

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

By

NORHAMIZA BT ISHAK

OTHMAN YEOP ABDULLAH GRADUATE
SCHOOL OF BUSINESS
UNIVERSITY UTARA MALAYSIA
IN FULFILLMENT OF THE
REQUIREMENT
FOR THE DEGREE OF
MASTER OF SCIENCE IN FINANCE

PERMISSION TO USE

In presenting this dissertation in partial fulfilment of the requirements for a Post Graduate degree from Universiti Utara Malaysia (UUM), I agree that the Library of this university may take it freely available for inspection. I further agree that permission for copying of this dissertation in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or in his absence, by the Dean of Othman Yeop Abdullah Graduate School of Business where I did my dissertation. It is understood that any copying or publication or use of this dissertation or parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to UUM in any scholarly use which may be made of any material in my dissertation.

Request for permission to copy or to make other use of materials in this dissertation in whole or in part should be addressed to:

Dean of Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
06010 Sintok
Kedah Darul Aman.

ACKNOWLEDGEMENT

First and foremost, my humble gratitude and appreciation to Almighty Allah, MOST gracious and MOST Merciful, for enabling me to proceed with this Dissertation paper (BWFZ 6019) work until its final form.

I am greatly indebted to my supportive Advisor, Associate Professor Dr Kamarun Nisham bin Taufil Mohd who has made a significant contribution until the completion of this research and deserves special thanks for his kindness, patient, generosity and guidance when supervising my work. My thanks also to my second examiner Dr Norhafiza Nordin, for her support in order to make this research more meaningful.

Special respects and thanks to my beloved parents, family especially my inspires my late father Ishak bin Abdullah and Hjh Norlee binti Ibrahim, my sisters NorHuda Binti Ishak and NurNajahah binti Ishak for their prayer and endless supports that enable me to complete this study successfully. Thanks again for their love and encouragement.

Finally, thanks to many persons had involved directly and indirectly, especially my best friends Mrs. Nora binti Osman, Siti Solehah binti Ghazali, Nas' Asshraf bin Naina Mohd, Siti Nur Liyana binti Mohd Yusuf, Nur Syuhada Ayu binti Perdaus and Mrs. Sarina binti Ismail for contribute their efforts, time energy and idea, in this preparation of this work.

TABLE OF CONTENTS	PAGE
PERMISSION TO USE	ii
ACKNOWLEDGEMENT	iii
TABLE OF CONTENTS	iv
LIST OF TABLE	vi
LIST OF FIGURE	vi
ABSTRACT	vii
ABSTRAK	viii
CHAPTER 1	1
1.0 Introduction	1
1.1 Background.....	1
1.2 Characteristics and Flow of Bonus Issue.....	3
1.3 Problem Statement.....	4
1.4 Research Questions	6
1.5 Research Objectives	7
1.6 Significance of the Study.....	8
1.7 Scope of the Study	9
1.8 Limitations of the Study	9
CHAPTER 2	10
2.0 Introduction	10
2.1 Performance of Bonus Issue	10
2.2 Corporate Governance Variables.....	12
2.2.1 Family Ownership	12
2.2.2 Performance of Family Ownership	14

2.2.3	Family Director	15
2.2.4	Board Size	17
2.2.5	Independent Director	19
2.2.6	Executive Director	20
2.2.7	Board Ownership	21
	CHAPTER 3	24
3.0	Introduction	24
3.1	Data Collection	24
3.2	Theoretical Framework.....	32
3.2.1	Market Model	33
3.3	Hypotheses Testing and Measurement	34
3.4	Regression Analysis	40
	CHAPTER 4	41
4.0	Introduction	41
4.1	The Announcement Effects	41
4.2	Descriptive Statistic	46
4.3	Analyses of correlation coefficients	48
4.4	Regression results based on ordinary least squares (OLS).....	51
	CHAPTER 5	54
5.0	Introduction	54
5.1	Summary.....	54
5.2	Recommendations for future research.....	56
	REFERENCE	57

LIST OF TABLE

Table 3.1: 96 companies with bonus issue announcements.....	26
Table 3.2: 50 companies with “clean” announcements.....	28
Table 3.3: 46 companies with “contaminated” announcements.....	30
Table 3.4 : Number of “clean” and “contaminated” announcements.....	31
Table 3.5: Summary of Independent Variables.....	38
Table 4.1: Average abnormal returns (AAR) and cumulative abnormal returns (CAR) on selected event days.....	44
Table 4.2: cumulative abnormal returns (CAR) over selected intervals.....	45
Table 4.3: Descriptive Statistics of Corporate Governance Composition.....	47
Table 4.4: Correlation Matrix for Corporate Governance Composition.....	50
Table 4.5: Regression analyses using OLS.....	53

LIST OF FIGURE

Figure 3.1: Theoretical framework.....	39
Figure 4.1: Graph CAR.....	45

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 menunjukkan 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.

The contents of
the thesis is for
internal user
only

REFERENCE

- Amuthan, R. & Ayyappan, S. (2011). Analysis on Bonus Shares Issuing Event Impact on Share Prices with Special Reference to Indian Banking Sector and Information Technology Sector in India. *Journal of Economics, Finance and Administrative Sciences* 38, 21-28.
- Anderson, R.C & Reeb, D.M. (2003). Founding-Family Ownership and Firm Performance: Evidence from the S&P 500. *Journal of Finance* 3. 1301-1324.
- Ang, J.S., Cole, R.A., & Wuh Lin, J. (2000). Agency Costs and Ownership Structure. *Journal of Finance* 55(3),81-106.
- Agrawal, A & Chadha, S. (2005). Corporate Governance and Accounting Scandals. *Journal of Law and Economics* 9, 371-406.
- Balasingham, B., Faff, R. & Tanner, S. (2005). A Further Examination of the Price and Volatility Impact of Stock Dividends at Ex-Dates. *Australian economic paper* 44, 248-268.
- Barth, E., Gulbrandsen, T., & Schone, P. (2005). Family Ownership and Productivity: The Role of Owner-Management. *Journal of Corporate Finance* 11(1-2), 107-127.
- Basu, N., Dimitrova, L., & Paeglis, I. (2007). Family Control and Dilution in Mergers. *John Molson School of Business, Concordia University*. 1-32.

- Bushman, R., Chen, Q., Engel, E., & Smith. (2004). Financial Accounting Information Organization Complexity and Corporate Governance System. *Journal of accounting and economic* 37, 167-201.
- Cahit, A., & Lasfer, A.M. (2008). The Market Valuation of Bonus Issue in an Inflationary Environment. *Eastern Mediterranean University, Turkey*.1-41.
- Campbell, K., & Chijioke Oluocha. (2011). The Stock Market Reaction to Stock Dividends in Nigeria and Their Information Content. *Managerial Finance* 37(3), 295-311.
- Charalambos Th.C., & Costas Th.C. (2003). The Effect of Board Structure on Bidder Shareholders' Wealth: Further Evidence From The UK Bidding Firms. *Working Paper, University of Cambridge. CBR Research Programme on Corporate Governance*:1-34.
- Cohen, J. B & Zinbarg, E. D. (1967). Investment Analysis and Portfolio Management, Riverside, CA, U.S.A, : Slategray Ventures.
- Eahad Elsaid, Wang, X., & Davidson,. N.W. (2011). Does Experience Matter? CEO Successions By Former Ceos. *Managerial Finance* 37(10), 915-939.
- Erhardt, N. L., Werbel, J.,D., & Shrader, C .B. (2003). Board of Director Diversity and Firm Financial Performance, Corporate Governance. *An International Review* 11, 102-111.

- Fan, J. P.H., Ming Jian & Yin-Hua Yeh. (2008). Succession: The Roles of Specialized Assets and Transfer Costs .*Faculty of Business Administration*, 1-37.
- Fernando, K.G.K., & Guneratne, P.S.M. (2009). Measuring Abnormal Performance in Event Studies: An Application with Bonus Issue Announcement in Colombo Stock Exchange (CSE). *Working paper series*, 1-12.
- Francis, B., Hasan, I., Qiang, W. (2012). Do Corporate Boards Affect Firm Performance? New Evidence from the Financial Crisis. *Bank of Finland Research Discussion papers*, 1-54.
- Gentner, D. (1983). Structure-Mapping: A Theoretical Framework for Analogy. *Journal of Cognitive Science* 7, 155-170.
- Ginblatt, M.S., Masulis, R.W. & Titman, S. (1984). The Valuation Effects of Stock Splits and Stock Dividends. *Journal of Financial Economics* 13, 461-490.
- Gomez-Mejia, L.R., Larraza-Kintana, M. & Makri, M. (2001). The Determinants of Executive Compensation in Family-Controlled Public Corporations. Arizona State University, 1-30.
- Hassan, T., Travlos, N. G., & Waagelein, J. F. (1987). The Effect of Long Term Performance Plans on Corporate Sell-Off Induced Abnormal Return, *Journal of Finance* 4, 933-941.

- Jaskiewicz, P., Gonzalez, V. M., Menendez, S., & Shiereck, D. (2005). Long Run IPO Performance Analysis of German and Spanish Family-Owned Businesses, *School of business University of Alberta*, 179-202.
- Jijo Lukose P.J., & Rao Narayan, S. (2004). Information Content of Stock Dividend in the Indian Market: Evidence from Performance and Long-Run Stock Returns. *Institute for Financial Management and Research*, 1-32.
- Karamanou, I. & Vafeas, N. (2005). The Association between Corporate Boards, Audit Committees, and Management Earnings Forecasts: An Empirical Analysis. *Journal of Accounting Research* 43 (3). 453-486.
- Lambertides, N. (2009). Sudden CEO Vacancy and the Long-Run Economic Consequences. *Managerial Finance* 35(7), 645-661.
- Land, J.K. (2010). CEO Turnover Around Earnings Restatement and Fraud. *Pacific Accounting Review* 22(3) 180-198.
- La Porta, R., De-Silanes, F., & Shleifer, A. (1999). Corporate Ownership around the World. *Journal of Finance* 2, 417- 517.
- Loderer, C. and Martin, K. (1997), Executive Stock Ownership and Performance Tracking Faint Traces. *Journal of Finance Economics* 45, 223-255.

- MacKinlay, A.C. (1997). Event Studies in Economics and Finance. *Journal of Economic Literature*, 13-39.
- Maury, B. (2005). Family Ownership and Firm Performance: Empirical Evidence from Western European Corporations. *Journal of Corporate Finance* 12, 321-341.
- Ming Dong, Robinson, C and Veld, C (2005), Why Individual Investors want Dividends. *Journal of Corporate Finance* 12. 121-158.
- Miller, D., LeBreton-Miller, I., Lester, R., & Cannella, A. A. (2007). Are Family Firms Really Superior Performance?. *Journal of Corporate Finance* 13, 829-858.
- Mishra, A.K (2005), An Empirical Analysis of Market Reaction around The Bonus Issue In India. *Indian Institute of Management*. 399-410.
- Pass, C. (2002). Corporate Governance and the Role of Non-Executive Directors in Large UK Companies: Empirical Study. *Working paper* 2(25), 1-17.
- Dhar, S., & Sweta, C. (2008). Market Reaction around the Stock Splits and Bonus Issues: Some Indian Evidence. *Research Scholar University of Kalyani*, 1-24.
- Smith, B.F & Amoako-Adu, B. (1999). Management Succession and Financial Performance of Family Controlled Firms. *Journal of Corporate Finance* 5, 341- 368.

- Smith, M.P. (1996). Shareholder Activism by Institutional Investors: Evidence from Calpers. *Journal of Finance* 51(1), 227-252.
- Sujith, K., S.H., & Sadanand, H. (2011). Testing the Semi-Strong Form Efficiency of Indian Stock Market With Respect to Information Content of Bonus Announcement, International. *Journal of Exclusive Management Research* 1(3),1-16.
- Swanstrom, M. (2006). Corporate Governance and the Abnormal Return to Acquisition Announcements. *Journal of Business Strategies* 23(2), 115-129.
- Amar, W., & Andre, P. (2005). Separation of Ownership from Control and Acquiring Firm Performance: The Case of Family Ownership in Canada. *Research Alliance in Governance and Forensic Accounting*, 1-35.
- Yermack, D. (1996). Higher Market Valuation of Companies with a Small Board of Directors. *Journal of Financial Economics* 40, 185-211.