

FAMILY COMPANIES AND POST-IPO PERFORMANCE: EVIDENCE IN
MALAYSIA

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By

SITI SOLEHAH BINTI GHAZALI

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Siti Solehah Binti Ghazali

810127

Othman Yeop Abdullah Graduate School of Business

Universiti Utara Malaysia

06010 UUM Sintok

Kedah Darul Aman.

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ABSTRACT

The purpose of this study is to examine the impact of corporate governance mechanisms (board characteristics), namely family member's directors, board size, and CEO duality, on the pre and post-IPO performance. This study also differentiated the pre and post-IPO performance between family and non-family companies. For the purpose of this study, 77 companies listed on Bursa Malaysia have been selected for the year 2006 to 2009.

The control variable in this study includes company size and age of the company. The descriptive statistics show that in the post-IPO period, the performance of family companies do not exhibit better performance compared to non-family companies. Multiple regressions analysis is utilized in this study in order to achieve the research objectives. The findings showed that percentages of family members as board members have positive relationship between pre and post-IPO performance. The findings also showed that board size, CEO duality and the age of the company have negative relationships between IPO performances. This result will give an overview regarding the performance of family and non-family IPO companies in Malaysia.

Keywords: Family companies, IPO performance

ABSTRAK

Tujuan kajian ini adalah untuk mengkaji kesan mekanisme tadbir urus korporat –ciri-ciri lembaga pengarah iaitu pengarah ahli keluarga, saiz lembaga pengarah, dan Ketua Pegawai Eksekutif yang juga berperanan sebagai pengarah– mengenai prestasi sebelum dan selepas IPO. Kajian ini juga membezakan prestasi sebelum dan selepas IPO antara syarikat berkait keluarga dan yang tidak berkait keluarga. Bagi tujuan kajian ini, 77 syarikat yang disenaraikan di Bursa Malaysia telah dipilih bagi tahun 2006 hingga 2009.

Pembolehubah kawalan dalam kajian ini termasuk saiz syarikat dan usia syarikat. Statistik deskriptif menunjukkan bahawa dalam tempoh selepas IPO, prestasi syarikat berkait keluarga tidak menunjukkan prestasi yang lebih baik berbanding dengan syarikat-syarikat yang tidak berkait keluarga. Analisis terurus pelbagai digunakan dalam kajian ini untuk mencapai objektif kajian. Hasil kajian menunjukkan bahawa peratusan ahli-ahli keluarga yang menjadi lembaga pengarah mempunyai hubungan yang positif dengan prestasi sebelum dan selepas IPO. Hasil kajian juga menunjukkan bahawa saiz lembaga pengarah, Ketua Pegawai Eksekutif yang juga berperanan sebagai pengarah dan usia syarikat mempunyai hubungan negatif antara prestasi IPO. Keputusan kajian ini dapat memberi gambaran mengenai prestasi syarikat milik keluarga dan syarikat bukan milik keluarga.

Kata kunci : Syarikat-syarikat keluarga, Prestasi IPO

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CHAPTER ONE

INTRODUCTION

1.0 Background of study

As one of the step in company development, going for listing in the Initial Public Offering (IPO) is one of the critical decision that have to be made by the management. As the company expecting a continuation in growth, the decision for the company to go to public market may exhibit decline in the company's performance. Thus, strategic decision made during the time of going public by board of directors at IPO is very important. This is due to the ability of the company to survive and grow during the post period are relying on the managerial decision made by the board of directors. In the context of IPO, most prior studies on company performance such as Jain and Kini (1994), Mikkelson, Partch and Shah (1997), Ahmad-Zaluki (2008) and Wong (2012) are performed all over the world and they found that post-IPO performance exhibit decline.

Most of companies tend to transform from privates to public companies as to grab the opportunity provided in the public market such as equity financing. In addition, the transition from private to public also attains an increasing in the currency of shares for acquisitions as well as to establish a market price or value of shares in the future (Brau and Fawcett, 2006). Other than that, by going public, it allows the company to raise external financing if necessary and also allows it to grab market share from other companies in the industry that are private (Chemmanur and He, 2011). Jain and Kini (1994) elaborated three explanations of the declining post-IPO performance which is, the potential increased of agency costs when a company makes the transition from private to public ownership, managers attempt to window-

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