THE EFFECTS OF OWNERSHIP CONCENTRATION AND CONTROLLING SHAREHOLDERS ON FIRM PERFORMANCE: THE EVIDENCE FROM MALAYSIA

By

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Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
In Fulfillment of the Requirement for the Degree of Master

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ABSTRACT

This thesis examines the effect of ownership concentration and controlling shareholder on firm performance with evidence from listed-Malaysian firms. Five research question are investigated: (1) What is the relationship between ownership concentration and firm performance; (2) What is the relationship between controlling shareholders and firm performance; (3) What is the relationship between board size and firm performance; (4) What is the relationship between firm size and firm performance; and (5) What is the relationship between debt-to-equity ratio and firm performance. Two measurement of firm performance are used: Return on Assets (ROA) and Tobin's Q (TQ). In the theory review, corporate governance theory and principal-agent theory are introduces as theoretical foundation. Corporate governance theory discusses the principal-agent problem and model of corporation (stockholder and shareholder model). Ownership structure is believed to affect firm performance, thus different arguments related to the effect of ownership concentration and owner characteristics on firm performance are reviewed. In regards to the methodology, five testable hypotheses are generated for empirical analyses using panel data on 150 firms over five years from 2008 to 2012. Simple statistics analysis and regression analysis are combined: simple statistics analysis used descriptive statistics and correlation analysis to analyze firm's characteristics; regression analysis applies OLS regression to test the effect of ownership concentration and controlling shareholder on firm performance. Finally, the research question are answered: ownership concentration has positive effect, while controlling shareholders has negative effects on firm performance. It is found that ownership has a positive effect on ROA and TQ, but the results are insignificant; thus the results concluded that ownership concentration has not effect on firm performance. The effect of controlling shareholder on firm performance exhibit a negative results. Thus, the results concluded that the positive and negative effect of controlling shareholders on firm performance depends upon the size and characteristics of the large shareholders.

Keywords: Agency Problem, Corporate Governance, Controlling Shareholders, Firm Performance, Ownership Concentration

ABSTRAK

Kertas ini mengkaji kesan kepekatan pemilikan dan pemegang saham mengawal prestasi firma dengan bukti daripada firma-firma yang disenaraikan - Malaysia. Lima soalan penyelidikan disiasat : (1) Apakah hubungan di antara kepekatan pemilikan dan prestasi firma; (2) Apakah hubungan di antara pemegang saham dan mengawal prestasi firma; (3) Apakah hubungan di antara saiz papan dan prestasi firma; (4) Apakah hubungan antara saiz firma dan prestasi firma; dan (5) Apakah hubungan antara nisbah hutang kepada ekuiti dan prestasi firma. Dua pengukuran prestasi firma digunakan: Pulangan ke atas Aset (ROA) dan Tobin Q (TQ). Dalam kajian teori, teori urus tadbir korporat dan teori utama-ejen adalah memperkenalkan sebagai asas teori. Teori tadbir urus korporat membincangkan masalah utama-ejen dan model perbadanan (pemegang saham dan model pemegang saham). Struktur hak milik dipercayai memberi kesan prestasi firma, hujah-hujah itu berbeza berkaitan dengan kesan kepekatan pemilikan dan ciri-ciri pemilik kepada prestasi firma dikaji semula. Berkenaan dengan metodologi, Lima hipotesis diuji dihasilkan untuk analisis empirikal menggunakan data panel di 150 syarikat selama Lima tahun dari 2008 hingga 2012. Mudah analisis statistik dan analisis regresi digabungkan: statistik sederhana analisis menggunakan statistik deskriptif dan analisis korelasi untuk menganalisis ciri-ciri firma; analisis regresi berlaku OLS regresi untuk menguji kesan kepekatan pemilikan dan pemegang saham pengendali kepada prestasi firma. Akhirnya, persoalan kajian dijawab: kepekatan pemilikan mempunyai kesan positif, sementara mengendalikan pemegang saham mempunyai kesan negatif ke atas prestasi firma. Ia didapati bahawa pemilikan mempunyai kesan positif ke atas ROA dan TQ, tetapi hasilnya tidak penting; sehingga keputusan menyimpulkan bahawa kepekatan pemilikan tidak memberi kesan ke atas prestasi firma. Kesan dari pemegang saham yang mengawal di pameran prestasi firma hasil negatif. Oleh itu, keputusan menyimpulkan bahawa kesan positif dan negatif mengawal pemegang saham mengenai prestasi firma bergantung kepada saiz dan ciri-ciri pemegang saham besar.

Kata Kunci: Teori Utama-Ejen, Urus Tadbir Korporat, Pemegang Saham Pengendali, Pencapaian Firm, Pemilikan Konsentrasi

ACKNOWLEDGEMENTS

In the name of Allah, the Most Gracious and the Most Merciful

Alhamdulillah, all praises to Allah for the strengths and His blessing in completing this thesis. Doing this thesis has taken numerous hours of work but at the same time the whole studying process has been very informative and worthwhile. Special appreciation goes to my supervisor, Dr. Ahmad Rizal Mazlan for relentless guidance, invaluable advice and encouragement. His invaluable help of constructive comments and suggestions throughout the thesis works have contributed to the success of this research.

My deepest gratitude goes to my husband, Kassim Fareed bin Abdul Bari for his continuous encouragement and understanding throughout my master journey. Also not forgetting my parents (Mr. Shaik Abdul Kader and Mrs. Hasnah), maternal grandparents (Mr. Mohamad and Mrs. Halimah), parents-in-law (Mr. Abdul Bari and Mrs. Jahangira Begum), and my only sister (Ms. Noor Hidaya) for their endless love, prayers, and encouragement. To those who indirectly contributed in this research, your kindness means a lot to me. Thank you very much.

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CHAPTER 1

INTRODUCTION

1.0 Background of the Study

Competition is becoming fiercer among the firms as the world becomes more globalized. The reduction in the trade barriers as well as innovation in technology and communication have redefined the international competition and new economic powers emerged in the global markets. Over the past three decades, global economic integration has becomes the root of Malaysian achievement in a growing economy. Malaysia has been one of the fastest developing economies in the world as it opened its markets with lowered tariffs and alleviated foreign investment requirements. It is importance for Malaysia firms to reform their financial performance as the competition becomes tougher in global and local market, where profitability may allow firms to overcome the limitation of their local markets in order to reach their maximum potential. This enhancement will give positive competition among the firms as well to the country's economy as a whole.

A business environment surrounded by forces of the legal, regulatory, financial, and institutional system of a country have an impact on the firm performance. Globalization increases market prospective, trade and investment as well as the availability of the firm resources. However, globalization increases market opportunities of the firms as well as the competition faced by firms. Three decades ago, a new firm might probably has difficulty in borrowing money from domestic banks, especially manufacturing industry (Hausler, 2002). Today, due to globalization, firms have more options to choose their

financial products. Firms can compare the rate of interest around the world for a loan in domestic and international banks to make a better choice. Moreover, firms can issue stocks or bonds in order to hedge against possible risks either in domestic or international capital markets with variety of financial products. Globalization has made the market become worldwide and many multinational firms (MNC) emerged. Maximization the stock value (i.e. maximizing shareholders wealth) is the firm's foremost aim and the responsible of achieving that aim goes to manager of that firm. The effectiveness of the firm performance is shows through its adapting to the changing situations.

According to Jerzemowska (2006), the excellence of firm's management can be shown through their capability to react upon the changes of the business environment. Whereas, Campbell and Underdown (1991) suggest that the external factors and internal factors are the key factors to show the achievement of the firm's performance. The external factor is arise from outside of the firm which beyond the control of managers such as opportunities and threat. These factors consist of competitors, changing in customer preferences, customer behavior, volatilities of commodity prices, changes in government policy, and cyclical of market forces. However, the internal factors arise from the inside of the firm and summarize the ability of management to planning strategies as well as implement those strategies which appropriate to the business environment.

Zingales (1995) examined that the voting value is showed by the extra payment received by the vote holders if there is a control contest. Furthermore, the payment for private benefits of controlling a firm is different based on the size. Nevertheless, to achieve control by purchasing the large block is not the only method left, but it can be achieved by accumulate the large block in small open-market transactions. Morck *et al.* (1998),

and Guedes and Loureiro (2007) examined that many American and European corporation respectively, have a dominant shareholders with a degree of control over management in excesses their cash-flow rights. The conflict between controlling shareholders and outside shareholders are caused form control of private benefit which only available for controlling shareholders. Moreover, outside shareholder are concerned and feeling unsecured of their equity stake in the firm if controlling shareholders involves with inefficient operating and investment policies as it would reduce the market value of shares and adversely affected outside investors. The policies of large shareholders who effectively control the corporation may lead to expropriation of minority shareholders. A study by Nenova (2003) indicated that shareholders that control the firm are in position to extract the private benefits of control compared to disperse shareholders who are not entitled for private benefit. The private benefits are influenced by who was elected on the board of director position and have the power to build business empires as well enjoyed the privileges at the expense of the firm.

Normally, financial manager in a corporation makes decisions that increased the value of the stockholders in the firm. However, ownership can be spread over a large number of stockholders in large corporation where the management controls the firm efficiently. Management and stockholder interests might differ in point of view. Since, stockholder is risk-seeking as long as it gives profits, while management is risk averse in that to avoid doing something risky which could turn out badly and the management to lose their jobs. Hence, because of differences in interest between stockholder and management, the agency problem arise. Agency problem would arise in many ways especially in large corporation as it involves with many level of managements. Several studies by

researchers have come out with their own theory that can alleviate the main agency problem in the modern corporation.

1.1 Problem Statement

This research conducts empirical analysis to examine the effect of ownership concentration and controlling shareholders on firm performance. Numerous scholars such as Zingales (1995), Agrawal and Knoeber (1996), Morck *et al.* (1998), Bebchuk and Roe (1999), Himmelberg *et al.* (1999), and Desender (2009) focused analysis about the expropriation of minority shareholders by the controlling shareholder in publicly traded firms in developed countries. However, Claessens *et al.* (1999, 2000) and Driffield (2007) in their analysis of the same topic focused in East Asian countries. Corporate ownership in East Asian countries, including Malaysia is concentrated under the influences of large owner or controlling shareholders. The controlling shareholders seems to influence managers in determining corporate strategies. This may cause unfair situations to minority owners, where the corporate strategies are designed to maximize the controlling owner's wealth only instead of all owners.

A study by Claessens *et al.* (1999, p. 2) defined "expropriation as the process of using one's control powers to maximize own welfare and redistribute the wealth from minority shareholders." The study by Claessens *et al.* found that the main principal-agent problem in public corporations in East Asia is the risk of expropriation. Based on the study by Maher and Andersson (1999), a principal-agent relationship arises when the person who owns a firm is not the same as the person who manages or controls it. Principal-agent problem would not arise if there is a complete contract between investor and manager.

Complete contract here means a contract that can align the interests and objectives of the investors and managers. However, to execute a complete contract is impractical, as it is difficult to forecast upcoming possibilities. Therefore, the residual control rights i.e. the right to make decision in unexpected situations which has to allocate by investors and managers because it is not covered by the contract. However, substantial residual control right finally goes to the managers as they are well informed about the best choice of uses of the investor funds. Thus, this would leads to principal-agent conflicts due to separation of ownership and control. The study by Maher and Andersson also examine how ownership concentration acts as a control mechanism to alleviate the agency problem.

There is a different in corporate governance based on ownership structure in Malaysian corporate sector. The conception of the role and operation of the modern firm is derived from Berle and Means (1932) based on their widely disperse ownership of assumption. Furthermore, in Berle and Means study, stated that dispersion of stock ownership has become wider as economic power is increasing. Dispersion appears to be inherent in the corporate system in the ownership of enterprises as the process of stock dispersion has proceeded furthest in the very large firms. Berle and Means focused only on the rich common law countries that have good legal protection for minority shareholders, thus the controlling shareholders have less fear of being expropriated in the event that they lose control through takeover and so on. This concept has been examined later by Jensen and Meckling (1976), Demsetz (1983), Shleifer and Vishny (1986) and Morck *et al.* (1998).

In contrast, La Porta *et al.* (1999) showed that the minority shareholders would lose their control in the firm in the countries with poor protection of minority shareholder as controlling shareholder would control of everything in the firm. The first step in the

separation of ownership and control is majority control where it involves ownership of majority outstanding stock. However, many legal strategies have been established in order to maintain the control of the corporation without ownership of majority stock. According to Berle and Means (1932), pyramiding is involved in owning of majority stock of corporation and the most important device for large firms. Furthermore, the top holder of majority stock of the firm in pyramiding can almost have wide-ranging control of the whole property as a sole owner nevertheless his ownership interest less than one percent of the whole.

Almeida and Wolfenzon (2003) indicated that many firms are controlled by single individual or family business in many countries. Pyramidal structure by the top family is usually used in East Asia, Latin America, and Western Europe to organize the ownership of the firm. Claessens *et al.* (2000) stated that firms in East Asian countries including Malaysia enhancing their control through pyramid structure and cross-holding. The proposed of pyramid structures are to create separation between cash flows and voting rights. A study by Driffield *et al.* (2007, p. 537) found that "higher voting rights may give rise to serious agency problems," as it is related with pyramid ownership structures and cross-holding.

Overall, this paper analyses the ultimate ownership structure of Malaysian firms and provides evidence showing that majority of the Malaysian firms have an ultimate controlling shareholders. The analysis is aims in finding the relationship between ownership concentration and controlling shareholder over the firm performance by giving empirical evidence on the influence of ownership structure over firm performance for all the listed Malaysian firms by sectors over 2008 to 2012.

1.2 Research Questions

Based on the problem statement above and relevant literature, this thesis finds the following research question:

1) Is there any relationship between ownership concentration and firm performance as measured by return on assets (ROA) and Tobin's Q?

2) Is there any relationship between controlling shareholders and firm performance as measured by return on assets and Tobin's Q?

3) Is there any relationship between board size and firm performance as measured by return on assets and Tobin's Q?

4) Is there any relationship between firm size and firm performance as measured by return on assets and Tobin's Q?

5) Is there any relationship between debt-to-equity ratio and firm performance as measured by return on assets and Tobin's Q?

1.3 Research Objectives

The main objective of this study is to examine if ownership concentration and controlling shareholders have any effect on firm performance. The aim is to find whether the ownership concentration, controlling shareholder, board size, firm size and debt-to-equity ratio have positive, negative or no relationship with the firm performance. The objective are:

1) To examine the relationship between ownership concentration and firm performance.

2) To examine the relationship between controlling shareholders and firm performance.

3) To examine if board size is correlated with firm performance.

4) To examine if firm size is correlated with firm performance.

5) To identify if there is a relationship between debt-to-equity ratio and firm performance.

1.4 Significance of Study

This study will contribute and increase research on the effect of ownership concentration, controlling shareholder towards firm performance in Malaysia listed companies. This study providing a better understanding on the relationship between ownership concentrations, controlling shareholders and other firm's characteristics such board size, firm size, and debt-to-equity on the firm performance. In addition, this study also hopes to add further evidence on relationship of ownership concentration, controlling shareholders to firm performance from the past studies in Malaysia and other countries as well. This study identifying corporate governance factors that would affect firm performance as well as they can make better financial decision for their companies.

1.5 Scope of Study

This study is carried out in seven sectors of non-financial listed firms such as technology, properties, construction, plantation, industrial products, consumer product, trading and services on the main market of the Bursa Malaysia for the year 2008 to 2012 annual financial report. This study focus on five variables such as ownership concentration, controlling shareholders, board size, firm size, and debt-to-equity ratio whether they have

relationship and influence on firm performance which measured by return on assets (ROA) and Tobin's Q.

1.6 Organization of Thesis

This study are organized into five chapters as follows:

Chapter One: this chapter presents a brief discussion of the background of the study, problem statement, research question, research objectives, significance of study, and organization of the research as a summary for all chapter.

Chapter Two: this chapter briefly discuss about related prior literature. It review about agency theory, corporate governance theory, and how variables used such as ownership concentration, controlling shareholders, board size, firm size and debt-to-equity ratio related and effects firm performance.

Chapter Three: this chapter discussed the methodology for this study. The topic included are research framework to explain the model of the study, research design describes the data collected and method used to analyze the relationship between dependent and independent variables.

Chapter Four: this chapter presents the findings of the study and analyzed the results of the research findings from the data collected to answer the research question and research objectives.

Chapter Five: this is the final chapter of the study where it conclude the research findings. It also stated some discussion on limitation of the study and suggestions for future research.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter discusses the relevant literature review and past studies which related to the agency theory, corporate governance theory, dependent and independent variables such as the return on assets (ROA), Tobin's Q, ownership concentration, controlling shareholders, board size, firm size, and debt-to-equity ratio.

2.1 Underpinning Theory

2.1.1 Agency Theory

There are many ways to define the concept agency problem. A study by Ross *et al.* (2008) defines "the relationship between stockholders and management is called as an agency relationship that exists whenever someone (the principal) hires another (the agent) to represent his or her interests which possibility of a conflict of interest between the principal and the agent occurred and such a conflict is called agency problem." The author assumes that both the agent and the principal share the same subjective beliefs about the occurrence fee as a function of the payoff only. The agent (or the principal) might have a different information about the current situations of the world than the principal (agent) which would be the reason of the agency problem. Thus, the author concludes the class of payoff structures simultaneously solves the principal's problem and lead to Pareto efficiency for agent and principal is quite important and quite likely to arise in practice. Pareto (1949, p. 148) defined "Pareto efficiency is a state of allocation of resources in which it is impossible to make any one individual better off without

making at least one individual worse off ." Armour *et al.* (2009) define that most of the agency problems arise from the conflict between insiders (controlling owners and top managers) and outsiders (minority shareholders or creditors), instead of between ownership and management.

There are three general types of agency problems that arise in the firms. The first conflict or problem is between the owners of the firm (principals) and its hired managers (agents) where the problem is to ensure that managers are acts on the owners' interests. The second agency problem is the conflict between controlling owners and non-controlling owners (minority) in which problem to ensure that the controlling owners are not expropriated by minority. This problem seems to be the most noticeable strains between controlling and minority shareholders if veto rights to make particular decision are held by minority shareholders. Furthermore, the similar problems might arise between other shareholders as well such as between ordinary and preference shareholders, or between senior and junior creditors in the case of bankruptcy. The third agency problem is the conflict between the firms itself (the owners) which acts as an agent here and the parties that the firm contracts with, such as its creditors, employees, and customers which act as principal here. The problem is to ensure the firm (agent) does not expropriate those principals.

In a study by La Porta *et al.* (1999), show a different concept of ownership structure in modern corporation than suggested by Berle and Means (1932). A study by Berle and Means only focuses on common large firms in the richest common law countries such as United States. According to Berle and Means, a pyramid structure is one of the devices that have been developed in order to maintain the control of firm without ownership of

majority stock. Controlling shareholder was the one whom controlled their management. The authors having a different view about the minority shareholder in comparison to La Porta *et al.* (1997), stated that if the controlling shareholders make a mistake that could trouble the firm, thus the minority play an important role to recover it since minority shareholders also called as "working control" of the firm. However, the minority control in small firm with small number of stockholder is rather tough to uphold. The larger the firm the wider would be its stock distribution and the tougher would be to eliminate a controlling minority.

Claessens *et al.* (1999) examined the expropriation of minority shareholders by the controlling shareholder in publicly traded firms in nine East Asian countries. Claessens *et al.* (1999, p. 2) defined "expropriation is process of using one's control powers to maximize own welfare and redistribute wealth from minority shareholders." A study by Claessens *et al.* found the higher control rights negatively affect corporate valuation, whereas higher market valuation is related to higher cash flow rights. In addition, lower market values is cause of deviations of voting rights and cash flow rights from pyramiding, cross-holding, and dual-class shares. Claessens *et al.* (1999) suggests similar as La Porta *et al.* (1997) that the incentives of expropriation only occur when control rights exceed ownership rights and getting stronger. However, there is no significant evidence of large shareholders using cross-holdings and pyramid structure to expropriate minority interest in Malaysia. A study by Shleifer and Vishny (1997) argue that owners who fully gain control over the firm and will desire to generate their own benefits which are not shared by minority shareholders. Since, large shareholders may desire their own interests which may not match up with the interests of employees, managers and other

shareholders. This argument is consistent with Almeida and Wolfenzon (2006) who observe that the controlling shareholder would extracts their own benefit from the firms under its control at the expense of minority shareholders and this would happened when the investor protection is poor.

2.1.2 Corporate Governance Theory

The collapse of Enron Xerox, World.com, Lehman Brothers and Washington Mutual which holding over US$100 billion in assets has shocked the world as well as the investors' confidence. Therefore, a corporate governance mechanism has gained significant attention in the recent years. As a consequence, in order to develop corporate governance mechanism, the Sarbanes-Oxley Act was enacted in 2002. The act gives a significance prospect for financial revolution with the expectation that corporate governance mechanism may regain public confidence, accuracy and the reliability of financial information assured.

Cadbury (1992, UK) defined "corporate governance refers to the system by which corporations are directed and controlled." The governance structure indicated the rights and accountabilities among the firm's board of director, shareholders, other stakeholder and management. Mayer (1996, p. 10) defined "corporate governance is concerned with ways of bringing the interests of the two parties into line and ensuring that firms are run for the benefit of investors." Corporate governance been connected with principal (investors) and agent (managers) problem, where the firm would run by the agent on the behalf of principal. However, there is a difference between governance and management as both act differently for the same reason. Governance is about leading the firm and in

the meanwhile to ensure an appropriate control and monitoring of management activities in achieving the firm's aims and objectives. In contrast, management is about running the firm to achieve corporate objectives that have been set by board of directors namely the setting yearly budget, making and directing strategic plans of the firm. Furthermore, the boards of directors are responsible for the governance of their firm. The directors and auditors are appointed to satisfy the shareholders and to assure that the firm's applies an appropriate governance. In short, we can say that management is about running the firm and governance assure that firm is run appropriately.

The corporate governance terms has been used in numerous different ways as well as its limitations of the subject (Maher and Andersson, 1999). There are two different models of corporation which has been designated by corporate governance, namely the stockholder (insider) model and the shareholder (outsider) model. The stockholder model emphasized that stockholder might contribute to firm's long term performance and shareholder value as well as the priority of control goes to stakeholders. Whereas, the business ethics and stakeholder relation may give an impact on the long term and reputation of the firm in shareholder model as shareholder have priority in the market regulation. Another way of stating the stakeholder model according to Mayer (1996) is that it illustrates an extensive view of the firm where firm needs wider voters of stakeholders as well besides shareholders. Furthermore, the performance of this model is judged by large voters who attracted in employment, market share, financial performance and growth in trading relations with suppliers and purchasers. Conversely, maximizing the shareholder wealth is the goals of the shareholder model and market value of the firm is indicator for model performance. The separation of ownership and managerial of

decision-making in this model is a root in the arising of the agency problem in corporate governance as both shareholder and management interests are differ. Therefore, Shleifer and Vishny (1997) conclude that the main concerns in corporate governance is to bring into line the interest between investors and managers in order to ensure that the external fund is flow into the firm as well as returns in investment for those financiers.

According to Shleifer and Visny (1997), corporate governance mechanisms can be changed via political process as they are economic and legal institution. Investors will gain some power from legal protection and ownership concentration as both are most common approaches in corporate governance. Legal protection will protect investor from being expropriate by managers and to protect the rights of minority as well. Whereas, ownership is to equivalent the control rights with cash flow rights. The problem of corporate governance arises because of ownership and control is separated; since the firm is run by the managers might choose to achieve their own personal objectives but this may not be in the best for shareholders interest. As the firm's objectives is to maximize the wealth of shareholder, while the firm run by manager who does not have the same interests as the shareholders, this is causes the agency cost to rise. Furthermore, principal-agent problem is complex as it involves more than monetary incentives to decide and the agent having more information is called asymmetry information. According to Mayer (1996), corporate governance problems are more severe in large firms as the transaction of shares continuously buy and sell by shareholders. Hence, improvements of corporate governance have mainly focused on the listed firm and slightly focused on private firms and smaller public firms.

In corporate governance, internal stakeholders and external stakeholders are the main players. The board of directors, shareholders and management are the internal stakeholders; while creditors, auditors, customers, suppliers, government agency, and the community are the external stakeholders. The conflicts of interests between managers and shareholders are same as the conflicts of interest between the controlling and minority shareholders, as both stands at the key of corporate governance literature. Shareholder that holds more than half of the shares (majority) of the outstanding shares in a firm is called controlling shareholder. Although, the shareholders might holds a smaller percentage of shares in the firm but they can be a controlling shareholders as well, if there is a significant number of remaining shares. As contrast, shareholder that holds less than 50 percent of the total shares of the firm is categorized as minority shareholders. However, a minority shareholder does not have the voting control over the corporation as controlling shareholder does; and they cannot elect the directors of the corporation by their owns or influence any decision made at general meeting.

2.2 Dependent Variables

There are two performance measures that are utilized as dependent variables in this analysis. The selection of variables is guided based on previous study results that have been commonly used in corporate governance studies. Basically, there are two types of variables to measure performance, which accounting and market based. According to Gentry and Shen (2010, p. 514) "the use of accounting and market measures as indicators of firm financial performance has been the subject of numerous debates over the past two decades." Accounting based is backward-looking in term of time perspective and estimate of what management has accomplished without affected by investor psychology.

Whereas, market based is forward-looking in term of time perspective and estimate what management will accomplish. Furthermore, investor psychology strongly influenced the market based as it pertains to forecasts of multitude of world events that includes the outcome of present business strategies. Since accounting and market based reflect different perspectives for firm performance, thus this study uses both measures to evaluate firm performance. The dependent variables that are considered as performance indicators to measure accounting performance is return on asset (ROA) and measure for market performance and firm value is Tobin's Q.

2.2.1 Return on Assets (ROA)

Return on assets (ROA) is a measure of profit per dollar of assets. It is an indicator that shows how profitable a firm is relative to its total assets. A higher ROA suggests that the firm is more profitable with less investment. According to Richard *et al.* (2009, p. 11) "accounting measures has several strengths as it is widely available as governments required firms to announce accounting data and the fact that they are subject to internal controls within firms enhances their reliability." This ratio is widely used in many studies to measured firm performance such as Mehran (1995), Wiwattanakantang (2001), Chu and Cheah (2004), Lefort and Walker (2007), Fauzias *et al.* (2010), and Francis *et al.* (2012).

Return on Assets (ROA) is defined as the ratio of earnings before interests and taxes to total assets. In the other words to shows how effectively the firm uses its' assets. This ratio is important to both the owners and investors, as it indicates how effectively the firm's assets are being managed. The higher the value of ratio, the better it is for the firm,

since it implies the firm that the firm is generating more revenues per dollar of assets. However, this ratio is only meaningful to compare for different firms but in the same sector.

Many studies used return on assets (ROA) as one of the performance measures such as Yermack (1996), Eisenberg *et al.* (1998), Wiwattanakantang (2001), Chu and Cheah (2004), Haniffa and Hudaib (2006), Cheng Wu *et al.* (2009), Fauzias *et al.* (2010), Manawaduge (2012), Hogberg (2012), and Restrepo (2014).

2.2.2 Tobin's Q

A study by Wolfe (2003, p. 155) defined that, "Tobin's Q was examined as indicator of the firm's effectiveness from an investment perspective across a variety of top management games." Tobin's Q (TQ) is used as market measure since accounting measures does not revealed all of the agency costs. A modified version of the Tobin's Q by Wolfe (2003) is used because of their simplified balance sheets. Tobin's Q is the ratio of market value in relation to a firm's assets and its replacement value. This study used TQ as performance measure for market measure. Many studies of corporate governance and ownership concentration used Tobin's Q as performance measure since year 90's up to current year such as Agrawal and Knoeber (1996), Morck *et al.* (1998), Claessens *et al.* (1999), Demsetz and Villalonga (2001), Wiwattanakantang (2001), Chu and Cheah (2004), Haniffa and Hudaib (2006), Cheng Wu *et al.* (2009), Manawduge (2012), Hogberg (2012), Chen (2012), Flodberg and Nadjari (2013), Phung and Hoang (2013), and Restrepo (2014).

According to Flodberg and Nadjari (2013), Tobin's Q plays an important role in their study about corporate governance on firm value. Tobin's Q stated the firm market value against the total assets value as a proxy for replacement cost of the firm's assets. Flodberg and Nadjari stated the hypothesis of the Tobin's Q that the long term value of a firm should equal to the cost of replacing the firm's assets. A study by Chen (2012) used Tobin's Q as one of the measurements for firm performance in order to see how ownership structure affects it.

2.3 Independent Variables

The independent variables for this study are ownership concentration, controlling shareholders, board size, firm size and debt-to-equity ratio.

2.3.1 Ownership Concentration

Ownership concentration is a direct mechanism of corporate governance. Shleifer and Vishny (1997) finds the significance of legal protection of investors and ownership concentration in corporate systems around the world. Basically, the corporate governance is related to the agency problem which caused by the separation of finance and management. The higher the degree of ownership concentration, the greater would be the incentive for owner in monitoring and controlling managerial activities.

A study by Rajan and Zingales (1995) find that the presence of large shareholders on the board of directors would reduce the degree of agency costs between managers and shareholders. Agrawal and Knoeber (1996) suggest that four broad mechanisms that provided incentives to managers to alleviate the agency problem between managers and shareholders. Those mechanisms are divided into the insider and the outsider. The insider

depends on internal monitoring by the firm's own large shareholders and board members. Whereas, the outsider depends on parties outside the firm to monitor managers such the use of debt, the market for managers and the market for corporate control. Furthermore, the more concentrated shareholdings by insiders and outside controlling shareholder provided a greater incentive for monitoring effectively. However, the outcomes for both are differing where the greater insider ownership related positively to firm performance, whereas more outsiders on the board related negatively to firm performance. A weak monitoring is resulted from diversification that beyond from the preferences of shareholders, while higher levels of monitoring would encourage managers to avoid excessive levels of diversification. Thus, monitoring is important to firm as it may encourage managers not to over diversify the firm's portfolios.

A study by Allen and Gale (1998) finds there is a difference in corporate ownership and corporate governance among the world of progressive economies such as France, Germany, U.S., U.K., and Japan. A study by Bebchuk and Roe (1999) indicate that the firms in some countries are fully control by diffusely owned managers, whereas firms in some other countries are fully control with ownership concentration and labor. They frequently argues that the threat of takeover ensures managers act in the interest of shareholders in U.S. and U.K.; whereas in Germany, France and Japan, they suggest that the banks and other institutions to act as monitors. According to Bebchuk and Roe, the main system of internal governance is board of directors; while the main system of external governance is the market of corporate control. However, the Japanese system of corporate governance differs from the U.S. and U.K. where the employment stability for workers are the goal of managers in Japan rather than dividends for shareholders.

Although, the standard corporate governance mechanisms does exist in Japan but the objective of value creation for shareholders has not effectively implemented. Furthermore, large banks are responsible for monitoring firm's activities as the banks are major provider of funds to the firm and they must ensure that the borrowed funds being invested efficiently.

A further study of corporate governance system by Maher and Andersson (2000) indicates that variety of mechanism has been extensively established in every country to overcome the agency problems that arise from the separation of ownership and control. There are two types of corporate governance systems which is insider and outsider systems. The insider system of corporate governance (concentrated ownership or control) is the conflict of interest between controlling shareholders and weak minority shareholders, especially in Continental Europe and Japan. Whereas, the outsider system of corporate governance (wide dispersed ownership) is the conflict of interest between strong managers and widely disperse weak shareholders, especially in U.S. and U.K. For further economic development and growth, Malaysia open's its capital market. A study by Claessens *et al.* (1999) and R.Thillainathan (1999) finds that Malaysia as well as other Asian countries has highly concentrated shareholding. According to R.Thillainathan (1999), the three largest shareholders owned 54% and 46% shares respectively in the non-financial private firms and the ten largest firms in Malaysia. Whereas, the average for the Asian countries such India, Indonesia, Malaysia, Pakistan, Philippines, Sri Lanka and Thailand are 50% and 46% respectively.

2.3.2 Controlling Shareholders

A study by La Porta *et al.* (1997) stated that largest firms are commonly controlled by family which is the founder of the firm or his descendants. The controlling shareholders normally hold more than half of the shares or majority of the outstanding shares in firm. Generally, they would control the composition of the board of directors and influence the firm's activities through pyramid structures. Therefore, the largest firms usually would confront with the problem of the separation of ownership and control where the controlling shareholders have the power to expropriate the minority shareholders. The cash flow ownership alleviates the reason of expropriation by the controlling shareholder but does not eliminate it. The authors added that the countries with a good legal protection of minority shareholders would make equity market to be broader and more valuable.

In addition to previous study, La Porta *et al.* (1999) add that the possible of agency problem between controlling shareholders and minority shareholders arise from largely different in cash flow rights and voting rights of the controlling shareholders. However, by using shares with superior voting rights and organize the firm ownership structure in a pyramid, the ownership of the ultimate owners can be reduce lower than their control rights. Furthermore, the control rights and cash flow rights of deviation that owned by controlling shareholder can be alleviated by ownership concentration. Thus, ownership concentration controlled the conflict between controlling shareholder and outside shareholders.

Studies by La Porta *et al.* (1999) and Claessens *et al.* (2000) classify firms into firms without controlling shareholders (widely-held), and other firms as ultimate owners. The ultimate owners were grouped into institutional, state, financial firm, foreign firm, individual or family, and widely-held corporation. While a study by Fauzias *et al.* (2010, p. 96) in Malaysian-listed firms indicates that "individual or family, government, the nominees both finance and public nominees, corporation, and group of more than one controlling owner shareholder are types of controlling shareholders in Malaysia firms." According to Wiwattanakantang (2001), each types of controlling shareholders effect firm performance in different ways.

Many previous research such La Porta *et al.* (1999), R.Thillainathan (1999), Isyak and Napier (2006), Claessens *et al.* (2000), Wiwatanakantang (2001), Chu and Cheah (2004), and Phung (2013) study about the types of controlling shareholders. Maury and Pajuste (2002) suggest that firm with either a single shareholder or firm with same size of shareholder is the best structure of ownership. A study by Villalonga and Amit (2004), indicate that the firm with family ownership will creates value for all shareholder in the firm as long as the founder active as CEO or chairman (with hired CEO). The more serious problem in Asia is arising from the extensive practice in pyramiding and cross holding. These occur because of the separation in voting and control rights by the insiders. Hence, the insiders in such firms would prefer in maximizing their control of private benefits instead of shareholder value.

According to Ishak and Napier (2006), controlling shareholders controlled the corporate ownership in East Asian countries including Malaysia. The controlling shareholders would influence managers in determining corporate strategies which would leads to

unfair circumstances to minority shareholders as corporate activities are designed to maximize the value of controlling shareholders instead of wealth of all shareholders. A study by Berle and Means (1932) indicated that the crucial conflict of interest is between shareholders and managers, whereas Shleifer and Vishny (1997) restructure that the crucial conflict of interest for listed firms in emerging markets is between controlling shareholders and minority shareholders. A study by Maury and Pajuste (2002) found that the governance of the firm is affected by the types of controlling shareholder.

La Porta *et al.* (1999) indicates that family as controlling shareholder would set their priority on the top than the other shareholders priority. Furthermore, family may implement strategies that give them benefit as they have large voting power and frequent involvement in management which can negatively affect the firm's performance sometimes. According to Wiwattanakantang (2001), family members are good monitor as they have incentives to boost the firm's value. The used of the family's last name in the firm name shown that family and firm have close relationship. Furthermore, the close relationship between family and firm makes family become good in monitoring and disciplining the management as they have more information about the firm which would build a lasting relationship with the top management of the firm.

A study by Astrachan *et al.* (2002) found three important measurements of family influence such power, experience, and culture. Thus, they developed the F-PEC as an index of family influence which comprise of those three measurements in order to investigate how family influence would affects firm performance. First measurement is power which influences by the family in managing, supervising, and holding position. Whereas, experience refers to the whole experience that family brought into the firm and

operationalized by the generation whom control the ownership and management that will increase family memory with more generations. The third measurement is culture that refers to the values and the commitment.

There are many differences in performance of domestic and foreign firms. A study by R.Thillainathan (1999) for Malaysia market found that foreign investors are an important force on the KLSE. The foreign fund manager is akin to domestic institutional investors who play inactive part in corporate governance. According to Wiwattanakantang (2001, p. 329) "firms that are controlled by foreign firms have specific advantages and superior technology know-how." Furthermore, most of the foreign controlled firms are running by the experts who hold no stake in the firms. Superior performances are likely to display by foreign controlled firm than a domestic firm; but in term of firm performance and governance, it might negatively affect since monitoring become more difficult because of geographic factor. However, a study by Chen *et al.* (2013) found an opposite results which positive relationship between foreign institutional ownership in newly privatized firms (NPF) and investment efficiency. It is because foreign institutions alleviate agency problem and asymmetry information by improving corporate governance and financial transparency.

Government (or State) controlled firms are operates as separate entities in monopoly or regulated duopoly market that will drive up firm performance to superior which is different than other types of controlling shareholders (Wiwattanakantang, 2001). According to Le and Chizema (2011), the state ownership and agency cost are positively related; however, state ownership related negatively to firm performance. The effect of state ownership on firm performance gives signals to investors to determine firm value.

A study by Claessens *et al.* (2000) found that in the state controlled firms, the separation of ownership and control only occurs in Malaysia, Philippines, and Singapore. There are many researchers who study the effect of state ownership on firm performance but the results are varied which some studies get negative and some get positive results. Although, state ownership and firm performance related positively, but the market is more likely to perceived it negatively than positive. Phung and Hoang (2013), state ownership might positively affect the firm performance due to its advantages such as resources and power. For instance, government might simply raise the fund, established regulations that impact firms, and has informational advantages. Thus, firm with state ownership might perform better than other firms.

However, when ownership related to state, thus it related to political issues as well. State ownership in common law system connecting to maintaining market instead of acting as a channel for political involvement of government in civil law system. Therefore, it is likely that when state ownership is highly concentrated, firm performance is dropping by the involvement of government political objectives which leads to negative results between state ownership and firm performance. A study by Zeitun and Tian (2007) suggested that government (or state) ownership to be negatively related to the performance, since their main focus is on social benefit rather than profit. Furthermore, the main concern of government and firms do not necessarily be the same as the government may focus and worry more about the unemployment in the country and will control over specific strategic industries than the value of state assets.

A study by Claessens *et al.* (1999) indicates that controlling shareholder may decrease the rights of cash flow and voting via ownership and types of control such as cross-holdings,

dual-class shares and pyramiding structures. Furthermore, controlling shareholder may holding small cash flow rights and exercise the control at the same time in such cases. Claessens *et al.* (1999, p. 2) defined, "Expropriation is the process of using one's control powers to maximize own welfare and redistribute wealth from minority shareholders." Expropriation is stronger when control rights exceed ownership rights.

In Asia including Malaysia, the more serious problem arise from extensive practice of pyramiding and cross-holding, this is because the incentives of the controlling shareholder and other shareholders are likely to be aligned; thus there will be high probability of expropriation of minority shareholders. Wiwattanakantang (2001, p. 6) defined, "Pyramidal ownership is the process of controlling through layers of firms, while cross-holding is a mechanism for not only assuming effective control, disproportionate to ownership but also to protect the power of the controlling." Based on previous study, Claessens *et al.* (2000) indicated that control in all East Asian countries is enhanced through pyramiding and cross holding. The government (state) control is significant in Malaysia, Korea, Indonesia, Thailand and Singapore. The firms that controlled by government (state) shows the separation of ownership and control only occur in Malaysia, especially in the medium size firms. The authorities of some corporate law limits the voting ratio between higher vote and lower vote shares, therefore dual class is rarely used (Bebchuk *et al.*, 1999). However, dual class voting structures are commonly used in Sweden and South Africa. These ownership structures (pyramiding, cross-holdings, and dual-class shares) exacerbate the expropriation problems because the used of these control mechanisms are to avoid monitoring form any corporate governance mechanism on the controlling shareholders.

There is a difference in agency problem between firms with one controlling shareholder and firms with more than one controlling shareholders (Wiwattanakantang, 2001). Firm with more than one controlling shareholder may decrease the agency costs by monitoring each other. Reducing in bargaining power of the largest shareholder and eliminating the level of private benefit might increase the firm value when firm have more than one controlling shareholders. However, the firm value may decrease as the level of private benefit withdrawal increase, this happen when the elimination of private benefit become more efficient with increasing partners in profit deviation.

2.3.3 Board Size

Limiting board size to a certain point has begun with Lipton and Lorcsh (1992) and Jensen (1993) and many researchers use that as reference to identify relationship between board size and firm performance. A study by Lipton and Lorcsh (1992) and Jensen (1993) indicate that lower firm performance is caused by increasing in board size, where seven to nine directors are the sufficient and optimal number of board size.

According to Yermack (1996), firm market performance (Tobin's Q) is negatively related to board size. As the boards become larger, the incremental cost seems to arise and it weakens firm performance. The researcher uses a sample of large U.S. corporations to indicate that as board size grow from six to 12 members, the firm started to loss. A study by Eisenberg *et al.* (1998) also find a similar pattern focusing on small Finnish firms and according to them the board size of Finnish law is limited to one member and a deputy member, if the share capital less than one million. Whereas, at least three members of board are required for firms with large capital share. The mechanism of

which board size is fixed and duties of board members are akin in both countries (U.S. and Finnish). Although, the overall policy for firms in both countries are set by their board members but the decision making depends on management. The agency problem between managers and shareholders that affect the board size and structure in decision making are seems to be less in the small and medium size firms.

In contrast, Ma and Tian (2009) have investigated in Chinese listed firms, the equivalent effect of board composition, board activity and concentrate ownership on the firm performance. They find that as the number of directors increases, the value of firm increase as well. This result seems to be inconsistent with the evidence by Yermack (1996) and Eisenberg *et al.* (1998) founding. The novelty in their research found that the firm performance is efficiently enhanced by the independent directors than other board factors. Moreover, the occurrence of shareholder meeting is positively related with firm value compared to board meetings.

Allen and Gale (1998) study on governance mechanism in Germany, France, Japan, U.S. and UK find that the functional of corporate governance systems differ across countries. Among those countries, the Japanese boards is much larger than other countries, as they have included many people in addition to the most senior members of management. However, Germany has a very different type of governance structure compared to U.S., UK, and Japan. The French system is consists of both of the Anglo-American (single-tiered) and the German systems (two-tiered). Firms can choose from two types of boards of directors. Maher and Andersson (2000), indicate that the board of directors can be a low cost monitoring device by institutional investors. The board shows a significant role in the corporate governance structure such as responsible for monitoring management

performance, balancing competing demands on the corporation, and reviewing main executive and board remuneration. Furthermore, it also realizing an adequate return to shareholders and at the same time prevents the conflicts of interest between managers and shareholders. In the theory, the board signify the interest of shareholder and firm as well. However, in reality board frequently become part of the management in the firm. Due to this problem, board is seen as a weak monitoring device.

A study by Rahimah (2011, p. 66) clarified "there are four important features of the board of directors which are board composition, board size, board skill (proxies by board tenure, board financial expertise and multiple directorships) and CEO duality." Board composition (independent directors) refers the participant of outside directors. Francis *et al.* (2012) defined independent directors is outside directors who controlled the present CEO which called as true independence. They found a significant and positive relationship between true independence and firm stock performance. This finding provide support for Jensen (1983), Eisenberg *et al.* (1998), Yermack (1999), Haniffa and Hudaib (2006), Ma and Tian (2009), Wu *et al.* (2009), Adams *et al.* (2010), Fauzi and locke (2012), and others argued that in order to lessen the board independence and retain the control power, the CEO will try to involved in the selection process for new directors.

According to the theory of agency by Jensen and Meckling (1976), the role of board in minimizing the agency cost might be weaken if the role of CEO as a decision maker and supervisor are accepted by the chairman concurrently, in that case the firm performance would goes down eventually. A study by Ma and Tian (2009) point out that shareholders interest can be protected with the presence and supervising by outside director. Nevertheless, the insider managers are important sources in firm's specific information

compared to outside shareholders as they are less informed about firm. A study by Yermack (1996) conclude that the large proportion of outside shareholders in boards will leads to better decision in the selection process of the CEO. However, Fama and Jensen (1983) indicate that due to lack of separation in the decision of management and control, firm that leads by the insiders are less likely to persist in a competitive business. Thus, the flow of information enhanced the board as well protect the firm resources and lessen the uncertainty where there is a presence of independent directors.

Another issue in corporate governance that has risen according to Haniffa and Hudaib (2006) is the duality role also called as 'dominant personality' phenomenon. Haniffa and Hudaib (2006, p. 1040) define "CEO duality refers to the leadership structure where a firm's CEO also acts as chairman of the board." Cheng Wu *et al.* (2009) stated that the board might lose its independence and monitoring power as the chairman serves concurrently as the executive, decision maker, and supervisor; thus performing a weak function as a protection against agency problems.

A study by Ma and Tian (2009) stated that the dual selection of board chairman and firm's CEO has rising lots of criticism. Since, duality gives an excessive power to the individual where it may ease of misused power and involve in activities that are beyond the shareholders interest. Although, Malaysian firms is not common with the duality role, but the Malaysian Code of Corporate Governance suggests Malaysian firms should separate the roles of chairman and CEO in order to balance the management of the firm. Haniffa and Hudaib (2006, p. 1040) indicate that "having both roles combined might be advantageous, as the 'top man' would struggle for a better performance if there is a high financial compensation or ownership at stake." Mayer (1996) implied the importance of

board composition in influencing the corporate governance. Thus, boards that consist of independent directors will ensure that the insider not taking for granted of their position by the expenses of the shareholders wealth for their interest.

2.3.4 Firm Size

Studies by Kumar *et al.* (1999) in 15 European countries find that firms with larger markets are larger in size. They find that at the industry level, the industries that need a little external financing have larger firms size. Whereas, at the country level shows that country with an efficient legal systems and richer countries seems to have larger firms size. Countries with better financial markets will have an average firm size in industries.

Asymmetric information is one of the corporate governance problems (Mayer, 1996; Maher and Andersson, 2000; Aboody and Lev, 2000; Akelof *et al.*, 2001; Healy and Palepu, 2001; Dadalt *et al.*, 2002; Auronen, 2003; Jei Cai, 2007; H.Dust *et al.*, 2013). Asymmetric information is a common feature of market interactions; agents on one side of the market have much better information than those on the other side (Akerlof *et al.*, 2001). Asymmetric information is leads to adverse selection and moral hazard. Adverse selection refers to the ignorant party which has lack of information while negotiating an agreed understanding of the transaction. Maher and Andersson (2000, p. 4) indicates that "agency problem is an asymmetric information problem, since managers are well informed about the best alternatives uses of the investors' funds." In insider systems (like in Malaysia, Japan, Korea, and many of the continental European countries) commercial banks play an important role in the governance of the corporate sector such as monitoring

and screening functions, which may lead in the reduction in the asymmetric information problems.

According to principal-agent models of the firm by Mayer (1996), indicates that "incentives are a crucial determining factor of firm performance, where the incentive systems act as a function of asymmetric information between investors and managers, especially in the degree of risk aversion of investors and managers." In addition, incentive systems have an influence in the productivity of managers as they are more directly related to the firm performance. Firm size and age of the firm as additional proxies of asymmetric information (Chu and Cheah, 2004; Jie Cai *et al.* 2007). In large firm's size, the problem of asymmetric information seems to be more serious compared small firm's size. Asymmetric information problems play a crucial role in refinancing of failing firms as well.

However, insider systems can alleviate some of these information problems as they has a close relations between financial institutions and the corporate sector, especially in the case of restructuring poorly performing firms. According to Majumdar (1997) indicates that firm size and age of the firm have an impact on firm performance. The older firms are more experienced and enjoy the benefits of learning. Thus, larger and older firms are more effective and generate superior performance compared to a smaller firms. However, Loderer and Waelchli (2009) find that performance becomes worse with age. According to them, firms do their best at the young age and roughly after 15 years of listing (or 37 years after established), firms start to underperform as the profits started to fall, margin thin, declining in sales growth and increasing in costs.

2.3.5 Debt-to-Equity Ratio

Ur Rehman (2013, p. 33) indicates that "financial leverage can be termed as the extent to which a business or investor is using to borrowed money." Leverage is ratio between debts to equity and has an effect on firm's performance because of the cost. As debt is used, the cost of equity increases because of the demand of equity holder for higher return. Kajananthan and Nimalthasan (2013) indicate that capital structure is affected by market structure as it influences the competitive behavior and strategies of firms. A study by R. Thillainathan (1999) find that debt to equity in Malaysia shows a rising trending and the level of profitability shows a declining trending, but both are still at the average level. However, the corporate balance sheet exposes to the crisis because of the fast growth fixed assets investment and weak practices of risk management resulted a severe depreciation in currency value, rise in interest rate and weakening in demand.

A study by Kajananthan and Nimalthasan (2013), proves that an increasing in leverage would leads to a negative ROE. These result show that managers shall not use excessive amount of leverage in their capital structure as leverage should be the last option after retained earnings. A study by Unyong Pyo *et al.* (2013) indicates that the benefits obtained by using debt is tax advantages and the costs of potential financial distress incurred. However, the same point is discussed by Myers in 1984. Myers points out three theories in capital structure regarding debt-equity choice. Those theories are theory of tradeoff that focuses on debt levels, theory of pecking order that focuses on internal cash flow, and theory of free cash flow that focuses on operating cash flow. Among these three theories, the free cash flow underlines agency costs. Debt ratios vary across industries as it is depends on what kind of financing the firm needs. Furthermore, the

lesser the debt in capital structure the lesser will be the costs of bankruptcy or liquidation in case it happens.

A study by Driffield *et al.* (2007, p. 544) summarized the average of firm and leverage values in Malaysia, Thailand, Indonesia and Korea by focused in "three types of ownership structures such as family firms, firms where control rights exceed cash flow rights, and owner-managed firms." Driffield *et al.* added that these three types of firm have higher average leverage. A study by Wajid Khan *et al.* (2013, p. 290) suggested that managers should not use excessive amount of debt in capital structure since they must "struggling to achieve the optimal capital structure level to maximize the firm's performance." In order to gain benefits lower cost of capital, most of the concentrated firms prefer to have high debt to equity ratio.

However, the firm's finance manager would determine the optimum level of the debt. The firms that have more debt financing are considers high risk since investors would like to avoid in investing with such firms which would affect stock price and results a negative stock returns. Kajananthan and Nimalthasan (2013) proposed ideas to increase the firm profitability. Firstly, an appropriate combination of capital structure should be implemented in order to increase the profitability. Secondly, top management of each firm should make judicious financing decision in order to remain profitable and more competitive. Thirdly, encourage the investors to help the firm to achieve high level of financial performance. The last but not least is to observe the decision area where important decision should be taken.

A study by Dhillon and Rossetto (2009) optimal diversification indicates that no investor should want to invest too high proportion of his wealth in a single firm, since the only differences in shareholding should come from different wealth levels and different degrees of risk aversion. They propose that the symmetry of ownership structure is a negotiation between two tradeoffs such larger size come at the cost of diversification, while smaller size leads to inefficiencies due to free riding[2]. Besides tax benefit, many studies indicate that the decreasing in firm performance is caused by increasing in debt or leverage.

2.4 Chapter Summary

This chapter aimed to examine the effect of ownership concentration and controlling shareholders on firm performance by summarizing the related prior studies. This study cited the agency theory, corporate governance theory, firm performance, ownership concentration, controlling shareholders, board size, firm size and debt-to-equity. The next chapter will presents research design, hypothesis development, population, sampling and techniques of data analysis.

CHAPTER 3

METHODOLOGY

3.0 Introduction

This chapter discusses the methodology of the study. This chapter also discusses the theoretical framework based on the firm performance followed by hypothesis development, methods used to get the results of relationship between firm performance, ownership concentration, controlling shareholders, and other variables that affect firm performance. Finally, this chapter explains the measurement, data collection and techniques of data analysis.

3.1 Theoretical Framework

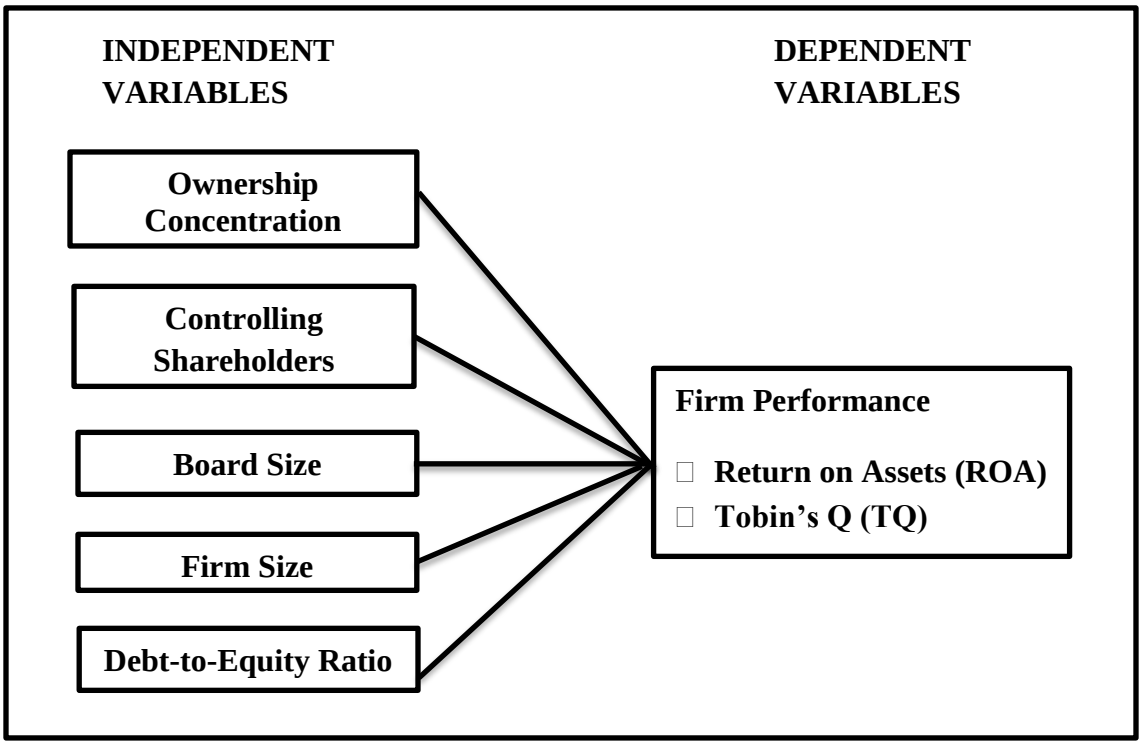

Figure 3.1 Theoretical Framework

Figure 3.1 shows the theoretical framework that build for this study in order to examine the effect of ownership concentration and controlling shareholders on firm performance. The figure shows ROA and Tobin's Q as the measurements for the firm performance that are determined by ownership concentration, controlling shareholders, board size, firm size and debt-to-equity.

3.2 Hypotheses Development

3.2.1 Ownership concentration

Many studies show there is relationship between ownership concentration and firm performance. Studies by Shleifer and Vishny (1997), Allen and Gale (1998), Bebchuk and Roe (1999), Maher and Andersson (2000), Chu and Cheah (2004), Haniffa and Hudaib (2006), Rahimah (2011) and Soliman (2013) examined that ownership concentration is one of the corporate governance mechanisms that influenced by agency costs. According to Cook and Deakin (1999), corporate governance is a mechanism for creating the ownership and control for firms in economy. A study by Bebchuk and Roe (1999) stated that corporate ownership and governance structure can be affected by corporate rules in three ways. The first way is the occurrence of legal rules may discourage the ownership concentration which makes the financial institutions become more difficult and expensive in accumulating and holding the large blocks. The second way is the corporate systems may be affected which the private benefits of control may be extracted by controllers. The third way is the mandatory corporate rules (only in some countries) which forced by the choice of the governance structure in a certain direction. It is shown that ownership concentration is connected with lower levels of firm diversification. Whereas, corporate governance is related with the way of bringing the

interest of investors and managers into line in order to ensure that firm is run for the benefit of investors. Denis and McConnell (2003) explained that firm value may increases if there is a good relationship between ownership and control that may reduce the conflict of interest. The important of managerial ownership is to lead the managers to run the firm for the best of shareholder interest and maximize their value. Therefore, ownership by firm's management would be better as it could serve better alignment between managers' interests with those of firm's shareholders. However, managers would have better choice to follow their own objectives with higher equity ownership as it can entrench managers. These arguments on the ownership concentration as corporate governance mechanism to alleviate agency problem and the consequences on the firm performance leads to the following hypothesis:

H1 (a): There is a relationship between ownership concentration and firm performance in small listed firms.

H1 (b): There is a relationship between ownership concentration and firm performance in large listed firms.

H1 (c): There is a relationship between ownership concentration and firm performance in all listed firms.

3.2.2 Controlling Shareholders

According to Maher and Andersson (1999), the amount or total of stock owned by single investor or controlling shareholders are refer to ownership concentration. Investors that hold minimum five percent (5%) of stock ownership in the firm is called controlling shareholder. However, today, controlling shareholders by individuals has declined as it

has been replaced by institutional shareholders. Institutional shareholders are controlling shareholders who are controlled by financial institutions, such as mutual funds and pension's funds. Furthermore, institutional shareholders have become important to firms nowadays as it controls over 30 percent of the shares in large firms. The greater the level of ownership concentration, the stronger will be the monitoring power of investor over firm's managerial decision and the incentives from these owners completely protect their investment. However, owners with large amount of shares may take aggressive movements over firm decisions either directly or indirectly in the election of board members and replacement of CEO; or it can be inversely such as a poor management with their voting power. Claessens *et al.* (1999) stated that in the modern corporation principal-agent problems can alleviated by controlling shareholder. Weaker governance control indicated by low level of corporate ownership which leads to a poor firm performance; as small investors only want beneficial of their investment with less risks. These arguments on the effect of controlling shareholder on firm performance leads to the following hypothesis:

H2 (a): There is a relationship between controlling shareholders and firm performance in small listed firms

H2 (b): There is a relationship between controlling shareholders and firm performance in large listed firms

H3 (c): There is a relationship between controlling shareholders and firm performance in all listed firms

3.2.3 Board Size

A study by Fauzi and Locke (2012, p. 47) indicate that "the number of board members is considered to be one of the factors affecting firm performance, but there is no one optimal size for a board." A study by Yermack (1996) proposes for limiting the size of board directors in order to improved firms effectiveness. According Guest (2009) indicates that the relationship between board size and firm performance might vary because of firm specific characteristics and domestic institutional characteristics. Since, there is a different in institutional backgrounds and the board functions in other countries which lead to different results in board size and firm performance. According to Guest, many empirical studies were focus on U.S. firms, thus his focus is on a large sample of UK firms as it has a weaker role of monitoring compared than U.S. firms. A finding by Guest (2009) is similar to other studies such as Yermack (1996), Eisenberg *et al.* (1998), and Haniffa and Hudaib (2006) where the board size and firm performance related negatively when firms have larger board sizes. These arguments on the relationship between board size and firm performance leads to the following hypothesis:

H3 (a): There is a relationship between board size and firm performance in small listed firms

H3 (b): There is a relationship between board size and firm performance in large listed firms

H3 (c): There is a relationship between board size and firm performance in all listed firms

3.2.4 Firm Size

Firm size is generally used as an important fundamental for firm characteristic and various economic phenomena (Kumar *et al.*, 1999; Dang and Li, 2014). There are four (total assets, sales, profit, and market value of equity) adequate firm size proxies that has been widely used in empirical corporate finance research such Kumar *et al.*, 1999; Claessens *et al.*, 2000; Maher and Andersson, 2000; Chu and Cheah, 2004; Kapopoulos and Lazaretou, 2006; Isyak and Napier, 2006; Fauzi and Locke, 2012; Dust *et al.*, 2013; Dang and Li, 2014). However, in this study market value of equity will be used as proxy of firm size. The following hypothesis are developed to test firm size on firm performance:

H4 (a): There is a relationship between firm size and firm performance in small listed firms

H4 (b): There is a relationship between firm size and firm performance in large listed firms

H4 (c): There is a relationship between firm size and firm performance in all listed firms

3.2.5 Debt-to-Equity

Fozia *et al.* (2013, p. 10) indicate that "the used of debt would give shareholders residual claim on firm assets and bear additional risk." Capital structure is one of the most important part of firms' strategic financial decision making and effective parameters on the valuation in capital markets. However, the choice of leverage is depends on the firm's strategy. The higher the debt to equity ratio, the more efficiency the firm would be as it decreases the expected costs of bankruptcy and financial distress. While some firms

might choose a lower debt to equity ratio in order to protect from possibility of liquidation. Jensen and Meckling (1986) develop debt financing model to alleviate overinvestment problem, however it exacerbate the underinvestment problem. The model forecasts that debt can have positive and negative effect on firm performance. Furthermore, the proportion of debt financing depends on the capital budget and the profitability of the particular investments that structure the budget (Unyong Pyo *et al.*, 2013). Many studies indicate that choice of capital structure affects the firm's performance; however, a study by Margaritis and Psillaki (2008) indicate the opposite view that the option of capital structure may be affected by firm performance. According to them, firm with high efficiency is more likely to earn higher return for a set capital structure which would turn as defense against portfolio risk. Thus, more efficient firms choose higher leverage ratios because higher efficiency is expected to lower costs of bankruptcy and financial distress. However, it possible to be the reverse where firms might choose lower debt to equity ratio in order to sustain high efficiency rates which to protect economic from the threat of liquidation. These arguments on the relationship between debt to equity ratio and firm performance suggest that debt to equity ratio can both positively or negatively affect the firm performance, thus for this study it leads to the following hypothesis:

H5 (a): There is a relationship between debt-to-equity and firm performance in small listed firms

H5 (b): There is a relationship between debt-to-equity and firm performance in large listed firms

H5 (c): There is a relationship between debt-to-equity and firm performance all listed firms

3.3 Research Design

This study is designed to find the relationship between dependent variables and independent variables that is to examine the relationships between ownership concentration, controlling shareholders, board size, firm size, debt-to-equity ratio and firm performance which are measured by Return on Asset (ROA) and Tobin's Q for the listed companies on main market at Bursa Malaysia.

3.4 Data Collection

Secondary data was used for this study. The annual reports of companies were retrieved from the Bursa Malaysia website. The data collected from the annual report were the net income, current assets, total assets, current liability, non-current liability, total liability, total equity, the total number of ordinary shares, the total number of shareholders, the number of shareholder that own more than five percent (5%), and the percentage of shareholders that own more than five percent (5%).

3.4.1 Sampling

The population of this study is the total listed companies in Bursa Malaysia that consists of 754 firms excluding hotel and mining sectors. Furthermore, the study also excludes firms in the banking, finance and insurance sectors as they are subjected to a regulatory framework that does not apply to other listed firms. In this study, 150 firms are selected from the population as a sample. Stratified sampling technique is used to work out at the sample in which the population are divides into different sectors, where 20% of each

sector is used to select the firms from different sectors. The data collected for the firms are from year 2008 to year 2012. Table 3.1 shows the sectorial analysis of the sample firms.

3.4.2 Sample Description

Table 3.1
Sectorial Analysis of the sample

Industry	**Total Firms**	**Percentage from Total Firms (%)**	**Sample Firms**	**Percentage from Sample Firms (%)**
Technology	35	20	7	4.67
Properties	81	20	16	10.67
Construction	45	20	9	6.00
Plantation	40	20	8	5.33
Industrial Products	246	20	49	32.67
Trading / Services	176	20	35	23.33
Consumer product	131	20	26	17.33
Total	**754**	**20**	**150**	**100**

The firm's sectorial percentages in the sample are presented in Table 3.1. As shown, the sample of non-financial firms are 20% from listed firms in Bursa Malaysia. The sample firms selected according to nine industries which are Industrial Products (32.67%), Trading and Services (23.33%), Consumer Product (17.33%), Properties (10.67%), Technology (4.67%), Construction (6%) and Plantation (5.33%).

The sample of 150 firms are divided into small firm and large firm. Firm that has total assets less than RM 1 billion are small firms, while firm that has more than RM 1 billion

of total assets are large firms. The total number of small and large firms are equally divided which 75 firms in the sample are small firms and another 75 are large firms.

3.5 Measurement / Instruments of Variables

In this study the variables consists of two categories which is dependent variables and independent variables. Measurements of variables is one of the important parts in this study. The independent variables affect the dependent variables, thus the results will be analyze based on that. The dependent variables are categorized as return on asset and Tobin's Q. The independent variables are categorized as ownership concentration, controlling shareholders, board size, firm size, and debt-to-equity ratio. All the variables are widely used in many studies of corporate governance and ownership concentration since year 80's up to current year. Table 3.2 provides summary of the measurements used in this study. Whereas, Table 3.3 shows the measurements of each variable for dependent and independent variables.

Table 3.2
Table of Variables

Dependent Variables	**Acronym**
Return on Asset	ROA
Tobin's Q	TQ
Independent Variables	**Acronym**
Ownership Concentration	OC
Controlling Shareholders	CS
Board Size	BOD
Firm Size	SIZE
Debt-to-Equity ratio	DER

Table 3.3
Table of Key Concept

Dependent Variables	**Measurements**
Firm Performance	Return on Asset (ROA) = Net income / Total asset
	Tobin's Q = (MVS +D) / TA Where, MVS = Market Value of all outstanding shares TA = Firm's assets D = (AVCL – AVCA) + AVLTD Where, AVCL = Accounting value of the firm's Current Liabilities AVLTD = Accounting value of the firm's Long Term Debt AVCA = Accounting value of the firm's Current Assets
Independent Variables	**Measurements**
Ownership Concentration	Percentage of shares of controlling shareholder that own more than 5% shares in the firm
Controlling Shareholders	Number of controlling shareholder in the firm
Board Size	Natural log of total number of directors on the board of the firm
Firm Size	Natural log of market value of equity
Debt-to-Equity	Ratio of total liability to total equity

3.6 Techniques of Data Analysis

Data analysis is conducted for year 2008 to year 2012. There are three types of analysis were tested in this study such as Normality Test, Descriptive Statistics Analysis, Correlation Coefficient Analysis and Ordinary Least Squares (OLS) Regression Model. All of these three analysis were analyzed using IBM SPSS Statistics 19.

3.6.1 Normality Test

In conducting the research, reliability and validity are important components in data analysis. The significant of measuring the normality hypothesis is shown in parametric statistical analysis (Nornadiah and Bee Wah, 2011). Testing assumptions for parametric analysis is a fundamental and necessary step before proceeding with any other analysis. Measuring the assumption of normality is required by most statistical procedures. It is important to check the assumption of normality before continuing with any relevant statistical procedures, and the results are not reliable or valid if the assumption of normality is disrupted. There are three methods can be used to check the normality assumption such as graphical methods, numerical methods and formal normality tests. However, this study uses numerical methods that includes the skewness and the kurtosis coefficients; and normality test that includes Shapiro-Wilk. Statistical significance is determine using probability level of 0.05 (p-value). If p-value less than 0.05, Shapiro-Wilk indicates that the variances are significantly different where the statistical test (t-test or F-test) is unacceptable and definite interpretations cannot be make and null hypothesis is rejected which means the data is not normal.

However, the p-value of the skewness and the kurtosis (numerical method of normality test) should be zero and three in normal distributions, respectively. A skewness is described as the amount of imbalance distribution around its mean. The data skewed to the left when the value of skewness is negative and shows that the left tail is long compare to the right tail. Whereas, the data skewed to the right when the value of skewness is positive and shows that the right tail is long relative to the left tail. However, a kurtosis is described as “peakedness” or “flatness” of a distribution relative to the

normal distribution. High kurtosis indicates that the data have a distinctive peak which is near to the mean which decline rather rapidly; while low kurtosis indicates the data have a flat top near the mean rather than a sharp peak.

3.6.2 Descriptive Analysis

Descriptive statistics analysis is used to analyze and interpret the data of dependent variables such as ROA and Tobin's Q, and independent variables such as ownership concentration, controlling shareholders, board size, firm size and debt-to-equity ratio. Furthermore, the used of descriptive statistics is to summarize the sample and to describe the main features of the data collected for all the sampled firms. The study used statistical techniques such as mean, median, standard deviation, minimum and maximum.

3.6.3 Correlation Coefficient Analysis

Correlation coefficient analysis is a statistical technique to identify the dependence of two or more variables. The correlation coefficient value lies between +1 and -1. Any value that more than 0.5 shows positive correlation, whereas value that less than 0.5 shows negative correlation. Correlation coefficient is important to determine the relationship and correlation between dependent variables such as ROA and Tobin's Q, and independent variables such as ownership concentration, controlling shareholders, board size, firm size and debt-to-equity ratio.

3.6.4 Ordinary Least Squares (OLS) Regression Model

Ordinary Least Square (OLS) is statistical tools that used to model and examine the simultaneous effects of several independent variables on the dependent variables (firm

performance). Panel data methodology is used in this study to examine the effect of independent variables on the firm performance. The panel data methodology has been adopted by previous studies such as Bhattacharya and Graham (2007), Mourier (2010), Rahimah (2011), and Fauzi and Locke (2012) which is allow the unobservable heterogeneity for each observation in the sample to be eliminated and multicollinearity among variables to be alleviated. These problems cause inconsistency in the estimating Ordinary Least Square (OLS). Panel data also known as cross sectional time series or longitudinal data are used to observe a same subject over numerous years.

Multiple Linear Regression Model:

Model 1: $Y_{it} = \alpha_0 + \beta_1 OC_{it} + \beta_2 CS_{it} + \beta_3 BOD_{it} + \beta_4 SIZEi_t + \beta_5 DER_{it} + Ɛ_{it}$

Model 2: $Y_{it} = \alpha_0 + \beta_1 OC_{it} + \beta_2 CS_{it} + \beta_3 BOD_{it} + \beta_4 SIZEi_t + \beta_5 DER_{it} + Ɛ_{it}$

Where:

For each firm (i) and each year (t),

Y = Firm performance (Return on assets) in Model 1

Y = Firm performance (Tobin's Q) in Model 2

α = Constant number for the equation

β = Beta coefficient value

OC = Ownership Concentration

CS = Controlling shareholders

BOD = Board Size

SIZE = Firm Size

DER = Debt-to-Equity ratio

Ɛ = Error term

3.7 Chapter Summary

This chapter provides discussion on the theoretical framework followed by hypothesis development, research design, data collection, measurement of variables, regression model and data analysis. Furthermore, this study examines five hypotheses that focus on the relationship between ownership concentration and controlling shareholders on firm performance. Definition, acronym and measurement of the variables were discussed in detail. Lastly, this chapter explained the analysis used in this study which is the descriptive analysis, correlation coefficient analysis and the Ordinary Least Square (OLS) as well as the usage of regression model.

CHAPTER 4

RESULTS AND DISCUSSION

4.0 Introduction

This chapter provides the data analysis and findings of the study. The results will be analyzed based on five (5) research questions and objectives using SPSS. This chapter is aims to shows the association between dependent variables such as return on asset and Tobin's Q, with independent variables such as ownership concentration, controlling shareholders, board size, firm size and debt-to-equity ratio. The data acquired will be analyzed on the normality test, descriptive analysis, correlation coefficient analysis and ordinary least square (OLS) regression model analysis.

4.1 Normality Test

Table 4.1 of normality test showed the output that described the normality of the variables used in this study to explain whether the data normally distributed or not normally distributed.

Table 4.1
Normality Tests

Variables	Normality Tests		
	Shapiro-Wilk	**Skewness**	**Kurtosis**
ROA	0.061	-1.840	3.490
Tobin's Q	0.077	1.783	.3472
Ownership Concentration	0.157	-1.623	3.225
Controlling Shareholders	0.070	-1.844	3.719
Board Size	0.171	-1.300	0.812
Firm Size	0.097	0.661	-2.767
Debt-to-Equity Ratio	0.054	1.877	3.655

Table 4.1 presents the Normality tests of all variables used in this study such as Return on asset, Tobin's Q, Ownership concentration, Controlling shareholders, Board size, Firm size and Debt-to-equity ratio. The Shapiro-Wilk test shows all of the variables used were normally distributed with p-value more than alpha value ($\alpha = 0.05$), where return on asset (ROA) is 0.061, Tobin's Q (TQ) is 0.077, ownership concentration (OC) is 0.157, controlling shareholders (CS) is 0.070, board size (BOD) is 0.171, firm size (SIZE) is 0.097 and debt-to-equity (DER) is 0.054.

4.2 Descriptive Statistics Analysis

Descriptive statistics showed the output that described the dependent and independent variables for all, large and small firms.

4.2.1 Descriptive statistics of all variables

Table 4.2
Descriptive Statistics of Variables for All Firms

Variables	Mean	Standard Deviation	Minimum	Maximum
ROA	0.0580	0.1076	-0.4792	0.9638
Tobin's Q	0.5928	1.0170	-2.6663	12.3006
Ownership Concentration	48.4207	19.5694	0.00	98.63
Controlling Shareholders	3.06	1.4640	1	17
Board Size	8.6034	0.9724	6.74	11.42
Firm Size	19.9877	2.0741	11.46	24.90
Debt-to-Equity Ratio	1.1555	4.0552	-42.42	89.65

Table 4.3
Descriptive Statistics of Variables for Large Firms

Variables	Mean	Standard Deviation	Minimum	Maximum
ROA	0.0733	0.1142	-0.2372	0.9638
Tobin's Q	0.7912	1.3012	-0.7590	12.3006
Ownership Concentration	54.0675	18.9236	0.00	98.63
Controlling Shareholders	3.07	1.2900	1	17
Board Size	9.0502	0.8756	7.15	11.42
Firm Size	21.2264	2.0422	12.99	24.90
Debt-to-Equity Ratio	1.0968	2.6244	-42.42	10.83

Table 4.4
Descriptive Statistics of Variables for Small Firms

Variables	Mean	Standard Deviation	Minimum	Maximum
ROA	0.0427	0.09834	-0.4792	0.5165
Tobin's Q	0.3945	0.5471	-2.6663	3.1846
Ownership Concentration	42.7740	18.5715	0.00	86.39
Controlling Shareholders	3.05	1.6220	1	8
Board Size	8.1565	0.8523	6.74	10.55
Firm Size	18.7490	1.1695	11.46	22.27
Debt-to-Equity Ratio	1.2142	5.1029	-17.76	89.65

Descriptive results of all firms as summarized in Table 4.2 show the mean of ROA is 5.58% with minimum value of -47.92%, and maximum value of 96.38%. The mean value of Tobin's Q (TQ) is 59.28% with minimum of -2.6663, and maximum of 12.3006. In addition, the value of standard deviation for firm performance which is 0.1076 for ROA and 1.0170 for Tobin's Q. Whereas, Table 4.3 show the mean value of ROA and TQ for large firms is 7.33% and 79.12%, respectively. Table 4.4 show the mean value of ROA and TQ for small firms is 4.27% and 39.45%, respectively. A Tobin's Q value from 0 to 1 is considered as a low performance and shows that the stock is undervalued. TQ less than one indicate that investors are probably being overly pessimistic about the future asset returns (Mihaljevic, 2010). This study indicates that during the period of 2008-2012, the firm performance in the market is at average. This condition can be explained as the influence of global financial crisis within this period. The variables result that found in this study not much different from the prior studies that conducted in Malaysia such as Haniffa and Hudaib (2006), and Faisal (2012).

For independent variables, the mean value for Ownership concentration (OC) as measured by percentage of shares of controlling shareholder that owns more than 5% shares indicate means of 48.42% with minimum of zero and maximum to 98.63% for all firms. Whereas, Table 4.3 show the mean value of OC for large firms is 54.07% and Table 4.4 show the mean value of OC for small firms is 42.77%. Mean value of OC found in this study and previous studies about Malaysia firms such as Claessens *et al.* (2000), Ishak and Napier (2006), Haniffa and Hudaib (2006), and Rahimah (2011) is higher than those previous studies in other countries. For instance, Rajan and Zingales (1995), La Porta *et al.* (1999), and Maher and Andersson (2000) who studied firms in US, UK, Japan and Netherlands, reported the mean value for ownership concentration are 25.4%, 14.4%, 33.1, and 26.9%, respectively. However, the mean value for ownership concentration in most continental European countries is varies from 40% to 80%. According to Claessens *et al.* (2000), Malaysia show the most separation of ownership and control in medium size firms, especially in firm that controlled by state. In their study, they found that the gap (wedge) between cash-flow and voting rights in widely held corporation controlled firms can only be measured in Malaysia. The study by Claessens *et al.* show the result that most of the Malaysian firms' are concentrated ownership and the sufficient amount of controlling ownership in Malaysia listed firm is advantageous to the firm itself as it can alleviate the agency problem as well as increasing the firm's performance.

Table 4.2 shows the average number of controlling shareholder (CS) for all firms is 3.06 with a minimum of 1 and maximum of 17. Whereas, Table 4.3 and Table 4.4 show the average CS for large firms is 3.07 and small firms is 3.05, respectively. This is similar to

Driffield *et al.* (2007) indicates that most Malaysia listed firms are controlled by more than one controlling shareholders. Claessens *et al.* (2000), found that 99% of Malaysia firms are controlled by controlling shareholders (Widely-held, Family, State, Widely-held financial, and Widely-held corporation), whereas only 1% of Malaysia firms are controlled by Widely-held (without controlling shareholders). Thus, in this study it is found that out of 99% of the listed firms with controlling shareholders in Malaysia, 85% of the firms are controlled by more than one group investors while 13% of the firms are controlled by single controlling shareholder. Agency problems between firm that has one controlling shareholder and firm that has more than one controlling shareholders may not be the same.

Table 4.2 shows the average value for board size (BOD) is eight (8) directors with minimum of 6.74 and maximum of 11.42. Whereas, Table 4.3 and Table 4.4 show the average BOD for large firms is nine (9) and small firms is eight (8), respectively. This is similar to Claessens *et al.* (2000), Haniffa and Hudaib (2006), and Rahimah (2011). The optimal number of board size is from seven to nine directors, beyond that limit leads to inefficiency of firm performance (Lipton and Lorcsh, 1992; Jensen, 1993). Board size is considered to be one of the firm performance measures as it affects the firm performance (Eisenberg *et al.*, 1998). In this study, it indicates that most of the Malaysia listed firms have sufficient number of directors. Table 4.2 shows the average of firm size (SIZE) for all firm is 19.98 with minimum of 11.46 and maximum of 24.90. Whereas, Table 4.3 and Table 4.4 show average SIZE for large firms is 21.23 and small firms is 18.75, respectively. This is similar with Isyak and Napier (2006) and Driffield *et al.* (2007). Board size would increases with firm size (Yermack, 1996; David, 2014). As shown in

Table 4.2, Table 4.3, and Table 4.4 when compared to the mean of the firm size, the number of board size seems to be adequate based on previous studies.

Table 4.2 show Debt-to-equity (DER) or leverage shows mean of 1.1555 with minimum as lower as -42.42 and maximum as higher as 89.65. Whereas, Table 4.3 and Table 4.4 show the mean of DER for large firms is 1.0968 and small firms is 1.2142, respectively. This indicates that Malaysia listed firm has more debt than equity. However, debt ratios vary widely across industries and all of all the sector in Malaysia were used in this study excluded financial sector. Higher debt level also indicate that firms in Malaysia has been aggressive in financing its growth with debt as Malaysia is an emerging country (Driffield *et al.*, 2007). The founding in this study is similar with previous studies such as Haniffa and Hudaib (2006), Harjito (2006), Fauzi and Locke (2012), Ur Rehman (2013), and Vithessonthi and Tongurai (2014).

4.3 Correlation Coefficient Analysis

4.3.1 The correlation matrix of all variables

Table 4.5
Pearson Correlation Matrix for the Variables for All Firms

	ROA	Tobin's Q	Ownership Concentration	Board Size	Controlling Shareholders	Firm Size	Debt-to-Equity Ratio
ROA	1						
Tobin's Q	.488**	1					
Ownership Concentration	.171**	.137**	1				
Board Size	-.044	-.105**	.294**	1			
Controlling Shareholders	-.033	.101**	-.100**	-.133**	1		
Firm Size	.368**	.372**	.311**	.000	.420**	1	
Debt-to-Equity Ratio	-.087*	.046	-.021	.007	-.009	-.089*	1

Table 4.6
Pearson Correlation Matrix for the Variables for Large Firms

	ROA	Tobin's Q	Ownership Concentration	Board Size	Controlling Shareholders	Firm Size	Debt-to-Equity Ratio
ROA	1						
Tobin's Q	.618**	1					
Ownership Concentration	.101	.117*	1				
Board Size	-.076	-.168**	.176**	1			
Controlling Shareholders	-.170**	-.067	-.311**	-.143**	1		
Firm Size	.319**	.332**	.200**	-.087	.193**	1	
Debt-to-Equity Ratio	-.036	.063	.040	.034	.012	-.026	1

Table 4.7

Pearson Correlation Matrix for the Variables for Small Firms

	ROA	Tobin's Q	Ownership Concentration	Board Size	Controlling Shareholders	Firm Size	Debt-to-Equity Ratio
ROA	1						
Tobin's Q	.169**	1					
Ownership Concentration	.182**	.034	1				
Board Size	-.019	-.040	.413**	1			
Controlling Shareholders	-.044	.211**	-.235**	-.165**	1		
Firm Size	.454**	.306**	.163*	.105*	.242**	1	
Debt-to-Equity Ratio	-.126*	.068	-.048	-.004	-.009	-.202**	1

** Indicates correlation is significant at the 0.01 level.

* Indicates correlation is significant at the 0.05 level.

Table 4.5 presents the correlations (Pearson correlation) among the dependent variables and independent variables for all firms. Return on assets (ROA) and Tobin's Q (TQ) are positively correlated with each other, where the correlation coefficient for ROA with TQ is 0.488 and significant. It shows that the correlation among dependent variables are relatively low, which indicate that the two variables ROA and TQ (measure for firm performance) may show different results when running regressions. The correlation for Ownership concentration (OC) and Firm size (SIZE) are positively correlated with ROA and TQ, whereas Controlling shareholders (CS) is positively related to ROA only. This is consistent with the expectation that these variables will boost a better performance of the firms. Board size (BOD) is negatively related to TQ, while Debt-to-equity (DER) is

negatively related to ROA. This is consistence with the expectation that an increasing or decreasing in these factor will give effect to the firm performance.

Table 4.6 presents the correlations (Pearson correlation) among the dependent variables and independent variables for large firms. It shows that ROA and TQ are positively correlated with each other, where the correlation coefficient for ROA with TQ is 0.618 and significant. In large firms, correlation among dependent variable is relatively high compared to all firms result. For large firms, OC is positively related to TQ only, while SIZE is remain the same which positively related to both ROA and TQ. The BOD is negatively related to TQ, while CS is negatively related to ROA. However, in large firms it show that DER has no correlation with ROA and TQ.

Table 4.7 presents the correlations (Pearson correlation) among the dependent variables and independent variables for small firms. It shows that ROA and TQ are positively correlated with each other, where the correlation coefficient for ROA with TQ is 0.169 and significant. In small firms, correlation among dependent variable is relatively low compared to large firms and all firms result. It shows that OC is positively related to ROA only, while CS is positively related to TQ only. SIZE is positively related to both ROA and TQ, whereas DER is negatively related to ROA only. However, the result for BOD in small firms show an opposite result than large firms and all firms, where BOD has no correlation with ROA and TQ. This is consistent with a study by Bennedsen *et al.* (2006) that board size does not really a matter for small firms where there is no issue of complexity of operations. Larger firms have larger boards which caused the complexity of operations to arise as there is a greater need for advice and strategic input from the directors.

However, according to the results from Table 4.5, Table 4.6, and Table 4.7; there is no multicollinearity among the independent variables. According to Zainodin and Yap (2013), multicollinearity happens when there are high correlation among independent variables. A study by Gujarati and Porter (2008, p 321) defined "multicollinearity is the existence of more than one exact linear relationship". The multicollinearity occurs when the coefficient values greater than 0.95. Since, this study found that all of the dependent and independent variables are less than 0.95; thus it can be conclude that the multicollinearity problem does not occur in this study.

4.3.2 Firms characteristics

Table 4.8
Summary statistics of firms' characteristics

Variables	All Firms	Large Firms	Small Firms
	Mean (Median)	**Mean (Median)**	**Mean (Median)**
Total Assets*	4840.74 (969.84)	9316.86 (2443.57)	364.62 (342.12)
Market Value of Equity*	4025.11 (414.24)	7786.04 (1879.35)	264.18 (148.54)
Age of Firms (Years)	36.10 (30.50)	38.21 (30.00)	33.99 (31.00)
Debt-to-Equity Ratio	0.6799 (0.7708)	0.6393 (0.8301)	0.7205 (0.6810)
Number of firm	150	75	75

* Total Assets and Market Value of Equity are in RM million

Firms are categorized into two groups, which are large firms and small firms. Large firms consist of firm that has total assets more than RM 1 billion and small firms consist of firm that has total assets less RM1 billion. Table 4.8 presents summary statistics of firm characteristics for the 150 firms in the sample which consist of large firms and small firms. The mean and median of variables are based on the year 2012 values. Mean and

median differences are tested using the t-test. The mean value of assets for all firms is RM4840.74 million with the median value of RM969.84 million. The mean value of market value of equity for all firms is RM4025.11 million with the median value of RM414.24 million. The average age of all firms is 36.10 years with a median of 30.50 years. This indicates that the sample firms in this study consists of growth and matured firms. The mean for debt-to-equity ratio is 0.6799 with a median of 0.7708, which is quite higher. This indicates that concentration ownership firms in Malaysia used more debt in their capital structure.

From the 150 sample firms, the total number of large firms is 75 firms and another 75 firm is small firms. Therefore, resulted huge difference in mean and median for assets and market value of equity between large firms and small firms. The mean and median value of assets for large firms is RM9316.86 million and RM2443.57 million, respectively. Whereas, the mean and median value of asset for small firms is RM364.62 million and RM342.12 million, respectively. The mean and median of firm age for large firms is 38.21 years and 30 years, respectively. Whereas, mean and median of age for small firms is 33.99 years and 31 years, respectively.

Debt-to-equity ratio shows an average of 0.6393 with a median of 0.8301 for large firms. Whereas, debt-to-equity for small firms show an average of 0.7205 with a median of 0.6810. It shows that small firms have more debt than large firms because large firms would diversified their risk but small firms normally is a family firm which the family owners willing to pass their firm for later generations. Furthermore, family members' concerns over their reputation and involvement of family members lead to better performance, while large firms is non-family firms which the firm is controlled by more

than one controlling shareholder group such as financial company, foreign firm, institutional, state, or widely-held corporation. As stated before that large firms are diversified, however their involvement in management make it becomes more complicated as it involve many level of managements.

4.3.3 The effects of controlling shareholders on firm performance

Table 4.9
A comparison of performance between firm all, large and small firms.

	ROA		Tobin's Q	
	Mean	**Median**	**Mean**	**Median**
All Firms	0.0580***	0.0508***	0.5929***	0.4131***
Large Firms	0.0733***	0.0594***	0.7912***	0.5106***
Small Firms	0.0427***	0.0439***	0.3945***	0.2834***

*Indicates significant at the 10% level.
**Indicates significant at the 5% level.
***Indicates significant at the 1% level.

Table 4.9 summarizes the performance of large firms and small firms. Performance is measured using proxy of ROA, Sales-asset and Tobin's Q. The mean and median differences test for large firms and small firms are shown by significant level. The study using t-test found that large firms exhibit higher average ROA and Tobin's Q (TQ) value compared to small firms. As shown, ROA and TQ for large firms are 0.0733 and 0.7912, respectively. Whereas, the average value for ROA and TQ for small firms are 0.0427 and 0.3945, respectively. The comparison of average value of performance measures for all firms are significantly different with both types of firms (large firms and small firms). The average value of ROA and TQ for all firms are 0.580 and 0.5929, respectively. The

result shows that the average value of ROA and TQ for all firms are in the between large firms and small firms.

4.4 Multivariate Regression Analysis

4.4.1 Regression Results for Model 1: ROA as Dependent Variable

Table 4.10, Table 4.11 and Table 4.12 show the output of the summary for the ordinary least square (OLS) multiple regression model with ROA as the dependent variable for all firms, large firms and small firms, respectively.

$$Y_{ROA} = \alpha_0 + \beta_1 OC_{it} + \beta_2 CS_{it} + \beta_3 BOD_{it} + \beta_4 SIZEi_t + \beta_5 DER_{it} + \varepsilon_{it}$$

Table 4.10
Regression analysis results for all firms Model 1.

MODEL FOR ALL FIRMS (ROA)			
Variables	**Beta**	**t-value**	**Significance**
Ownership Concentration	0.000	0.842	0.400
Controlling Shareholders	-0.006	-2.396	0.017*
Board Size	-0.026	-6.094	0.000***
Firm Size	0.023	11.330	0.000***
Debt-to-Equity Ratio	-0.001	-1.437	0.151
Intercept	-0.178	-4.366	0.000
Adjusted R^2	0.181		
F-statistic	34.207		
p-value	0.000		

*Indicates significant at 10% probability level.
**Indicates significant at 5% probability level.
***Indicates significant at 1% probability level.

Table 4.11
Regression analysis results for large firms Model 1.

MODEL FOR LARGE FIRMS (ROA)			
Variables	**Beta**	**t-value**	**Significance**
Ownership Concentration	0.000	-0.794	0.428
Controlling Shareholders	-0.007	-1.506	0.133
Board Size	-0.035	-5.073	0.000***
Firm Size	0.021	7.305	0.000***
Debt-to-Equity Ratio	-0.001	-0.391	0.696
Intercept	-0.020	-0.254	0.799
Adjusted R^2	0.154		
F-statistic	14.597		
p-value	0.000		

Table 4.12
Regression analysis results for small firms Model 1.

MODEL FOR SMALL FIRMS (ROA)			
Variables	**Beta**	**t-value**	**Significance**
Ownership Concentration	0.001	2.476	0.014**
Controlling Shareholders	-0.009	-2.973	0.003***
Board Size	-0.018	-3.199	0.001***
Firm Size	0.040	9.882	0.000***
Debt-to-Equity Ratio	0.000	-0.549	0.583
Intercept	-0.571	-7.383	0.000***
Adjusted R^2	0.245		
F-statistic	25.208		
p-value	0.000		

The following regression for Model 1 (ROA as dependent variable) was employed to examine the effect of ownership concentration (H1), controlling shareholders (H2), board size (H3), firm size (H4) and debt-to-equity ratio (H5) on firm performance which is

measured by return on assets (ROA). Table 4.10, Table 4.11 and Table 4.12 present the regression results of Model 1 for firm performance that measured by ROA.

Table 4.10 presents the regression result for all firms and the p-value should be below than 0.05 for each independent variables. It shows that ownership concentration (OC) and debt-to-equity (DER) are insignificant to ROA. The result indicate that OC and DER are not effect accounting measure for firm performance. Whereas, controlling shareholders (CS), board size (BOD) and firm size (SIZE) are significant with ROA. This indicates that CS, BOD and SIZE effect accounting measure for firm performance. Table 4.11 present the regression results for large firms and it shows OC, CS and DER are insignificant to ROA. Whereas, BOD and SIZE are significant to ROA for large firms. Table 4.12 present the regression result for small firms and it show opposites result than all firm and large firm, where only DER is insignificant to ROA. Other variables such as OC, CS, BOD and SIZE are significant to ROA.

4.4.2 Regression Results for Model 2: Tobin's Q as Dependent Variable

Table 4.13, Table 4.14 and Table 4.15 show the output of the summary for the ordinary least square (OLS) multiple regression model with Tobin's Q (TQ) as the dependent variable for all firms, large firms and small firms, respectively.

$$Y_{TQ} = \alpha_0 + \beta_1 OC_{it} + \beta_2 CS_{it} + \beta_3 BOD_{it} + \beta_4 SIZEi_t + \beta_5 DER_{it} + \varepsilon_{it}$$

Table 4.13
Regression analysis results for all firms Model 2.

MODEL FOR ALL FIRMS (Tobin's Q)			
Variables	**Beta**	**t-value**	**Significance**
Ownership Concentration	0.002	1.199	0.231
Controlling Shareholders	-0.090	-3.649	0.000***
Board Size	-0.018	-2.022	0.044**
Firm Size	0.195	9.837	0.000***
Debt-to-Equity Ratio	0.021	2.456	0.014**
Intercept	-2.465	-6.313	0.000***
Adjusted R^2	0.158		
F-statistic	29.053		
p-value	0.000		

*Indicates significant at 10% probability level.
**Indicates significant at 5% probability level.
***Indicates significant at 1% probability level.

Table 4.14
Regression analysis results for large firms Model 2.

MODEL FOR LARGE FIRMS (Tobin's Q)			
Variables	**Beta**	**t-value**	**Significance**
Ownership Concentration	0.002	0.552	0.581
Controlling Shareholders	-0.169	-3.412	0.001***
Board Size	-0.221	-2.839	0.005***
Firm Size	0.218	6.707	0.000***
Debt-to-Equity Ratio	0.039	1.639	0.102
Intercept	-1.466	-1.618	0.106
Adjusted R^2	0.148		
F-statistic	14.024		
p-value	0.000		

Table 4.15
Regression analysis results for small firms Model 2.

MODEL FOR SMALL FIRMS (Tobin's Q)			
Variables	**Beta**	**t-value**	**Significance**
Ownership Concentration	0.002	0.970	0.333
Controlling Shareholders	-0.023	-1.293	0.197
Board Size	0.091	2.701	0.007***
Firm Size	0.139	5.654	0.000***
Debt-to-Equity Ratio	0.014	2.665	0.008***
Intercept	-2.964	-6.393	0.000***
Adjusted R^2	0.123		
F-statistic	11.445		
p-value	0.000		

The following regression for Model 2 (Tobin's Q as dependent variable) was employed to examine the effect of ownership concentration (H1), controlling shareholders (H2), board size (H3), firm size (H4) and debt-to-equity ratio (H5) on firm performance which is measured by Tobin's Q (TQ). Table 4.13, Table 4.14 and Table 4.15 present the regression results of Model 2 for firm performance that measured by TQ.

Table 4.13 presents the regression result for large firms and the p-value should be below than 0.05 for each independent variables. It shows that only ownership concentration (OC) is insignificant to TQ. Whereas, controlling shareholders (CS), board size (BOD), firm size (SIZE) and debt-to-equity ratio (DER) are significant to TQ. Table 4.14 present the regression results for large firms and it show OC and DER are insignificant to TQ. Whereas, other variables such as CS, BOD and SIZE are significant. Table 4.15 present the regression results for small firms and it show OC and CS are insignificant to TQ. Whereas, other variables such as BOD, SIZE and DER are significant to TQ.

4.5 Hypothesis Testing

This section is identifies the result of hypothesis as developed in chapter three, whether to accept or reject it. The regression results of Table 4.10 to Table 4.15 show whether the relationship between dependent variables such as return on assets (ROA) and Tobin's Q (TQ) and independent variables such as ownership concentration (OC), controlling shareholders (CS), board size (BOD), firm size (SIZE) and debt-to-equity ratio (DER) are significant or insignificant. Each hypothesis has three sections which is hypothesis (a) for all firms, hypothesis (b) for large firms and hypothesis (c) for small firms.

4.5.1 Hypothesis one (1)

The first hypothesis was developed in this study is ownership concentration has relationship with firm performance. The hypothesis (a) is ownership concentration of all firms has relationship with firm performance. The significant value of all firms for ownership concentration for ROA is 0.400 and 0.231 for TQ, respectively. Both values are greater than 0.10, thus the results lead to a rejection of the hypothesis. The hypothesis (b) is ownership concentration of large firms has relationship with firm performance. The significant value of large firms for ownership concentration for ROA is 0.428 and 0.581 for TQ, respectively. Both values are greater than 0.10, thus the results lead to a rejection of the hypothesis. The hypothesis (c) is ownership concentration of small firms has relationship with firm performance. The significant value of small firms for ownership concentration for ROA is 0.014 and 0.333 for TQ, respectively. ROA shows the value lower than 0.05, while TQ value is greater than 0.10. Since both result are not equally, thus it leads to a rejection of the hypothesis.

This is similar to Ongore (2011) who found insignificant in OC. The insignificant result indicates that it is not only the amount of equity held by shareholders that matter when studying firm performance but also the identity of the shareholder. This result is consistent with the argument by Chen (2012, p. 15) that "an increasing in control by controlling shareholders reduces the self-realization of managers who consequently get discourages." Concentrated ownership commonly occurs in emerging markets, which has persevered even though decades of economic modification and privatization (Wang and Shailer, 2013). As stated in previous studies, although ownership concentrated has advantages to firm performance through incentive, monitoring, alleviating agency problem and protect shareholder interests in the country's that has weak legal system especially emerging markets. Despite of advantageous, ownership concentration create a different principal-agent problem such the interest conflicts between controlling shareholder and minority shareholders, and as a consequent giving a negative effect on firm performance (Maher and Andersson, 2000). In emerging markets such Malaysia, the weaker external control mechanism and less developed institution, might exacerbate the expropriations by controlling shareholders (La Porta *et al.*, 1999; Claessens, 1999; Denis and McConnell, 2003). The contradictory results for ownership concentration on firm performance are caused by the data characteristics and different methods employed.

According to Santos *et al.* (2013, p. 29) "there is an endogenous result of balancing various cost advantages and disadvantages in the process of maximizing the value of a firms, thus ownership concentration and profit rate should not be related." Although, research on corporate governance in emerging markets is still in the early stage, however the evidence of the relationship between ownership concentration and firm performance

has been explored since the mid-1980s. Wang and Shailer (2013) found that from the 27 single country studies of the relationship between ownership concentration and firm performance, three was identify a significant positive relationship (including Malaysia), one was a significant but negative relationship, three was failed to find any significant relationship, and 20 report a mixed results which either significant positive, significant negative or no significant relationship, in a single country perspective.

Besides that, the significant effect of ownership concentration on firm performance which measured by accounting and market valuation are found in many studies as well (Rajan and Zingales, 1995; Shleifer and Vishny, 1997; Allen and Gale, 1998; Claessens and Djankov, 1999; Claessens *et al.*, 1999; Bebchuk and Roe, 1999; Cook and Deakin, 1999; R. Thillainathan, 1999; Fauzias *et al.*, 2010; Alimehmeti and Paletta, 2012). Ability in monitoring and controlling agents by the controlling shareholder in order to run the firm in maximizing shareholder value gives a positive effect on firm performance. Low investor protection would lead to higher ownership concentration in order to protect the benefits of minority shareholders. However, controlling shareholder has less incentive in monitoring the managers in order to maximizing the profit, where there is a large deviation of control right and cash flow right (La Porta *et al.*, 1998).

4.5.2 Hypothesis two (2)

The second hypothesis in this study is there is a relationship between controlling shareholders and firm performance. The hypothesis (a) is controlling shareholders of all firms has relationship with firm performance. The significant value of all firms for controlling shareholders for ROA is 0.017 and 0.000 for TQ, respectively. Both values

are lower than 0.05, thus the hypothesis is accepted. The hypothesis (b) is controlling shareholders of large firms has relationship with firm performance. The significant value of large firms for controlling shareholders for ROA is 0.1333 and 0.001 for TQ, respectively. Since ROA value is greater than 0.1 but TQ value is less than 0.01; thus it leads to a rejection of hypothesis. The hypothesis (c) is controlling shareholders of small firms for ROA is 0.003 and 0.197 for TQ, respectively. ROA shows the value lower than 0.01, while TQ value is greater than 0.10. Since both result are not equally, thus it leads to a rejection of the hypothesis.

This result support the finding of Maury and Pajuste (2005), Isokov and Weisskopf (2009) which indicate that the effect controlling shareholder is not necessarily positive as it depends upon the size and identity of the large shareholders. It found that the real effect on firm value depends on the size of controlling shareholders, as well as the types of controlling shareholders involved. However, this results is in contrast to the study by Wiwattanakantang (2001) which concluded that controlling shareholders are positively and significantly related to firm performance. The positive effect is because the large shareholders may monitor each other, thus reducing the agency costs. The positive effect of controlling shareholder on firm performance which measured by accounting and market valuation are found in many studies such Rajan and Zingales (1995), Shleifer and Vishny (1997), Claessens and Djankov (1999), Claessens *et al.* (1999), Bebchuk and Roe (1999), Cook and Deakin (1999), R. Thillainathan (1999), Wiwattanakantang (2001), Maury and Pajuste (2002), Sraer and Thesmar (2007), Fauzias *et al.* (2010), Chen *et al.* (2010), Alimehmeti and Paletta (2012), Phung and Hoang (2013), and Yang (2013). As

stated earlier, corporation are divided into widely-held firms (without controlling shareholder) and ultimate owners (with controlling shareholder).

Most of scholars focused on the effect of either one of ultimate owners which were grouped into non-family firms (institutional, state, financial firm, foreign firm, and widely-held corporation) and family firms (individual). Whereas, some scholars compared the effect of ultimate owner among groups on firm performance such (R.Thillainathan, 1999; La Porta *et al.*, 1999; Claessens *et al.*, 2000; Wiwattanakantang, 2001; Maury and Pajuste, 2002; Zuaini Ishak and Christopher Napier, 2006). However, this study is focused on the large firms and small firms. A study by Claesssens *et al.* (2000) found that managers of East Asian firms including Malaysia are commonly related to controlling shareholder of the family and over two-thirds of the 2980 sample firms were controlled via family or individual. Furthermore, it was found that 67.2% of the Malaysian listed firms managed by their founding family. In this study, it can be implied that involvement of family members positively effect on firm performance and it implied that family firms performs better than non-family firms.

4.5.3 Hypothesis three (3)

The Third hypothesis in this study is there is a relationship between board size and firm performance. The hypothesis (a) is board size of all firms has relationship with firm performance. The significant value of all firms for board size for ROA is 0.000 and 0.044 for TQ, respectively. Both values are lower than 0.05, thus the hypothesis is accepted. The hypothesis (b) is board size of large firms has relationship with firm performance. The significant value of large firms for board size for ROA is 0.000 and 0.005 for TQ,

respectively. Both values are lower than 0.01, thus the hypothesis is accepted. The hypothesis (c) is board size of small firms for ROA is 0.001 and 0.007 for TQ, respectively. Both values are lower than 0.01, thus the hypothesis is accepted.

The result support the hypothesis 3 that board size is related to firm performance. The study by Yermack (1996), Eisenberg (1998), Ma and Tian (2009), Guest (2009), Adams *et al.* (2010), Rahimah (2011), Fauzi and Locke (2012), and Francis *et al.* (2012) have proven that board size is related negatively and significant to firm performance. The greater the board size, the lower the firm performance as it effects the extent of monitoring, controlling and decision making in a firm. In this study, it can be implied that large board size is related with sufficient ability in monitoring the firm, nonetheless large board is related with lower efficiency as well due to time expended in reaching agreements. The study by Guest (2009) clarified that the relationship between board size and firm performance may differ not just by firm specific characteristics but also by national institutional characteristics. Different country has different institutional background, where the role of board is differ as well. Thus, the relationship between board size and firm performance are expected to differ. The average board size of Malaysian firms are among the size that suggested by Lipton and Lorsch (1992) which is eight. The research of other countries is beneficial in understanding the relationship between board size and firm performance.

Furthermore, the result in this study is contrast to the study by Haniffa and Hudaib (2006) which conclude that the board size related positively and significantly to firm performance. According to Haniffa and Hudaib, boards benefit the firms as it provides diversity in helping firms to secure critical resources and contracts. Besides that board

also bring a wealth of expertise and experience into the firms. This has been proved by Francis *et al.* (2012) which identified that financial expertise of directors is also important for firm performance during the current crisis. The presence of outside financial experts rather than inside financial experts drives the positive relationship between financial experts on boards and firm performance. Furthermore, in order to monitor the financial reporting process, the directors must have accounting knowledge in order to produce quality financial reporting either to control manipulation or to make information more transparent (Rahimah, 2011). A few examples are the collapse of Lehman Brothers, Washington Mutual, WorldCom, General Motor, Enron, Conseco, Chrysler Group LLC, Pacific Gas and Electric, and Financial Corporation of America were due to the lack of knowledge of their board members. The findings of (Agrawal, 1996; Agrawal and Knoeber, 1998) stated the importance of accounting knowledge among the outside directors. The results were significant for outside directors with financial expertise; since the probability of financial restatements can be reduce when outside directors have financial expertise. Many studies focused more on financial expertise of the audit committee than financial expertise on the board.

Although, the board assigned its committee with the omission role of the financial reporting process, yet the responsibility of the quality of the reports remained to the board members. Francis *et al.* (2012) divides financial expert into insider financial expert and outside financial expert. Insider financial experts include the firms' CFOs, accountants, treasurers, and VPs of finance. Whereas, outside financial experts refer to outside directors with backgrounds in commercial banking, investment banking, hedge funds, mutual funds, insurance, corporate law, accounting, auditing, etc.

4.5.4 Hypothesis four (4)

The fourth hypothesis in this study is there is a relationship between firm size and firm performance. The hypothesis (a) is firm size of all firms has relationship with firm performance. The significant value of all firms for firm size for ROA is 0.000 and 0.000 for TQ, respectively. Both values are lower than 0.01, thus the hypothesis is accepted. The hypothesis (b) is firm size of large firms has relationship with firm performance. The significant value of large firms for firm size for ROA is 0.000 and 0.000 for TQ, respectively. Both values are lower than 0.01, thus the hypothesis is accepted. The hypothesis (c) is board size of small firms for ROA is 0.000 and 0.000 for TQ, respectively. Both values are lower than 0.01, thus the hypothesis is accepted.

The result support the hypothesis 4 that firm size is related to firm performance. The study by Claessens *et al.* (2000), Chu and Cheah (2004), Cheng Wu (2005), Isyak and Napier (2006), Grosfeld (2006), Rahimah (2011), Fauzi and Locke (2012), Alimehmeti and Paletta (2012), and Dang and Li (2014) have proven that firm size is positively related to firm performance. A study by Claessens *et al.* (2000) indicates that separation of ownership and control varied significantly by types of owner and firm size. They used market capitalization as proxy in order to look at the separation of ownership and control across different sizes of firms. Malaysia shows the most separation in medium size firms. According to Majumdar (1997) the size of a firm affects performance in many ways. The main features of a large firms are the varied competencies, abilities to exploit economies of scale and scope, and the validation of procedures. These features make the execution of operations more effective and allow larger firms to generate superior performance compared to small firms. Driffield *et al.* (2007) indicates that large firms not only enable

them for greater specialization but it may also measure a firm's market power or level of concentration in the industry. However, large firm can be less efficient as well if they loss of control by top managers over strategic and operational activities.

4.5.5 Hypothesis five (5)

The last hypothesis in this study is there is a relationship between debt-to-equity and firm performance. The hypothesis (a) is debt-to-equity ratio of all firms has relationship with firm performance. The significant value of all firms for debt-to-equity ratio for ROA is 0.151 and 0.014 for TQ, respectively. However, ROA values is insignificant and TQ is significant. Since both result are not equally, this it leads to a rejection of the hypothesis. The hypothesis (b) is debt-to-equity ratio of large firms has relationship with firm performance. The significant value of large firms for debt-to-equity ratio for ROA is 0.696 and 0.102 for TQ, respectively. Both values are greater than 0.1, thus the hypothesis is rejected. The hypothesis (c) is debt-to-equity ratio of small firms for ROA is 0.583 and 0.014 for TQ, respectively. ROA value is insignificant but TQ value is significant, thus the hypothesis is rejected. This result is similar to the study by Driffield *et al.* (2007) Issham (2013) which found that large firms leverage is lower than small firms leverage in Malaysia and the results positively and significantly related to firm performance in Malaysia. However, this result is in contrast to the study by Chu and Cheah (2004) found that small ownership firms pursue higher debt policy, which indicates the possibility of transferring risk that benefits them more. Furthermore, firm controlled by foreign investor and institutional investors also experienced higher leverage. This is because of the influence of Malaysian government micro policy as all Malaysian firms' record a higher leverage ratio (Chu and Cheah, 2004).

Other results that support the finding Dhillon and Rossetto (2009), Fozia Memon *et al.* (2013), Wajid Khan *et al.* (2013), Ur Rehman (2013), and Kajananthan and Nimalthasan (2013) have proven that Debt-to-equity ratio is positively related to firm performance. Capital structure is ratio between debt and equity called leverage and have influence on firm's performance due to cost incurred (Fozia Memon *et al.*, 2013). When debt is used, shareholders have residual claim on firm assets and bear additional risk, while equity holder would demands for more return thus cost of equity would rises. Debt to equity ratios could be negative in some cases when firms exhibit negative value of equity. A study by Driffield *et al.* (2007) found that Malaysia, Thailand, Indonesia and Korea are worst affected countries by the last crisis and also characterized by high debt, over-investment and separation of ownership from control and management. A study by Ur Rehman (2013) concluded that if the factor of bankruptcy probability is aside, the value of leveraged firm are greater than unleveraged firm. Furthermore, the leverage is significantly positive related to firm value before reaching firm optimal capital structure and leverage that positively influence firm value tends to be stronger when the firm financial quality is better.

4.6 Chapter Summary

This chapter provides normality test, descriptive statistics, correlation and regression model to analyzed and interpret the relationship between dependent variables and independent variables. In this study, five hypotheses are developed and only two is accepted which is hypothesis 3 and hypothesis 4.

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter presents the findings with discussions and suggestion for future research. This final chapter focuses on introduction, discussion on the study, and lastly discusses the limitations and suggestions for future study.

5.1 Finding on Demographic

In conducting the research, the firm is chose based on annual report available from year 2008 to year 2012 in Bursa website and the firm is listed in the main market. Furthermore the criteria that has been taken to consideration is the firm's total assets should be more than RM 1 billion for large firm and for small firms the total assets is in the between of RM 100 million to RM 999 million. The firms should have number of shareholders that own more than 5% outstanding shares at least one shareholder.

5.2 Finding on Study

This study examines the effect of ownership concentration and controlling shareholder on firm performance with sample from Malaysia. The five research objectives are examined to find the relationship between five independent variables with firm performance. It is found that ownership concentration (OC) has a positive effect on both ROA and TQ for all firms, large firms and small firms. However, the result is not significant; thus the results concludes that ownership concentration does not effect on firm performance. This is similar to Ongore (2011) who found insignificant in OC. The implication is when more

than 30% of shares are concentrated on less than five shareholders, there will be a tendency for the shareholder to be obsessive in monitoring and controlling roles over managers. A study by Maher and Andersson (2000) and Grosfeld (2006) indicate that the negative or positve OC is depends on industry sectors. In this study, 32.67% of the firms are from industrial industry which monitoring will be more difficult and different mechanisms may be requires in order to improve firm performance. Besides that, ownership concentration exacerbates the conflicts of interest between controlling shareholder and minority shareholders due to weaken in external control mechanism and less developed institution, especially in emerging market such Malaysia. Furthermore, the data characteristics and differs in method used are caused the inconsistency results among researchers.

A study by Claessens *et al.* (1999) and Fauzias *et al.* (2010) indicate that the main reason for the positive effect is that controlling shareholder has both the ability and the incentive to monitor and control agents in order to run the firm to maximizing shareholder value. Low investor protection would lead to higher ownership concentration in order to protect the benefits of minority shareholders. Many studies found ownership concentration positively effects firm performance (Rajan and Zingales, 1995; Shleifer and Vishny, 1997; Allen and Gale, 1998; Claessens and Djankov, 1999; Claessens *et al.*, 1999; Bebchuk and Roe, 1999; Cook and Deakin, 1999; R. Thillainathan, 1999; Fauzias *et al.*, 2010; Alimehmeti and Paletta, 2012). This study implied that ownership concentration may alleviate the agency problems with better a monitoring incentives in order to have better performance.

The effect of controlling shareholder (CS) on firm performance exhibit a negative results and significant. Corporation are divided into widely-held firms (without controlling shareholder) and ultimate owners (with controlling shareholder). There are few types in controlling shareholders such as institutional, state, financial firm, foreign firm, individual or family, and widely-held corporation. However, this study is focused on large firms and small firms. It is found that all the firms either large or small firms are negatively affect the firm performance. Furthermore, firm that has controlling shareholder can monitor each other, thus can reduce agency costs and leads to positive relationship on firm performance. However, the negative effect is found in this study because of the positive and negative effects in combination of each types of controlling shareholders that leads to a negative effect on firm performance.

A study by Wiwattanakantang (2001) found the positive and negative effect of firm that has controlling shareholder depends upon the size and characteristics of the large shareholders. The occurrence of more than one controlling shareholder in the firm may increases firm value as it reduces the largest shareholder's bargaining power. However, it can decrease the firm value as well with more partners in profit deviation of the private benefit elimination can become more efficient, thus increase the level of private benefit extraction. It can be conclude that the actual effect on firm performance depends on the size of controlling shareholders, as well as the types of controlling shareholders involved.

5.3 Implication of Study

Corporate governance affects the growth and operations of capital markets as it gives strong effect on allocation of resources. In an era of increasing capital flexibility and globalization, it has become a crucial framework that effecting the industrial competitiveness and economy in Malaysia. Corporate governance problems normally arise due to lack of goal equivalence which usually occurs because of separation of ownership from control. Many study find that firm with more than one controlling shareholders are positively related to firm performance, since they might monitor each other and thus would reducing agency costs. However, in this study, problems of corporate governance arise because there are more than one controlling shareholders which consequently becomes difficult to monitor the activities of the directors.

Ownership concentration is common throughout the world, especially in emerging economies such as Malaysia. R.Thillainathan (1999) finds that 67.2% of listed firms in Malaysia are controlled by family. The similar analyses on emerging markets have been shown by Claessens *et al.* (2000) and Driffield *et al.* (2007). A study by Claessens *et al.* (2000) find that more than 40% of publicly traded firms (including both financial and non-financial institutions) in nine of East Asian countries except Japan are controlled by family. By the same token, Driffield *et al.* (2007) find family ownership is dominant in four East Asian countries such Korea (79%), Malaysia (76%), Indonesia (75%), and Thailand (61%). This study examines the effect of ownership concentration on firm performance where 50% from the sample of 150 firms are large firms and another 50% are small firms. Based on both the. Based on the regression result indicates there is a positive relationship between ownership concentration and firm performance. Board size

and firm size are generally used as an important fundamental for firm characteristic and various economic phenomena. The coefficient of firm size for all firms exhibits positive relation for all dependent variables. The firm size affects performance in several ways. There is a different in the structure of the large firms such as in competencies, ability to exploit economies of scale and scope, and the validation of procedures. Besides that, the advantageous of age are the accumulate knowledge that firm's knows about the market, experiences and the firm's reputation.

Board size exhibit a negative relation for both accounting and market based. The board size effect the decision making, controlling and the extent of monitoring in a firm. Generally, large boards are related to large firms which may affects firm performance. Lipton and Lorsch (1992) indicated that the smaller boards size the more efficiency the firm will be. However, large boards do not always improve the firm performance because there are many other factors that might affect the board size. Firm's characteristics such as firm age, size, level of debt, and firm's R&D, may be the factors that affect board size. Moreover, the board of director characteristics may give an impact on board size as well as firm characteristics. The board of directors should have a clear understanding of its responsibilities and provide an appropriate leadership to the firm. There should be an accurate balance of executive and non-executive directors on boards, as the firm should not be controlled by a single person. However, shareholder rights vary between countries. There are four main features for board of directors such as board composition, board size, board skill (proxies by board tenure, board financial expertise and multiple directorships) and CEO duality. The main reason of corporate governance is to encourage the participation of shareholders. Debt ratios vary across industries and in this study the

result support the hypothesis that debt to equity ratio for firm that has more than one controlling shareholder is high and positively related to firm performance.

5.4 Limitation

Due to data limitations, this study is focused on the cross-sectional relation among the variables. The data for the firm's characteristics are taken from Bursa Malaysia website. The time period for the study was five (5) years from 2008 to 2012. I examined the effect of ownership concentration and controlling shareholders on firm performance, as measured by return on asset and Tobin's Q. There are several limitation that I found and faced during the process of doing this study. Firstly, limitation of time constraint. I had chosen other topic of study and did it half way, but I failed to complete it because the data for that topic is not available in Bursa Malaysia website nor in Data stream. So I decided to choose this topic as my research study, thus the sample firms to be examined in this study is limited to 150 firms. Since, I'm not used to Data stream and I had to spend a much longer time to retrieving the firm's information from the annual report by do it manually for 150 firms over five years.

5.5 Recommendation for Future Study

Currently, research has focused on the direct relationship between ownership concentration and firm performance. It is also to be consider and interest to investigate the indirect relationship through the behavior of the controlling shareholders which the controlling shareholders' choice over corporate decision, such as capital structure, compensation schemes, investment decisions, management successions, and dividend policy. Besides, the sample in this study excluded all the financial firms as they are

regulated by a different act. Therefore, the outcomes from this study cannot be generalized to these institutions. Date used in this study were obtained from the annual reports, thus qualitative nature of the board of directors characteristics are not examined. Further investigation using panel data certainly should give better understanding about the effects of ownership concentration on the firm performance. More work remains to be done on the each types of controlling shareholder such individual or family, government, financial firm, foreign firm, institutional, and widely-held corporation, since this study focused on large firms and small firms only. Furthermore, the study focused on overall firms in Malaysia not to particular industry; thus it would be interesting to know which industry perform better in Malaysia.

5.6 Conclusion

From the findings, it can be concluded that the overall objectives that were developed in Chapter One is succeeded. This study has shown the relationship between ownership concentration and controlling shareholders on firm performance by divided firms into large firms and small firms. However, it is shown that ownership concentration does not has any significant effect on firm performance either in large firms or small firms. Whereas, controlling shareholders seems to effect firm negatively for both large firms and small firms. Thus, it can concluded that ownership concentration not the main factor that effect firm performance. Firms' characteristics itself affect firm performance, such as board size and firm size.

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