

OWNERSHIP CONCENTRATION AND CAPITAL STRUCTURE:

MALAYSIAN EVIDENCE

By:

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ABSTRACT

This dissertation investigates the relationship between ownership concentration and capital structure. This dissertation also examines the relationship between firm's financial characteristics (profitability, firm size, asset tangibility liquidity) and capital structure. Both objectives are explored by employing 48 Malaysian public listed firms for the period of 5 financial years, spanning from 2008 to 2012.

There are two proxies used to measure ownership concentration; the natural log of total number of shareholders and the fraction of shares hold by the top five largest shareholders. The regression result shows a significantly negative relationship between the fractions of top five shareholdings and leverage ratio, which means that concentrated firms hold lesser debt than dispersed ownership firms. Contradict to agency theory, this finding indicates that MCCG 2012 is still lacking in the area of shareholder's protection as stated by the World Bank in their recent assessment on MCCG 2012.

By looking at the relationship between ownership concentration and capital structure, this dissertation contributes to literature by investigating the effectiveness of MCCG 2012 in addressing and executing shareholder's right and protection in Malaysia. In addition, this dissertation also finds that profitability, firm size, asset tangibility, and liquidity are the significant determinants of capital structure for Malaysian firms.

Keywords: ownership concentration, capital structure, corporate governance, shareholder's rights

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Malaysia was crowned as the regional leader in corporate governance by the World Bank last year. The World Bank in their report stated that Malaysia Code on Corporate Governance 2012 (MCCG 2012) shows a high level of compliance in number of key areas such as the prohibition of insider trading and implementation of high quality accounting standard. Despite the compliment, the World Bank also pointed a few weaknesses in MCCG 2012 and specifically emphasized on the issue regarding shareholder's right and protection. Observation by the World Bank found that Malaysia has an active market of corporate control where controlling stakes are periodically sold and there are even quite a few cases of proxy fight and hostile takeover (The Star News, March 2013).

Three recommendation regarding shareholder's right are proposed in the Principle Eight of MCCG 2012. The third recommendation discusses about effective communication and proactive engagements between shareholders, board members and senior management. Board members and senior management are encouraged to have constructive engagements with shareholders about performance, corporate governance and other matters affecting shareholder's interests. Quite a few cases of proxy fight and hostile takeover as observed by the World Bank put a doubt on the effectiveness of communication between the shareholders and management team. It also shows that the

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