THE EFFECTS OF FAMILY OWNERSHIP ON PRICES OF FIRMS ANNOUNCING BONUS ISSUES.

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ABSTRACT

This study aims to investigate the effects of six governance characteristics on prices of firms announcing bonus issues. This study used a sample of 50 companies without other announcements. The six governance characteristics are family ownership, board size, proportion of independent directors, proportion of executive directors, proportion of family directors and board ownership while cumulative abnormal return from day -5 to day -1 is used as a proxy for the announcement effects. Market model and ordinary least squares (OLS) regression methods are used to examine the abnormal returns and the effects of corporate governance on abnormal returns. The findings showed proportion of family directors and proportion of executive directors have significant effect on cumulative abnormal return. This result indicates that investors reacted favourably to announcements by companies with a large proportion of either family directors or executive directors.

ABSTRAK

Penyelidikan ini bertujuan untuk mengkaji kesan enam ciri-ciri ahli lembaga syarikat ke atas firma pemilikan keluarga yang mengumumkan terbitan bonus saham. Penyelidikan ini menggunakan sampel sebanyak 50 syarikat tanpa sebarang pengumuman lain. Terdapat enam ciri-ciri ahli lembaga syarikat yang dikaji, iaitu terdiri daripada pemilikan keluarga, saiz ahli lembaga syarikat, sebahagian ahli lembaga syarikat bebas, sebahagian ahli lembaga eksekutif syarikat, sebahagian ahli lembaga pengarah keluarga dan pemilikan ahli lembaga syarikat, manakala pulangan kumulatif luar biasa yang bermula daripada lima hari sebelum dan sehari sebelum pengumuman terbitan bonus saham digunakan sebagai proksi dalam penyelidikan ini. Model pasaran dan kaedah regresi "*Ordinary Least Squares*" digunakan sebagai alat pengukuran kepada pulangan luar biasa dan melihat kesan ciri-ciri ahli lembaga syarikat terhadap pulangan luar biasa. Secara keseluruhannya, keputusan kajian menujukkan sebahagian ahli lembaga pengarah keluarga dan sebahagian ahli lembaga eksekutif syarikat memberi kesan ketara ke atas pulangan kumulatif luar biasa. Keputusan ini menunjukkan bahawa pelabur memberi reaksi positif kepada syarikat yang mengumumkan terbitan bonus saham samaada syarikat tersebut mempunyai sebahagian ahli lembaga pengarah keluarga atau sebahagian ahli lembaga pengarah eksekutif yang besar.

CHAPTER 1
INTRODUCTION

1.0 Introduction

This chapter starts with introduction and followed by background about bonus issue. Accounting treatment of bonus issue is discussed in the background section. Section 1.2 discusses about the characteristics and flow of bonus issues in Malaysia. Problem statement, research questions, research objectives, significance and scope of the study are discussed in sections 1.3, 1.4, 1.5, 1.6, and 1.7 respectively. Finally the final section discusses about the limitations of this study.

1.1 Background

Bonus issue is also known as stock dividend in the United State and scrip issue in the United Kingdom. Bonus issue is a free issue of shares, without a subscription price, made to existing shareholders in proportion to their current investment (Amuthan & Ayyappan, 2011). Dhar and Chhoachharia (2008) describe bonus issue as a "cosmetic" event because it simply changes the number of outstanding shares. There is no change in total value of the firm.

Cohen and Zinbarg (1967) suggest that the favourable price response following bonus issues is not due to the stock dividend per se but rather to the fact that dividend per share is usually maintained on greater number of shares outstanding. Many companies issue new shares through bonus issues to their existing shareholders through utilizing retained earnings or accumulated capital reserves. Both methods rearrange the items in the stockholders' equity section of the company's balance sheet and the issuance of bonus issues will not influence items in assets' or total liabilities' section of balance sheet. Thus, from accounting perspective, bonus issues lead to decreases in retained earnings or reserves and increases in paid-up capital. In the other words, bonus issue does not influence total stockholders' equity. However the increase in shares outstanding leads to lower book value per share.

One of the reasons for issuance of bonus is that bonus issues can increase the marketability of the corporation's stock. When the number of share outstanding increases without influencing asset, liabilities or stockholders' equity, automatically the market price per share decreases. The decrease in the price of shares would attract small investors because they can purchase the shares at a lower cost. This is turn would lead to higher marketability or liquidity of the company's shares.

1.2 Characteristics and Flow of Bonus Issue

The characteristics of bonus issue, according to Bursa Malaysia, are:

a) A bonus issue of securities must be by a listed issuer.

b) Bonus issue must get approval from the board of directors of the listed issuer and the company must immediately announce the bonus issue to the Bursa Malaysia.

c) The date of announcement must be fixed relevant to the book closing and entitlement dates and the company must immediately announce such dates to the Bursa Malaysia.

d) As bonus issues lead to new listings of securities, supporting documents and draft circular must be submitted to Bursa Malaysia for review.

Announcement proposal must state details of:

a) Corporate information.

b) Total number of securities issued and issue price per share.

c) Date of listing and quotation.

d) Stated Paid-up capital of the listed issuer as an indicating number of shares (in unit and RM) and together with par value.

As for the flow of a bonus issue, the bonus issue is announced when it was approved by the Board of Directors and the company also announced a book closing date, or record date, where the entitled shareholders would get the additional shares from bonus issue. After the record date, additional shares arise from the bonus issue will be traded on the Bursa Malaysia on the listing date.

1.3 Problem Statement

Amuthan and Ayyappan (2011) argue that there are two benefits to a company from issuing bonus. The first benefit of issuing bonus is that it can promote a more active trading in a company's shares as bonus issues increase the number of shares outstanding and lower the prices. Adaoglu and Lasfer (2003) indicate that the positive abnormal returns following bonus issue announcements are due to increased liquidity and marketability of the larger number of shares outstanding, which will reduce bid-ask spreads. The second benefit is that bonus issue signals that a company is stable and progressing. Companies with larger equity believe that they are able to increase profits and distribute more dividends in the future. That is the reason why the companies are willing to issue bonus.

Dong, Robinson and Veld (2005) suggest that stock dividend, or bonus issue, has cheaper transaction costs than those of cash dividends. Through bonus issue, investors can effectively reinvest in the same stock without incurring any transaction cost. However, for cash dividends, transaction costs are incurred if investors want to re-invest the cash received by buying stocks.

Bonus issues lead to decreases in earnings per share, which is inversely related to the number of shares issued. This situation occurs because total earnings do not increase while shares outstanding do increase. However, bonus issues do not affect stockholder's proportional ownership of stocks, capital structure and financial position of companies (Mishra, 2005).

Dong, Robinson and Veld (2005) postulate some arguments about behavioural reason to "pay" stock divided. One argument is that a company does not want to pay cash dividends if the company does not have free cash flow. Another argument is behavioral. Stock dividends that are being kept in a portfolio are considered differently from the original stocks. Investors are always concerned with gains and losses. They consider the price for which they acquired the common stocks. This price is quite different between original shares and shares that are distributed with stock dividends. Thus, an investor who sells off and subsequently consumes his stock dividend does not break the mental accounting rule of not consuming out of capital.

This study aims to investigate the impacts of corporate governance variables on share prices following bonus issues' announcements. Board composition, which is made up of board size, proportion of family directors, family ownership, proportion of executive directors, proportion of independent directors and board ownership, is examined. The effects of board composition on prices of companies announcing bonus issues are not explored in previous studies. Most of previous literature investigates stock returns following announcements of bonus issues or stock dividends. Thus this study attempts to fill in this gap by focusing on the effects of board composition on prices of firms announcing bonus issues. Furthermore, as family ownership is prevalent in Malaysia, this study attempts to look at the effects of family attributes to prices of announcing bonus issues.

1.4 Research Questions

This study addresses several questions as follow:

(a) What is the effect of bonus issue announcements on share prices, or abnormal returns, of issuing firms?

(b) What is the effect of family ownership on abnormal returns following bonus issue announcements?

(c) What is the effect of board size on abnormal returns following bonus issue announcements?

(d) What is the effect of board independence on abnormal returns following bonus issue announcements?

(e) What is the effect of executive directors on abnormal returns following bonus issue announcements?

(f) What is the effect of family directors on abnormal returns following bonus issue announcements?

(g) What is the effect of board ownership on abnormal returns following bonus issue announcements?

1.5 Research Objectives

The following research objectives are examined in this study:

(a) To investigate the effect of bonus issue announcements on share prices, or abnormal returns, of issuing firms.

(b) To examine the effect of family ownership on abnormal returns following bonus issue announcements.

(c) To examine the effect of board size on abnormal returns following bonus issue announcements.

(d) To examine the effect of board independence on abnormal returns following bonus issue announcements.

(e) To investigate the effect of executive directors on abnormal returns following bonus issue announcements.

(f) To investigate the effect of family directors on abnormal returns following bonus issue announcements.

(g) To investigate the effect of director or board ownership on abnormal returns following bonus issue announcements.

1.6 Significance of the Study

This study contributes in two aspects. One is that by studying the price effects of bonus issues, market efficiency could be tested. If a market is efficient, share prices would adjust rapidly to new information regarding bonus issues. Thus there is no trading strategy available to investors. Investors prefer a market where prices adjust rapidly to information.

The other aspect is that there is no study that has been carried out to investigate the effects of corporate governance on announcement effects of bonus issues. Given that many companies in Malaysia are controlled by families, the effects of family ownership and family directors on announcement returns are important to bonus issuing companies. Thus this study helps to fill in this gap. Understanding the effects of corporate governance on bonus issues could help investors in making investment decisions. Investors could focus on firm characteristics that affect abnormal returns of bonus issues positively.

1.7 Scope of the Study

This study intends is to examine the effects on share prices following announcements of bonus issues and the factors affecting the announcement returns. Factors that are focused in this study are family ownership, proportion of family directors, board size, board ownership, proportion of independent directors and proportion of executive directors. The study covers a period of three years from 2006 to 2008 with 50 companies as the sample.

1.8 Limitations of the Study

This study covers a short period of time, which is from 2006 to 2008, and uses only 50 announcements of bonus issues. However, this is inevitable as the researcher has only six months to finish the study. Furthermore, information related to family ownership, proportion of family directors, board size, board ownership, proportion of independent directors and proportion of executive directors has to be collected manually from annual reports, which is time consuming.

Announcements of bonus issues are identified only from Bursa Malaysia's (BM) website and they are not cross-checked with other sources. Thus the first announcement to BM is assumed as the first announcement without checking with other sources. However, it is safe to assume that the first announcement to BM is the earliest announcement known by investors as it is the requirement of BM that any company which intends to issue additional shares must inform BM immediately.

CHAPTER 2
LITERATURE REVIEW

2.0 Introduction

This chapter has three sections which begins with an introduction. It is then followed by Section 2.1 which discusses the performance of bonus issue or stock dividend. Section 2.2 presents the literature review of the corporate governance variables.

2.1 Performance of Bonus Issue

Grinblatt, Masulis and Titman (1984) investigated the stock price reaction to announcements of stock dividend and stock split. Using a sample of companies that have no cash dividend in three years, they found positive significant effect over a period of day t = -1 to t = 3 for stock dividend compared to stock split. Plausible explanation is the issue of stock dividend signals the company's future cash flow.

Cahit and Lasfer (2008) examined the bonus issue in revaluation of assets equity reserve in an inflationary economic in Istanbul Stock Exchange (ISE), an emerging stock market. They tried to look at signalling, liquidity and attention getting that happened in ISE. They were interested to conduct this research as they wanted to look at bonus issue as substitutes for cash dividend and as a source from an accounting treatment in high inflationary environment.

They found positive signalling hypothesis which is the presence of asymmetric information, corporations issue stock to signal good news or optimistic expectation to investors. They also found that there were positive abnormal returns in liquidity and marketability after which stock distribution increase the number of shares in circulation. In addition, they also found positively significant price reactions in terms of attention getting that the bonus issue is currently undervalued. Thus bonus issues could be used as a tool for attracting attention in the revaluation of a company's future cash flow.

Fernado and Guneratne (2009) investigated stock price performance effect on bonus issue announcement in Colombia Stock Exchange (CSE) market. They used three models in order to look for the pattern in stock prices, and they were market-adjusted model, mean-adjusted model and risk-adjusted model. All three models showed positively significant stock price performance in the CSE market and they were positively significant around six days after an announcement date and gave opportunity to an arbitrage opportunity.

Amuthan and Ayyappan (2011) investigated stock price reactions before and after bonus issue announcements specifically on Indian banking and information technology sectors. They found positively significant effects day t = -1 to t = 1. From this result, they concluded that bonus issue has been a powerful financial event which would help to improve the stock price and keep the stock in the good books of bull. Bull is the price appreciation trend wherein investors can always capitalise on the issue particularly in short period of time but not in the long period of time.

Saujit Kumar and Sadanad Halageri (2011) investigated the semi-strong efficiency of Indian stock market, the sample around succession constituent companies and the cumulative abnormal return surrounding (-30 to +30) estimation window day's announcement. From their investigation, they found that succession constituent companies were not perfectly efficient to the announcement of bonus issue, which means that there were significant abnormal returns during the announcement period t = 0 to t =15.

2.2 Corporate Governance Variables

No studies has ever been conducted on this area. Thus, previous literature review to be used as references that are relevant for this study could not be found.

2.2.1 Family Ownership

LaPorta, DeSilanes and Shleifer (1999) have two definitions about family firm. The first definition is if a person is the controlling shareholder who controls more than 10 per cent of the vote. This definition provides a significant threshold of votes as most countries mandate a disclosure of 10 per cent, and usually even lower, ownership stakes. The second definition is that the person is the controlling shareholder whose direct and indirect voting rights in the firm exceeds 20 per cent. The second definition is applied when the firm's ownership structure is a pyramid. It has an ultimate owner and there is at least one publicly traded company between it and the ultimate owner in the

chain of 20 per cent voting rights. Nevertheless, controlling shareholders (family members) have less fear of being expropriated in the event that they ever lose control through takeover or market accumulation of shares by a raider.

Ang, Cole and Wuh Lin (2000) define family ownership as a corporation form of organization which has limited liability provision, more efficient risk-sharing and allows the firm to expand and raise fund from a large number of investors. In order to identify ownership structure of small business corporations, there are four aspects that need to be looked into such as the ownership share of the primary owner, an indicator for firms where a single family controls more than 50 per cent of the firm's shares, the number of non-manager shareholders and an indicator for firms managed by a shareholder rather than an outsider. Furthermore Barth, Gulbrandsen and Schone (2005) define family firm as a person who holds at least 33 per cent shares of a firm.

Meanwhile, Gomez, Larraza, and Makri (2001) stated that family firm exists when two or more person act as a director and has family relationship while at the same time holding voting stock at least 5 per cent. Maury (2005) asserts that family firm occurs when the largest controlling shareholder holding at least 10 per cent of voting right is a family, an individual or an unlisted firm and zero otherwise. This study, follows Maury's (2005) definition where a company is classified as a family company when an individual or with no other major shareholders holding more than 10 per cent.

Miller, LeBreton-Miller, Lester and Cannella (2007) defined that a family firm is an organization which controlled, operated and managed by multiple family members that have blood relations and multiple generations. By blood relation it includes father, mother, sister, brother, son, daughter, spouse, in-laws, aunt, uncle, niece nephew, cousin, etc. (Gomez-Mejia, 2003).

2.2.2 Performance of Family Ownership

Basu, Dimitrova and Paeglis (2007) investigated the influence of family control by examining the relationship between family ownership and the market reaction upon an announcement of an acquisition (cash-financed acquisition and stock-financed acquisition). They used cumulative abnormal return (CARs) as the dependent variable around two-day event window and from their study, they found negative abnormal returns upon the acquisition announcement for firms with low family ownership. Their plausible explanation is that the market perceives a full loss of control by the family ownership. Similarly, Fan, Jian and Yeh (2008) found almost the same result when they investigated family ownership and family successions across three economies − Taiwan, Hong Kong and Singapore. They found that arrangements to protect specialized assets in the three countries are difficult to partition. The measurement used in their study was monthly cumulative abnormal returns (-60,-1), (-36,-1) and (0, +48) in order for them to look for specific factors that influence firm value in succession. Form their study, they also found that family succession has negative effect on cumulative abnormal return (CAR)

relative to succession by unrelated professional. All three countries showed that concentration was associated more with negative CAR.

The study conducted by Fan, Jian and Yeh (2008) was in contrast to a research done by Amar and Andre (2005) who studied the relationship between separation of ownership from control and acquiring firm performance in the context of family ownership in Canada. They found that 56.6% of the CEO in the family firms are members of the family which, statistically, a number of family ownership shows significant positive impact on announcement cumulative abnormal return . Jaskiewicz, Gonzalez, Menendez and Sciereck (2005) also found similar findings when they examined and distinguished between family businesses and non-family business under IPO on the long run stock market performance. From the study they conducted, they found that family influence is valued positively by the capital market and positive abnormal performance of family-owned businesses in their long-run performance.

Hypothesis: *Family ownership affects the stock prices when companies announce bonus issues.*

2.2.3 Family Director

Smith and Amoaku-Adu (1999) investigated long term impact of financial performance of 124 samples of management succession within Canadian family controlled. Their finding showed that when family successors were

appointed, stock prices declined by 3.20% during the three days t = -1 to t = 1 event window whereas there is no significant decrease when non-family insiders or outsiders were appointed.

Their research found significant stock prices declined in three days t = -1 to t = 1 event window when family successor took over the company's management because of the age of the family members. The researchers believed that family members in Canada are young and thus, they lack management experience and have greater quality uncertainty. This is contrary to the non-family insiders and outsiders who are typically older and have extensive management experience as well as having established reputations.

Agrawal and Chadha (2005) investigated about relation between the financial expertise of boards and audit committees and the likelihood of earnings restatement by a firm. They found statistically significant mean and median abnormal returns of about -9.2 per cent and -4.6 per cent over two-day announcement period. Moreover, they found the probability of restatement is significantly lower in companies whose boards or audit committees are experts but higher in companies where CEOs belong to the founding families.

From studies conducted, it can be concluded that all researchers found significance impact of family connected directors in different events. Most researches considering more on the composition of corporate governance than the characteristic of boards in the firms. Family members are believed to represent the legacy of its founder and the social status of the family which is

likely tied to the performance of the firm. Moreover, family members have close link with corporate identity that is reflected in the widespread use of the family surname in the corporate name. Finally, family members have excellent knowledge of the firm which have long-standing relationship with the senior management of the firms.

Hypothesis: *Family directors affect the stock prices when companies announce bonus issues.*

2.2.4 Board Size

Yermack (1996) in his research on higher market valuation of companies with a small board of directors revealed the result on group of sample companies that announce significant reductions in board size. Those companies realize substantial excess stock returns around the announcement dates while the opposite happened on companies that announce board expansions and provide stronger CEO performance incentive. He measured the market valuation using Tobin's Q model to measure the firm's performance. The result that he obtained contradicts with that of Swanstrom (2006) who found evidence that the larger board size has positive and significant 1% level cumulative abnormal return following acquisition announcements because large board might contribute additional knowledge on the target firm and the industry. His results were supported by Francis, Hasan and Wu (2012) who have shown that small boards perform worse than firms with large boards and do not affect stock performance during financial crisis.

Karamandou and Vafeas (2005) investigated about corporate governance and the market reaction to management earnings forecasts (bad and good announcement). They do not find any evidence that the market reaction to management forecast announcement is related to board and audit committee. They find that board size and audit committee size have no relationship with the price reaction over a three-day t = -1 to t = 1 period. A similar study by Charalambos and Costas (2003) look at acquisition announcements and board characteristics on bidder-shareholder return found that board size is not significant in explaining abnormal return over a three day t = -1 to t = 1 announcement period.

Bushman, Chen, Engel and Smith (2004) conducted a study on board size to measure the total number of the board of directors. They found that the larger the board size the higher is the percentage that the company would acquire the target firm. They found that a larger board will affect the firm's performance because the members of the board can share knowledge, ideas, and fund or capital.

Hypothesis: *Board size affects stock prices when companies announce bonus issues.*

2.2.5 Independent Director

According to Pass (2002), executive-directors refer to directors who set the company's strategic objectives, supervise the business management and report to shareholders on their stewardships. On the other hand, a non-executive is appointed on a part-time basis and performs various duties including acting as the company's chairperson and sitting on various key committees. Meanwhile, Erhardt, Werbel and Shrader (2003) defined independent director with two definitions. Their first definition is that the board of directors are normally the most influential in determining strategy direction and decision making inherent in their structural position. Second definition was that board of director monitoring role may include representing shareholders. Monitoring role means using organization's wealth, responding to takeover threats and hiring, compensating and monitoring top management work.

Swanstrom (2006) investigated abnormal return of acquisitions announcement affected by corporate governance and agency cost. He found that the proportion of outside director on the board and independent boards were not significant predictors of abnormal returns. The result also did not show any relationship between outside director and abnormal returns.

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Francis, Hasan and Wu (2012), in their research using cumulative stock return to measure the firm's performance during the current financial crisis affected by corporate boards characteristics, found that board independence does not significantly affect the firm's performance.

Hypothesis: *Independent directors affect stock prices when companies announce bonus issues.*

2.2.6 Executive Director

Lambertides (2009) investigated long term abnormal returns of firms involved in Chief Executive Officer (CEO) succession. He found positive significant returns with CEO succession. This suggested new CEOs raise the firm performance. Further analysis shows that CEO changes due to retirement improve firm's performance in the post-succession period; while succession due to CEO's sudden death or illness have not shown any significant impact on the long term performance of the firm. The study also found strong evidence that outside successions lead to a better performance compared to inside successions.

Land (2010) examined whether restatement firms with certain restatement characteristics are more likely to experience CEO changes within a year of the restatement announcement. Examples of restatement announcements are profit turning to losses, overstatements of revenue and other accounting irregularities. He found significant in cumulative abnormal return from day t = -1 to t = 1,

which shows that the market reaction to the announcement of the restatement is an important factor in management turnover decision. He concluded that the lower the return around the event of the restatement, the higher the likehood of CEO turnover.

Elsaid, Wang, Davidson (2011) investigated stock market reaction, following external CEO successions. They find that the appointments of outside CEOs with previous CEO experience have higher abnormal returns compared to those of no previous CEO experience.

Hypothesis: *Executive directors affect stock prices companies when announce bonus issues.*

2.2.7 Board Ownership

Smith (2010) investigated whether shareholder's activism is effective as a source of monitoring on target firm governance structure on. He used abnormal returns as a measurement around initial public announcement of targeting by California Public Employees' Retirement System (CalPERS). Initial public announcements are news article and press releases and company proxy statement for CalPERS-sponsored shareholder proposals. Shareholders' activism is defined as monitoring and attempting to bring about changes in organizational-controlled structure of forms for target and does not perceive to be pursuing shareholder-wealth-maximizing goals. If the firms perceive themselves to be candidates for activism, the threat of activism may align

incentives of managers with shareholders and there may be observable changes in potential activism targets similar to actual targets. He found no effect on stock prices for the entire sample, activism having no effect on firm value. He concluded that there was no significant abnormal return during this announcement day t = -60 to t = 60, period and did not appear that targeting is anticipated in a systematic fashion. There was a significant positive stock price reaction for successful targeting and significant negative reaction for unsuccessful events. He also concluded that shareholder activism is largely successful in changing governance structure when successful result in a statistically significant increase in shareholder wealth. However, if the source of the wealth increase and improves operating performance, it is not statistically significant.

Similarly Loderer and Martin (1996) found the same findings on their experiment whether managers' stockholdings in their firms give them incentives to avoid share-price-decreasing decision and to seek out share-price-increasing ones. Ownership is defined as to include directors, managers, employees, customers and suppliers. In his study, he only considered officers and directors. They found no significant association between executive stock ownership and improved performance of the firm. There is no convincing evidence that stock ownership effectively aligns the interests of managers and shareholders. They did not find any evidence ownership improves performance. This could be due to the fact that managers with an equity stake in the firm are not always in a position to affect decision or too many of them are in such positions.

Meanwhile Tehranian, Travlos and Waegelein (1987) examined the association between long-term performance plans and wealth effects accruing to stockholders of divesting firms at announcements of sell-off proposals. They used cumulative abnormal return (CAR) around three day window period t = -1 to = 1. From their study, they found divesting companies that compensate their executives with long-term performance plans experienced an insignificant negative stock market reaction at the announcement of their sell-off proposals.

Hypothesis: *Board ownership affects stock prices when companies announce bonus issues.*

CHAPTER 3
RESEARCH DESIGN

3.0 Introduction

This chapter discusses the methodologies employed in this study. The discussions start with the data collection in Section 3.1 and followed by theoretical framework in Section 3.2. Section 3.3 describes the variables and hypotheses. Sections 3.4 discusses regression analyses.

3.1 Data Collection

To accomplish the objectives stated in Chapter 1, this study employed the event study methodology. The data was gathered from the announcement section of Bursa Malaysia's website, the company's annual report, Thompson DataStream, the circulars to shareholders, and the companies' websites. Since the companies listed on Ace market are usually more speculative in nature, this study only included the companies that are listed on Main Market. The samples were taken from 96 companies from different sectors that announced the issuance of bonus issue from the year 2006 to 2008. From the initial number of 96 companies (refer to table 3.1), only 50 companies (refer to table 3.2) had been selected to be included in this study. The other 46 companies had been excluded because only "clean" announcements were taken into consideration. "clean" announcement means there was no other announcement made simultaneously with the announcement of bonus issue. The data for the independent variables (family ownership, board size, proportion of

independent directors, proportion of executive directors, proportion of family director and board ownership) were obtained from annual reports from the year 2006 to 2009. Specifically, the data was gathered from the sections of "Profile of Board", "Shareholding Analysis", and "Thirty Largest Shareholding".

Table 3.1 shows the sample of 96 companies which made bonus issue announcement during the year of 2006 to 2008. These companies were identified from http://www.bursamalaysia.com/market/listed under these section of circular or notice to shareholder made to Bursa Malaysia. A number of 35 announcements were made in 2006, 36 announcements were made in 2007 and 25 announcements were made in 2008.

Table 3.1: 96 companies with bonus issue announcements

Company	Announcement date
Adventa Berhad	27-Feb-06
Batu Kawan Berhad	22-Nov-06
CAB Cakaran Corporation Berhad	18-Jan-06
Classic Slenic Berhad	27-Feb-06
CNI Holding Berhad	29-Mar-06
Cocoaland Holding Berhad	20-Mar-06
Cymao Holding Berhad	27-Feb-06
Efficient E - Solution Berhad	26-Apr-06
Eonmetall Group Berhad	8-May-06
Flonic Hi-Tec Berhad	25-Jan-06
GHL System Berhad	31-Mar-06
Grand - Flo Solution Berhad	22-Mar-06
Instacom Group Bhd	3-Nov-06
Jadi Imaging Holding Berhad	18-Apr-06
Johore Tin Berhad	25-May-06
Karyon Industries Berhad	6-Feb-06
Kian Joo Can Factory Berhad	8-Sep-06
KNM Group Berhad	20-Mar-06
K-One Technology Berhad	17-Jan-06
Kuala Lumpur Kepong Berhad	22-Nov-06
Kuchai Development Berhad	29-Sep-06
Melewar Industrial Group Berhad	30-Aug-06
MQ Technology Berhad	21-Aug-06
Nextnation Communication Berhad	27-Apr-06
Notion Vtec Berhad	1-Mar-06
Pelikan International Corporation Berhad	23-Feb-06
Puncak Niaga Holding	16-Oct-06
RCE Capital Berhad	19-May-06
Rexit Berhad	28-Apr-06
Scicom (Msc) Berhad	25-Jul-06
Success Transformer Corporation Berhad	29-Aug-06
Ta Ann Holdings Berhad	26-May-06
Tanjung Offshore Berhad	27-Apr-06
Tek Seng Holding Berhad	26-Apr-06
Zecon Engineering Berhad	26-May-06
MMC Corporation Berhad	30-Nov-07
Subur Tiasa Holdings Berhad	20-Nov-07
YGL Convergence Berhad	8-Aug-07
Jobstreet Corporation Berhad	20-Jun-07
Technodex Berhad	16-Jun-07
Progressive Impact Corp Bhd	12-Jul-07

MTouche Technology Berhad	21-Feb-07
Company	Announcement date
Ann Joo Resources Berhad	27-Sep-07
LCTH Corporation Berhad	12-Sep-07
My E.G Service Berhad	27-Aug-07
Freight Management Hold Bhd	11-Sep-07
Gamuda Berhad	25-Jun-07
Tong Herr Resources Bhd	9-Aug-07
Muhibbah Engineering(M) Bhd	19-Jul-07
Tien Wah Press Holdings Bhd	21-Jun-07
Yinson Holiding Bhd	2-Jul-07
Hai-O Enterprise Bhd	22-Jun-07
Eti Tech Corporation Bhd	21-Mar-07
Alam Maritim Resources Bhd	24-May-07
WTK Holdings Berhad	24-Apr-07
Cheetah Holdings Berhad	4-Apr-07
Jadi Imaging Holdings Bhd	21-May-07
Focus Dynamics Technologies Bhd	30-Mar-07
RGB International Bhd	14-May-07
Chuan Huat Resources Bhd	27-Feb-07
KNM Group Bhd	24-Apr-07
Hubline Berhad	9-Apr-07
JHM Consolidation Berhad	20-Apr-07
Tanjung Offshore Berhad	26-Mar-07
Bonia Corporation Berhad	26-Jan-07
Malaysian Bulk Carriers Berhad	27-Feb-07
Scientex Berhad	31-Jan-07
Boon Koon Group Berhad	22-Mar-07
KKB Engineering Berhad	21-Mar-07
KSL Holdings Berhad	13-Feb-07
WCT Engineering Berhad	7-Mar-07
Three-A Resources Bhd	13-Mar-08
Efficient E Solutions Bhd	21-Mar-08
Malaysia Steel Works (Kl) Bhd	30-Apr-08
TMC Life Sciences	5-May-08
Aeon Co. (M) Bhd	5-May-08
Ql Resources Bhd	6-May-08
TRC Synergybhd	12-May-08
V.S. Industry Bhd	7-Apr-08
Dufu Technology Corp Bhd	16-May-08
Kawan Food Bhd	16-May-08
Brite-Tech Bhd	19-Feb-08
SMR Technologies Bhd	21-May-08
BP Plastics Holding Bhd	7-Apr-08
CCK Consolidated Holdings Bhd	31-Jan-08
Voir Holding Bhd	19-Jun-08

Daya Materials Bhd	28-Feb-08
Company	Announcement date
KNM Group Bhd	4-Feb-08
Sarawak Oil Palms	16-Jun-08
TH Plantations	25-Jul-08
Formosa Prosonic Ind Bhd	30-Jul-08
Redtone Int Bhd	7-Aug-08
Notion Vtec Bhd	28-Mar-08
Advance Info.Marketing Bhd	2-May-08
Hexza Corp Bhd	29-Aug-08
My E.G.Services	30-Sep-08

Table 3.2 shows the companies that made "clean" announcements. The number of companies had decreased from 96 companies to 50 because only these companies that did not make the announcements of bonus issue together with other contemporaneous announcements such as announcements of merger and acquisition and cash dividends.

Table 3.2: 50 companies with "clean" announcements

Company	Announcement date
Adventa Berhad	27-Feb-06
Batu Kawan Berhad	22-Nov-06
CAB Cakaran Corporation Berhad	18-Jan-06
Classic Slenic Berhad	27-Feb-06
CNI Holding Berhad	29-Mar-06
Cocoaland Holding Berhad	20-Mar-06
Efficient E - Solution Berhad	26-Apr-06
Eonmetall Group Berhad	8-May-06
Grand - Flo Solution Berhad	22-Mar-06
Instacom Group Bhd	3-Nov-06
Johore Tin Berhad	25-May-06
KNM Group Berhad	20-Mar-06
Kuala Lumpur Kepong Berhad	22-Nov-06
Kuchai Development Berhad	29-Sep-06

Melewar Industrial Group Berhad	30-Aug-06
Nextnation Communication Berhad	27-Apr-06
Company	Announcement date
Pelikan International Corporation Berhad	23-Feb-06
Scicom (Msc) Berhad	25-Jul-06
Ta Ann Holdings Berhad	26-May-06
Tek Seng Holding Berhad	26-Apr-06
MMC Corporation Berhad	30-Nov-07
Subur Tiasa Holdings Berhad	20-Nov-07
YGL Convergence Berhad	8-Aug-07
My E.G Service Berhad	27-Aug-07
Gamuda Berhad	25-Jun-07
Tong Herr Resources Bhd	9-Aug-07
Tien Wah Press Holdings Bhd	21-Jun-07
Yinson Holiding Bhd	2-Jul-07
Hai-O Enterprise Bhd	22-Jun-07
ETI Tech Corporation Bhd	21-Mar-07
Cheetah Holdings Berhad	4-Apr-07
Jadi Imaging Holdings Bhd	21-May-07
RGB International Bhd	14-May-07
JHM Consolidation Berhad	20-Apr-07
Tanjung Offshore Berhad	26-Mar-07
Malaysian Bulk Carriers Berhad	27-Feb-07
KKB Engineering Berhad	21-Mar-07
Three-A Resources Bhd	13-Mar-08
Efficient E Solutions Bhd	21-Mar-08
Malaysia Steel Works (Kl) Bhd	30-Apr-08
Aeon Co. (M) Bhd	5-May-08
TRC Synergybhd	12-May-08
V.S. Industry Bhd	7-Apr-08
Dufu Technology Corp Bhd	16-May-08
Kawan Food Bhd	16-May-08
Brite-Tech Bhd	19-Feb-08
Voir Holding Bhd	19-Jun-08
Notion Vtec Bhd	28-Mar-08
Advance Info.Marketing Bhd	2-May-08
Hexza Corp Bhd	29-Aug-08

Table 3.3 shows the 46 companies that announced the bonus issue together with other contemporaneous announcements including merger and acquisition, reconstruction, cash dividend, private placement, share splits and warrants.

Table 3.3: 46 companies with “contaminated” announcements

Company	Announcement date
Cymao Holding Berhad	27-Feb-06
Flonic Hi-Tec Berhad	25-Jan-06
GHL System Berhad	31-Mar-06
Jadi Imaging Holding Berhad	18-Apr-06
Karyon Industries Berhad	6-Feb-06
Kian Joo Can Factory Berhad	8-Sep-06
K-One Technology Berhad	17-Jan-06
MQ Technology Berhad	21-Aug-06
Notion Vtec Berhad	1-Mar-06
Puncak Niaga Holding	16-Oct-06
RCE Capital Berhad	19-May-06
Rexit Berhad	28-Apr-06
Success Transformer Corporation Berhad	29-Aug-06
Tanjung Offshore Berhad	27-Apr-06
Zecon Engineering Berhad	26-May-06
Jobstreet Corporation Berhad	20-Jun-07
Technodex Berhad	16-Jun-07
Progressive Impact Corp Bhd	12-Jul-07
Mtouche Technology Berhad	21-Feb-07
Ann Joo Resources Berhad	27-Sep-07
LCTH Corporation Berhad	12-Sep-07
Freight Management Hold Bhd	11-Sep-07
Muhibbah Engineering(M) Bhd	19-Jul-07
Alam Maritim Resources Bhd	24-May-07
WTK Holdings Berhad	24-Apr-07
Focus Dynamics Technologies Bhd	30-Mar-07
Chuan Huat Resources Bhd	27-Feb-07
KNM Group Bhd	24-Apr-07
Hubline Berhad	9-Apr-07
Bonia Corporation Berhad	26-Jan-07
Scientex Berhad	31-Jan-07
Boon Koon Group Berhad	22-Mar-07
KSL Holdings Berhad	13-Feb-07
WCT Engineering Berhad	7-Mar-07
TMC Life Sciences	5-May-08
QL Resources Bhd	6-May-08
SMR Technologies Bhd	21-May-08
BP Plastics Holding Bhd	7-Apr-08
CCK Consolidated Holdings Bhd	31-Jan-08
Daya Materials Bhd	28-Feb-08

Company	Announcement date
KNM Group Bhd	4-Feb-08
Sarawak Oil Palms	16-Jun-08
TH Plantations	25-Jul-08
Formosa Prosonic Ind Bhd	30-Jul-08
Redtone Int Bhd	7-Aug-08
My E.G.Services	30-Sep-08

Table 3.4 summarizes the statistics of 96 companies that made bonus issue announcements from the year 2006 until 2008. A total of 35 companies made the announcements in 2006, 36 companies made the announcements in 2007 and another 25 companies made the announcements in 2008. The number had decreased from 96 companies to only 50 companies because only "clean" announcements were taken into consideration. "Clean" announcements refer to announcements of bonus issue with no other contemporaneous announcements such as merger and acquisition, reconstruction, private placement, share splits and warrants. The number of clean announcements was 20, 17 and 13 in 2006, 2007 and 2008 respectively.

Table 3.4 : Number of "clean" and "contaminated" announcements

Type of companies	2006	2007	2008	Total
Number of "clean" companies	20	17	13	50
Number of "contaminated" companies	15	19	12	46

3.2 Theoretical Framework

These studies have six independent variables and one dependent variable. The independent variables are family ownership (FAMILYOS), board size (BOARDSIZE), proportion of independent directors (FRACINDDIR), proportion of executive directors (FRACEXEC), proportion of family directors (FRACFAM) and board ownership (BOARDOS) and the dependent variable is cumulative abnormal returns (CAR).

Cumulative abnormal returns or CAR is estimated using market model approach over a period of seven days from five days before the announcement to the day after the announcement, or abbreviated as CAR(-5,-1).

3.2.1 Market Model

To measure the cumulative abnormal return, the normal return was first calculated using a market model approach. Normal return refers to the expected return if the event does not happen. The equation for calculating normal returns using market model is as follow:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$$

R_{it} = the period *t* return of firm *i*

α_i and β_i = the parameters of the model

R_{mt} = the period *t* return of market portfolio

ε_{it} = the zero mean disturbance term

The parameters (α_i and β_i) are estimated using ordinary least squares (OLS) method. The estimation period for market model parameter is 191 days starts from day -151 to day +40. An 81-day event window is employed, comprised of 40 pre-event days and 40 post-event days. In applications a broad based stock index is used for market portfolio and in this study, the FTSE Bursa Malaysia EMAS Index (FBMEMAS) is used as the market portfolio.

To observe the cumulative effect of the announcement over the specified period and to draw overall inferences, the abnormal returns are then being aggregated. The cumulative abnormal returns of firm *i* (CAR_i) over

specified period *T* is calculated by summing daily abnormal returns of firm *i* across the *T* period as follows:

CAR $(t_1,t_2)= \Sigma AR_{it}$ where

CAR (t_1,t_2): cumulative abnormal returns of firm *i* over the specified *T*-period of t_1 to t_2.

ΣAR_{it}: The summation of abnormal returns of firm *i* over the specified *T*-period of t_1 to t_2.

One of the advantages of using market model is its ability to increase the power of the statistical test by reducing the variance of the performance measures. It reduces the variance of the abnormal return by eliminating the portion of the return that is related to variation in the market's return. According to MacKinlay (1997), the higher the R^2 of the market model regression the greater the variance reduction of the abnormal returns.

3.3 Hypotheses Testing and Measurement

This part explains the purpose of the study. There are six hypotheses that have been used in order to explain the effects of family ownership, board size, proportion of independent directors, and proportion of family directors, proportion of executive directors and board ownership on abnormal return performance following bonus issue announcement. The following hypotheses are tested:

Hypothesis 1

H_1: There is a significant effect of family ownership on abnormal return following bonus issue.

H_0: There is no significant effect of family ownership on abnormal return following bonus issue.

FAMILYOS: Accoding to Maury (2005), family ownership is measured by the total number of shares held by the family members or the percentage holdings of substantial shareholders (at least 10 percent of the voting rights) who are the family members. The measure being used in this study is the percentage of voting rights that are being controlled by the family.

Hypotheses 2

H_1: There is a significant effect of board size on abnormal return following bonus issue.

H_0: There is no significant effect of board size on abnormal return following bonus issue.

Board Size: Bushman, Chen, Engel and Smith (2004) defined board size as the total number of directors on a board.

Hypotheses 3

H_1: There is a significant effect of proportion of independent directors on abnormal return following bonus issue.

H_0: There is no significant effect of proportion of independent directors on abnormal return following bonus issue.

FRACINDDIR: Francis, Hasan and Wu (2012) defined independent board as the ratio of outside board members to the board size. Meanwhile Swanstrom (2006) defined independent directors as those who have never been employed by the firm nor had any outside business dealings with the firm such as being employed as the firm's lawyer, accountant, banker, or consultant. In this study, fraction of independent directors is derived by dividing the number of independent directors with board size. This information was obtained from annual report of the company.

Hypotheses 4

H_1: There is a significant effect of proportion of executive directors on abnormal return following bonus issue.

H_0: There is no significant effect of proportion of executive directors on abnormal return following bonus issue.

FRACEXEC: Fraction of executive directors is derived by dividing the number of executive directors with board size. All information is obtained from the company's annual report.

Hypotheses 5

H_1: There is a significant effect of proportion of family directors on abnormal return following bonus issue.

H_0: There is no significant effect of proportion of family directors on abnormal return following bonus issue.

FRACFAM: Fraction of family directors is derived by dividing the number of family members who served as directors with board size. A family director is defined as an individual or a family which owns at least 10% of shares outstanding with no other blockholder owns more than 10%.

Hypotheses 6

H_1: There is a significant effect of board ownership on abnormal return following bonus issue.

H_0: There is no significant effect of board ownership on abnormal return following bonus issue.

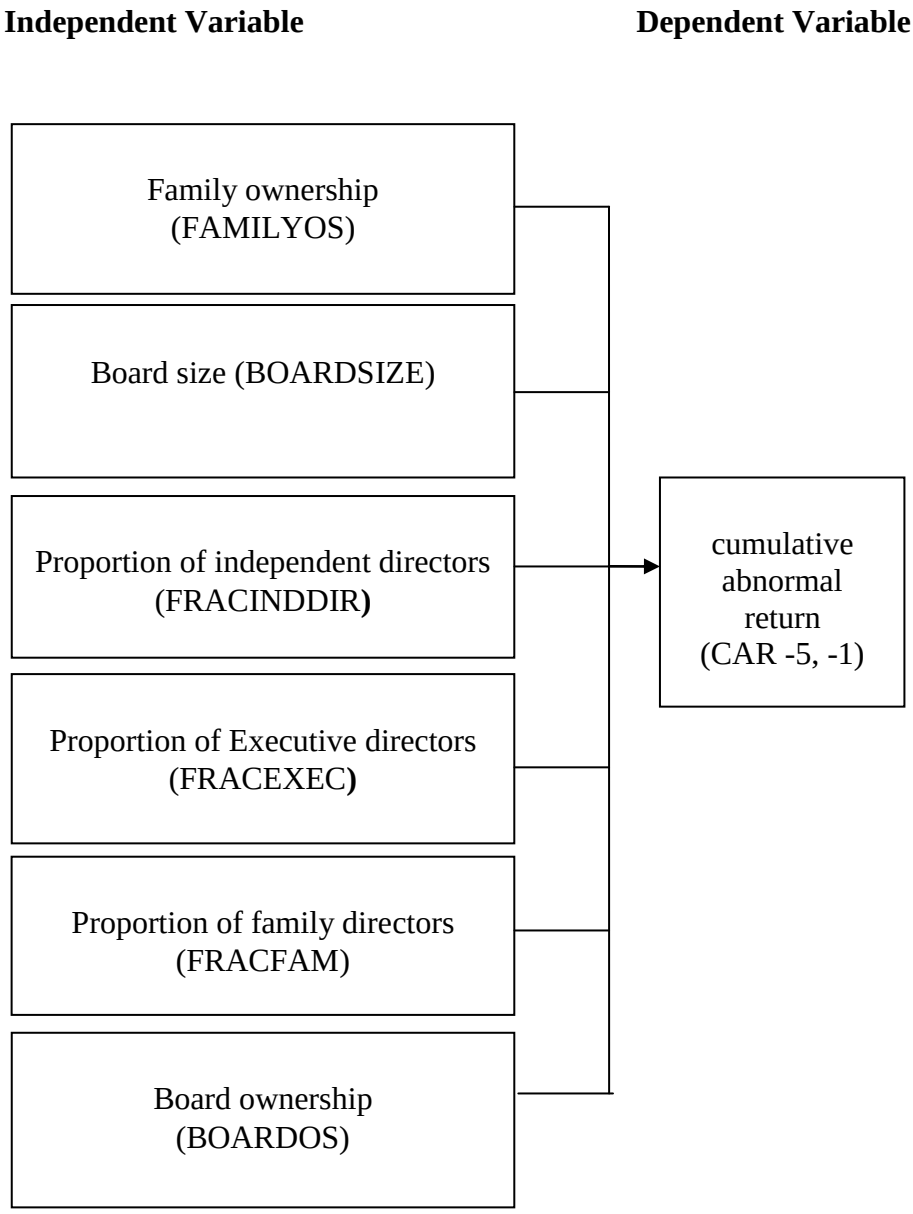
BOARDOS: Loderer and Martin (1996) identified that board ownership as the percentage shareholdings of all officers and directors (more than 5 percent voting rights). In this study, the measurement refers to the board of directors' total number of shares held divided by the total number of shares outstanding.

Table 3.5 summarizes the variables used in this study and Figure 3.1 shows the theoretical framework.

Table 3.5: Summary of Independent Variables

Definition	**Variables**	**Measurement**
Family ownership	FAMILYOS	When an individual or a family owns more than 10% with no other major shareholder holding more than or equal to 10%.
Board Size	BOARDSIZE	Board size refers to the number of directors on board.
Proportion of independent directors	FRACINDDIR	Fraction of independent directors is measured by dividing the number of independent directors with board size.
Proportion of executive directors	FRACEXEC	Fraction of executive directors is measured by dividing the number of executive directors with board size.
Proportion of family directors	FRACFAM	Fraction of family directors is measured by dividing the number of family members who served as directors with board size.
Board ownership	BOARDOS	Percentage shareholdings of all directors.

Figure 3.1: Theoretical framework



3.4 Regression Analysis

The purpose of this study to investigate whether governance characteristics (family ownership, board size, proportion of independent directors, proportion of executive directors, proportion of family directors and board ownership) have any relationship with CAR (-5, -1) of firms announcing bonus issue announcement in Malaysia. The ordinary least squares (OLS) method was used to test for the relationships between the dependent variable and the independent variables, and the market model was used to estimate the normal return.

The model is generally expressed in the following way:

$CAR_i = \beta_0 + \beta_1 FAMILYOS_i + \beta_2 BOARDSIZE_i + \beta_3 FRACINDDIR_i + \beta_4 FRACEXEC_i + \beta_5 FRACFAM_i + \beta_6 BOARDOS_i + \varepsilon_i$ where;

CAR_i: Cumulative abnormal returns from -5 to +1 in company *i*.

$FAMILYOS_i$: Family ownership in company *i*.

$BOARDSIZE_i$: Board size in company *i*.

$FRACINDDIR_i$: Fraction of independent directors in company *i*.

$FRACEXEC_i$: Fraction of executive directors in company *i*.

$FRACFAM_i$: Fraction of family directors in company *i*.

$BOARDOS_i$: Ownership by directors in company *i*.

CHAPTER 4
RESULT AND FINDINGS

4.0 Introduction

This chapter presents the results of the announcement effects from the event study and the results of the regression analysis. Specially, Section 4.1 provides and discusses the findings of the event study. Section 4.2 presents the descriptive statistics for the 50 companies that announced the bonus issue, while Section 4.3 provides the correlation coefficients of the independent variables. Finally, Section 4.4 provides and discusses the results of the regression analysis.

4.1 The Announcement Effects

The main purpose of this study is to investigate the stock price behaviour of the family ownership companies to the announcement of bonus issue. The total announcements made by the Main Market companies were 96. However, to avoid confounding effect, only "clean" announcements were included in this study. The exclusion of 46 companies that made bonus issue announcements with other contemporaneous announcements resulted in a final sample of 50 companies. Overall, there are six independent variables which have been used to explain the effect on corporate governance composition following bonus issue announcement to the family ownership company. The researcher starts by examining the stock price performance in Malaysia following bonus issue announcements and then goes on to assess the effects of corporate governance composition following bonus issue announcement.

Table 4.1 presents the average abnormal returns (AARs) and the cumulative abnormal returns (CARs) using the market model (MM) approach. On day t = -4, t = -2 and t = 1, the returns are 0.05 percent, 1.4 percent, and 2.6 percent respectively. Except for the returns on day t = 1 that is statistically significant at one percent level, the returns on the other two days are statistically significant at five percent level. The significant return of 2.6 percent on day 1 shows that investors reacted to the announcement of bonus issues positively.

Table 4.2 illustrates the cumulative average abnormal returns (CARs) using market model for the intervals of (-20,-1), (-2, 1), (-5, -1), (-5, 1), (0, 1), (-1, 1), (2, 20), and (-40, 40). Overall, the CARs are positive and statistically significant at either one or five percent levels. An exception being the eighteen-day CAR, or CAR (2, 20), which shows negative returns of 3.5 percent (p-value = 0.0009). For the 81-day (-40, 40) windows, despite the positive figure, the return is not significant.

Figure 4.1 shows the cumulative abnormal returns (CARs) from day -40 to day 40. The graph shows CARs start to increase on the day -20 and it reaches its peak on day 1. The cumulative abnormal return from day -20 to day 1 is 8.3 percent. After day 1, CARs start to decline and the decline of 3.5 percent from day 2 to day 20 is significant at 1 percent. This shows that investors over-react to the announcement of bonus issues and this over-reaction is corrected after the announcements.

Table 4.1: Average abnormal returns (AAR) and cumulative abnormal returns (CAR) on selected event days.

Days	AAR	T-Statistic	P-value	CAR	T-Statistic	P-value
-40	-0.007	-1.747	0.086	-0.007	-1.731	0.083
-20	0.001	0.416	0.678	0.004	0.375	0.707
-10	0.000	0.050	0.959	0.033	0.039	0.968
-9	-0.000	-0.248	0.805	0.032	-0.236	0.813
-8	0.002	0.800	0.427	0.034	0.565	0.571
-7	0.000	0.067	0.947	0.003	0.048	0.961
-6	0.004	1.458	0.151	0.038	0.931	0.352
-5	-0.001	-0.435	0.665	0.037	-0.253	0.800
-4	0.005	2.184	0.033**	0.042	1.359	0.174
-3	0.003	0.573	0.569	0.045	0.631	0.527
-2	0.014	2.303	0.025**	0.059	3.511	0.000***
-1	0.006	1.167	0.248	0.064	1.411	0.158
0	-0.005	-0.719	0.475	0.060	-1.205	0.228
+1	0.026	3.292	0.001***	0.086	6.582	4.646
+2	-0.004	-1.202	0.235	0.081	-1.124	0.260
+3	-0.003	-0.774	0.442	0.078	-0.877	0.380
+4	-0.005	-1.578	0.120	0.073	-1.249	0.211
+5	-0.004	-1.054	0.297	0.069	-1.051	0.293
+6	0.001	0.218	0.828	0.070	0.279	0.779
+7	0.001	0.153	0.879	0.070	0.196	0.844
+8	-0.004	-1.331	0.189	0.066	-1.179	0.238
+9	-0.000	-0.219	0.827	0.065	-0.171	0.864
+10	0.001	0.243	0.809	0.066	0.333	0.739
+20	-0.000	-0.164	0.870	0.051	-0.097	0.923
+40	-0.003	-0.736	0.465	0.042	-0.728	0.466

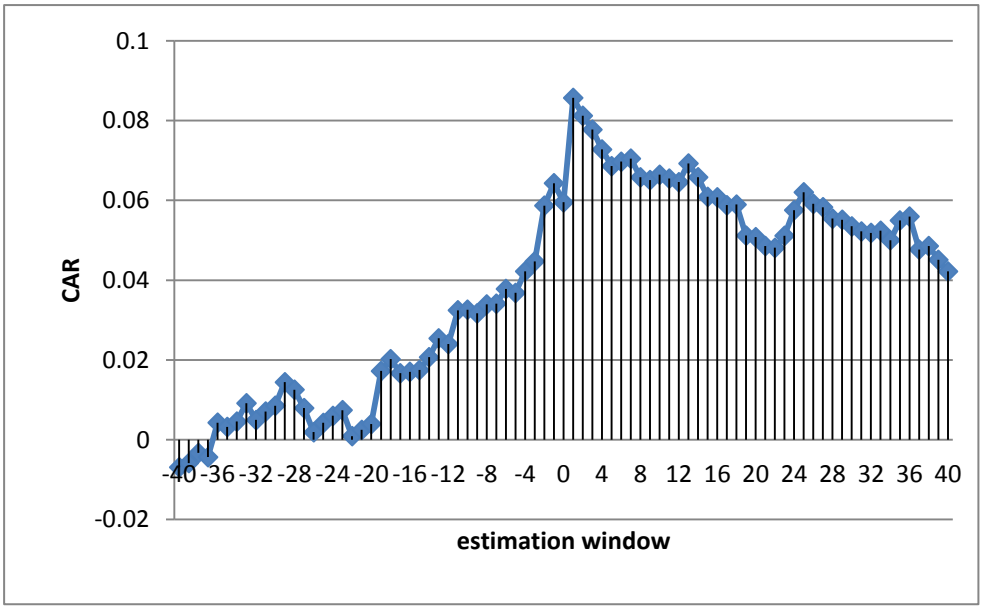
Note: significant at 1% *** (0.01), 5% ** (0.05), and 10% *(0.1).

Table 4.2: cumulative abnormal returns (CAR) over selected intervals

Window interval	CAR	T-statistic	P-value
-20,-1	0.062	3.398	0.001***
-2,1	0.041	4.308	0.000***
-5,-1	0.026	2.524	0.015***
-5,1	0.048	0.094	0.925
0,1	0.021	2.385	0.021***
-1,1	0.027	3.229	0.002**
2,20	-0.035	-2.719	0.009*
-40,40	0.042	1.162	0.250

Note: significant at the 1% *** (0.01), 5% ** (0.05), 10% *(0.1).

Figure 4.1 : Graph CAR



The second main objective of this study intends to investigate the effects of governance variables on abnormal returns of bonus issues. The independent variables are family ownership (FAMILYOS), board size (BOARDSIZE), proportion of independent directors (FRACINDDIR), proportion of executive directors (FRACEXEC), proportion of family directors (FRACFAM) and board ownership (BOARDOS) while the dependent variable is cumulative abnormal returns (CAR -5,-1).

4.2 Descriptive Statistic

Table 4.3 presents the descriptive statistics for the 50 companies that announced bonus issue. Majority of the companies that announced bonus issue can classified as family-companies (n=44) as families own more than 10 percent in this company. The descriptive statistic indicated the mean family ownership is about 39 percent for all companies listed on Bursa Malaysia that announced bonus issue between 2006 until 2008. The range number of family company is from 0 percent to 68 percent. Meanwhile, the mean board size is 7.48, which indicates that the average number of directors on a board is between seven to eight members. The range of board size is between 5 and 13. The proportion of independent directors to total directors is 48 percent. This shows that the number of independent and non-independent directors is similar. The range of the proportion of independent directors is between 29 percent and 88 percent in this study.

Moreover, the mean of the proportion of executive directors to total directors is 41 percent and the range is between 0 and 67 percent. This shows that the number of executive directors is a little bit less than that of non-executive directors. Furthermore, non-executive directors made up at least one-third of the board, which is in congruent with the recommendation stipulated in Malaysia Code of Corporate Governance. The proportion of family directors has an average of 29 percent and the range is between 0 percent and 67 percent. The mean for board ownership is 46 percent and the range of board ownership is within 0 percent to 74 percent. This shows that directors in Malaysia held a significant stake in their companies. The high ownership stake means that directors would take value-maximizing decisions.

Table 4.3: Descriptive Statistics of Corporate Governance Composition

Variable	Mean	Standard Deviation	Min	Max
FAMILYOS	0.3854	0.1958676	0	0.68
BOARDSIZE	7.48	1.798412	5	13
FRACINDDIR	0.4776	0.1374633	0.29	0.88
FRACEXEC	0.405	0.1697327	0	0.67
FRACFAM	0.2876	0.1698206	0	0.67
BOARDOS	0.4596001	0.210877	0	0.74

4.3 Analyses of correlation coefficients

Table 4.4 provides the correlation coefficient among variables by using Pearson correlation. The correlation coefficients describe the relationship between the independent variables. A correlation of -1 is a perfect inverse correlation while a correlation of +1 means a perfect positive correlation. Table 4.5 demonstrates that the correlation coefficient between family ownership and board ownership is high at 0.8873. This shows that family controlled firms might appoint family members to serve as directors to protect their ownership interest. Meanwhile, there is also higher correlation coefficient between family ownership and family director which is 0.6274. This demonstrates that family owned companies tend to appoint family members as directors.

The result also reveals positive correlation between family directors and executive directors which is 0.2421, which implies that family directors tend to be appointed as executive directors. Moreover, board ownership has positive coefficient with executive directors and family directors. The correlation between board ownership and executive is 0.2664 and the correlation between board ownership and family director is 0.5404. These correlations show that there is a positive relationship between directors' shareholdings and proportion of directors serving as executive directors and between directors' shareholdings and proportion of family members serving as directors. Meanwhile, board size appears to be negatively correlated with all other governance measures.

Proportion of executive directors shows an inverse correlation with proportion of independent directors, which is -0.5984. This is expected as independent and executive directors are mutually exclusive where the greater is the number of independent directors in a board, the lower is the number of executive directors.

Table 4.4: Correlation Matrix for Corporate Governance Composition

Variable	FRACINDDIR	FRACEXEC	FRACFAM	BOARDSIZE	BOARDOS	FAMILYOS
FRACINDDIR	1.0000					
FRACEXEC	-0.5984	1.0000				
FRACFAM	-0.0108 *	0.2421 ***	1.0000			
BOARDSIZE	-0.3610	-0.0702	-0.0897	1.0000		
BOARD0S	0.0322 *	0.2664 ***	0.5404 ***	-0.0732 *	1.0000	
FAMILYOS	0.0401 **	0.2217 ***	0.6274 ***	-0.1153	0.8873 ***	1.0000

Note : Significant at the 1% *** (0.01), 5% ** (0.05), 10% *(0.1)

4.4 Regression results based on ordinary least squares (OLS)

The following regression model, or Model 1, is estimated using OLS approach:

$$CAR_i = \beta_0 + \beta_1 FAMILYOS_i + \beta_2 BOARDSIZE_i + \beta_3 FRACINDDIR_i + \beta_4 FRACEXEC_i + \beta_5 FRACFAM_i + \beta_6 BOARDOS_i + \varepsilon_i$$

OLS is used to measure the relationship between corporate governance composition and the cumulative abnormal return of firms announcing bonus issue. Table 4.5 shows the regression output, which examines whether percentage of family ownership (FAMILYOS), proportion of executive directors (FRACEXEC), board size (BOARDSIZE), proportion of independent directors (FRACINDDIR), proportion of family directors (FRACFAM) and board ownership (BOARDOS) have any significant impact on the cumulative abnormal return.

The results of Model 1, summarizes in column 3, show that the F-statistic is 1.61 with a p-value of 0.168. This shows that the null hypothesis of the six independent variables are jointly equal to zero cannot be rejected. This result seems to show that none of the variables could explain abnormal returns. However, when each variable is observed, it is found that the coefficient of the proportion of family directors (FRACFAM) is 0.1422 and significant at 10 percent. To check whether FRACFAM is significant if the number of coefficients is reduced, model 2 is estimated and the results are reported in column 3. Model 2 uses both FRACFAM and FRACEXEC as

these two variables might affect abnormal returns. The F-statistic of model 2 is now a significant 4.52 while the adjusted R^2 increased from 6.94 percent to 12.55 percent. These analyses show that model 2 is better than model 1. The coefficient of FRACFAM is 0.1248 which is significant at 5 percent while the coefficient of FRACEXEC is not significant. However, when FRACEXEC is used as the sole explanatory variable, it is significant at 5 percent with a coefficient value of 0.1270 (refer to model 3). Finally, if FRACFAM is used as the sole explanatory variable, it is significant at 5 percent with a coefficient value of 0.1482 (refer to model 4).

The results of model 1 to model 4 shows that FRACFAM has positive relationship with abnormal returns and it is statistically significant. Furthermore, to a certain extent, FRACEXEC is also significant.

The highest variance-inflation factor (VIF) is 3.02. Thus, it can be concluded that there is no multicollinearity problem as the variance-inflation factor (VIF) is less than 10.

Table 4.5: Regression analyses using OLS

Variables	Model 1	Model 2	Model 3	Model 4
Intercept (β_0)	-0.0001 (0.999)	-0.0486 (0.090)	-0.0249 (0.351)	-0.0161 (0.418)
FAMILYOS	0.0598 (0.632)			
BOARDSIZE	-0.0020 (0.760)			
FRACINDDIR	-0.0342 (0.761)			
FRACEXEC	0.0893 (0.318)	0.0967 (0.115)	0.1270 (0.041)*	
FRACFAM	0.1422 (0.077)*	0.1248 (0.044)*		0.1482 (0.016)*
BOARDOS	-0.0910 (0.407)			
R^2	0.1834	0.1612	0.0844	0.1151
Adjusted R^2	0.0694	0.1255	0.0653	0.0967
F-test	1.61 (0.168)	4.52 (0.016)	4.42 (0.041)	6.24 (0.015)

Note: Significant at the 5% ** (0.05) and 10% *(0.1).

CHAPTER 5
CONCLUSION

5.0 Introduction

This chapter summarizes the study and gives recommendation for future research in Section 5.1 and Section 5.2 respectively.

5.1 Summary

The main purpose of this study is to investigate the effects of six governance characteristics on prices of firms announcing bonus issues. This study uses 50 bonus issue announcements from 2006 to 2008. Since there is no previous literature on the effects of governance on bonus issues, this study attempts to fill in that gap. The investigated governance characteristics are board size, proportion of family directors, family ownership, proportion of executive directors, proportion of independent directors and board ownership while the dependent variable is the cumulative abnormal return from 5 days before the announcement to one day before the announcement, or CAR (-5,-1).

The results demonstrate that the average abnormal returns (AARs) are significant on certain days around the announcements, especially on the day after the announcement, or day 1, where the AAR is 2.6 percent and it is significant at 1 percent. The significant return of 2.6 percent on day 1 shows that investors reacted to the announcement of bonus issues positively. As for CARs, CARs for several event windows before the

announcement up to day 1 are statistically significant. As an example, CAR from day -20 to day -1 is 6.2 percent and significant at 1 percent level. However, after day 1, CAR starts to decline and CAR from day 2 to day 20 is -3.5 percent and significant at 1 percent. The positive CAR before the announcements and negative CAR after the announcements show that investors over-react to the announcement of bonus issues and this over-reaction is corrected after the announcements.

After estimating CARs, OLS is used to estimate the effects of the six governance characteristics on CARs. There are six hypothesis tested. The results of the regression show that only proportion of family directors is significant at five percent and that result is obtained only after the other variables are dropped except proportion of executive directors. Furthermore, if proportion of executive directors is used as the sole variable, the result indicates that proportion of executive directors is significant at five percent. The other four variables, which are board size, family ownership, proportion of independent directors and board ownership, are not significant in all regression models. The overall result indicates that proportion of family directors or proportion of executive directors influence abnormal returns.

5.2 Recommendations for future research

There are two recommendations that can be considered for future research in this area. The first one is to include more observations by using more companies and more years in order to get the appropriate impact. The second one is that one of the reasons for bonus issues is to increase liquidity. Thus a study on the impact of bonus issues on liquidity should be undertaken. Liquidity could be measured by using both bid-asked spread and volume traded.

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APPENDICES

MODEL 1: REGRESSION WITH STANDARD ERROR

(6 VARIABLES)

REGRESS CAR15 BOARDSIZE FRACINDDIR FRACEXEC FRACFAM BOARDOS FAMILYOS

Source	SS	df	MS		
Model	.049473549	6	.008245591	Number of obs	= 50
Residual	.220320044	43	.005123722	F(6, 43)	= 1.61
Total	.269793593	49	.005505992	Prob > F	= 0.1679
				R-squared	= 0.1834
				Adj R-squared	= 0.0694
				Root MSE	= .07158

car15	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
boardsize	-.0020496	.0066771	-0.31	0.760	-.0155153	.0114161
fracinddir	-.0341752	.1115746	-0.31	0.761	-.2591867	.1908363
fracexec	.089269	.0883809	1.01	0.318	-.088968	.267506
fracfam	.1421603	.0783822	1.81	0.077	-.0159125	.300233
boardos	-.0909758	.108662	-0.84	0.407	-.3101135	.1281619
familyos	.0597908	.1238614	0.48	0.632	-.1899996	.3095812
_cons	-.0001235	.1119311	-0.00	0.999	-.2258541	.2256072

MODEL 2: REGRESSION WITH STANDARD ERROR

(2 VARIABLES)

```
REGRESS CAR15 FRACEXEC FRACFAM
```

```
      Source |       SS       df       MS              Number of obs =      50
-------------+------------------------------           F(  2,    47) =    4.52
       Model |  .043486131     2  .021743065           Prob > F      =  0.0161
    Residual |  .226307462    47  .004815052           R-squared     =  0.1612
-------------+------------------------------           Adj R-squared =  0.1255
       Total |  .269793593    49  .005505992           Root MSE      =  .06939
```

```
------------------------------------------------------------------------------
       car15 |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
    fracexec |   .0967368   .0601946     1.61   0.115    -.0243592    .2178327
     fracfam |   .1248212   .0601635     2.07   0.044     .0037879    .2458545
       _cons |  -.0485833    .028031    -1.73   0.090    -.1049744   .  0078077
```

MODEL 3: REGRESSION WITH STANDARD ERROR

(1 VARIABLE)

REGRESS CAR15 FRACEXEC

```
      Source |       SS       df       MS              Number of obs =      50
-------------+------------------------------           F(  1,    48) =    4.42
       Model |  .022760317     1  .022760317           Prob > F      =  0.0407
    Residual |  .247033276    48  .005146527           R-squared     =  0.0844
-------------+------------------------------           Adj R-squared =  0.0653
       Total |  .269793593    49  .005505992           Root MSE      =  .07174
```

car15	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
fracexec	.1269772	.0603801	2.10	0.041	.0055749	.2483794
_cons	-.0249321	.026475	-0.94	0.351	-.0781637	.0282994

MODEL 4: REGRESSION WITH STANDARD ERROR

(1 VARIABLE)

REGRESS CAR15 FRACFAM

Source	SS	df	MS	Number of obs	=	50
Model	.031050469	1	.031050469	F(1, 48)	=	6.24
Residual	.238743124	48	.004973815	Prob > F	=	0.0159
Total	.269793593	49	.005505992	R-squared	=	0.1151
				Adj R-squared	=	0.0967
				Root MSE	=	.07053

car15	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
fracfam	.1482333	.0593276	2.50	0.016	.0289472	.2675194
_cons	-.0161383	.0197638	-0.82	0.418	-.0558761	.0235996