasing awareness among relevant arms of the Malaysian government and other policy makers about the weak role of ownership structure in enhancing firm performance.

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