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 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

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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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