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

By

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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 questions 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 measurements 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 introduced 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 have 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


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